New South Wales
Treasury Corporation

Warringah Council

Financial Assessment, Sustainability and Benchmarking Report

15 January 2013

Prepared by NSW Treasury Corporation for Warringah 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 Warringah Council, the DLG and the Independent Local Government Review Panel. TCorp shall not be liable to Warringah 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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Section 1 Executive Summary

This report provides an independent assessment of Warringah 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.

The Council has been well managed over the review period based on the following observations:

- Council's EBITDA has increased over the review period
- Council posted a positive net operating result (excluding capital grants and contributions) in all of last four years
- Council has a moderate level of borrowings and a strong base of unrestricted cash investments.

The Council reported $16.7m of Infrastructure Backlog in 2012 which represents 2.1% of its infrastructure asset value of $778.8m. 37.0% ($6.8m) of the Backlog related to drainage works while 22.6% ($6.2m) related to Buildings and other structures (inc. footpaths and car parks).

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

- The Operating Ratio remains consistently above the benchmark which supports Council's ongoing capacity to be Sustainable
- The Own Sourced Operating Revenue Ratio is forecast to be greater than 80.0% each year
- Over the 10 years of the forecast, Council's capital expenditure will exceed depreciation by $86.4m in nominal terms

In our view, the Council has the capacity to undertake additional borrowings of up to $53.5m. This is based on the following analysis:

- Based on a benchmark of DSCR>2.0x, up to $53.5m could be borrowed in addition to any existing borrowings
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at 7.5% p.a.

Council management have run a fiscally responsible operation which at this time appears to support a Sustainable position in the long term. Our key observations are:

- Council's LTFP forecasts above benchmark performance across the forecast period in nearly all areas including operating surpluses

- Council's forecast capital expenditure program is sufficient to ensure the current service levels can be maintained and potentially reduce the Backlog
- Council has built up good levels of cash reserves which can be used to fund its forecast capital expenditure program

In respect of the Benchmarking analysis TCorp has compared the Council's key ratios with other councils in DLG Group 3. The key observations are:

- The Council has strong financial flexibility demonstrated by both the Operating Ratio and the Own Source Operating Ratio being above the benchmark and the group average
- The Council's liquidity position is sound although this is expected to slightly weaken in the medium term
- The Council has capacity to service existing debts and can support further borrowings with both the DSCR and the Interest Cover Ratio being above benchmark
- The Council's Capital Expenditure and Asset Renewals are above average and benchmark.
- The Infrastructure Backlog Ratio has remained consistent with benchmark level and maintenance levels should increase to ensure Backlog levels are maintained

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 Council's internal due diligence, 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 with Council:

- Council agrees with the findings of the report

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

Warringah Council	
Locality and Size	
Locality	Sydney Outer
Area	152 km²
DLG Group No.	3
Demographics	
Population	147,047
% under 20	19.5%
% between 20 and 59	60.0%
% over 60	20.5%
Expected population in 2021	150,300
Operations	
Number of employees (FTE)	545
Annual revenue	$138.0m
Infrastructure	
Roads	486 km
Bridges	10
Infrastructure backlog value	$16.7m
Total infrastructure value	$788.8m

Warringah Council overlaps with a number of suburbs from the Manly Council area to the south and the Pittwater Council area to the north. Warringah Council currently administers 152 square kilometres of land, including nine beaches over 14 km of coastline. It contains 6,000 hectares (15,000 acres) of natural bushland and open space, and has four lagoons. Narrabeen Lagoon marks Warringah's northern boundary, Manly Lagoon marking the southern boundary, with Dee Why and Curl Curl Lagoons in between. It also contains Manly Dam, a popular place for recreation.

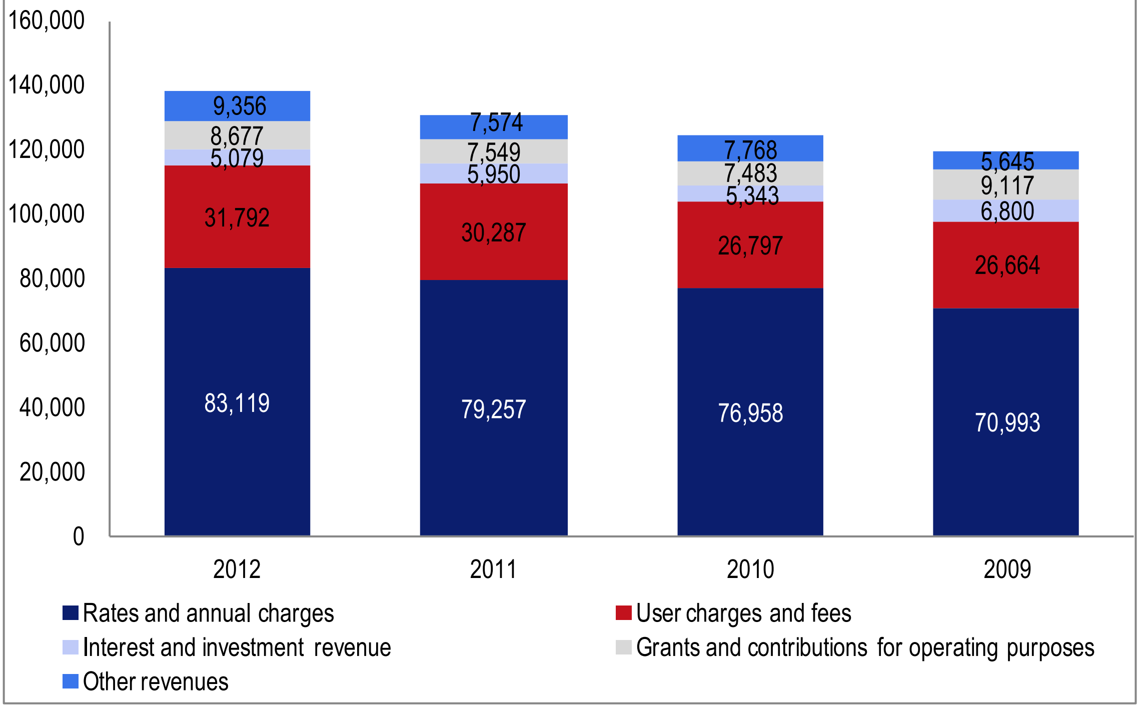
Council works cooperatively with Pittwater Council and this has resulted in an Economic Development Strategy produced and adopted in collaboration with the business community. Warringah Council views economic development as a high priority and through this plan they hope to open up exciting opportunities that attract new investment, grow business, increase the profile of the region, and drive the local economy.

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)

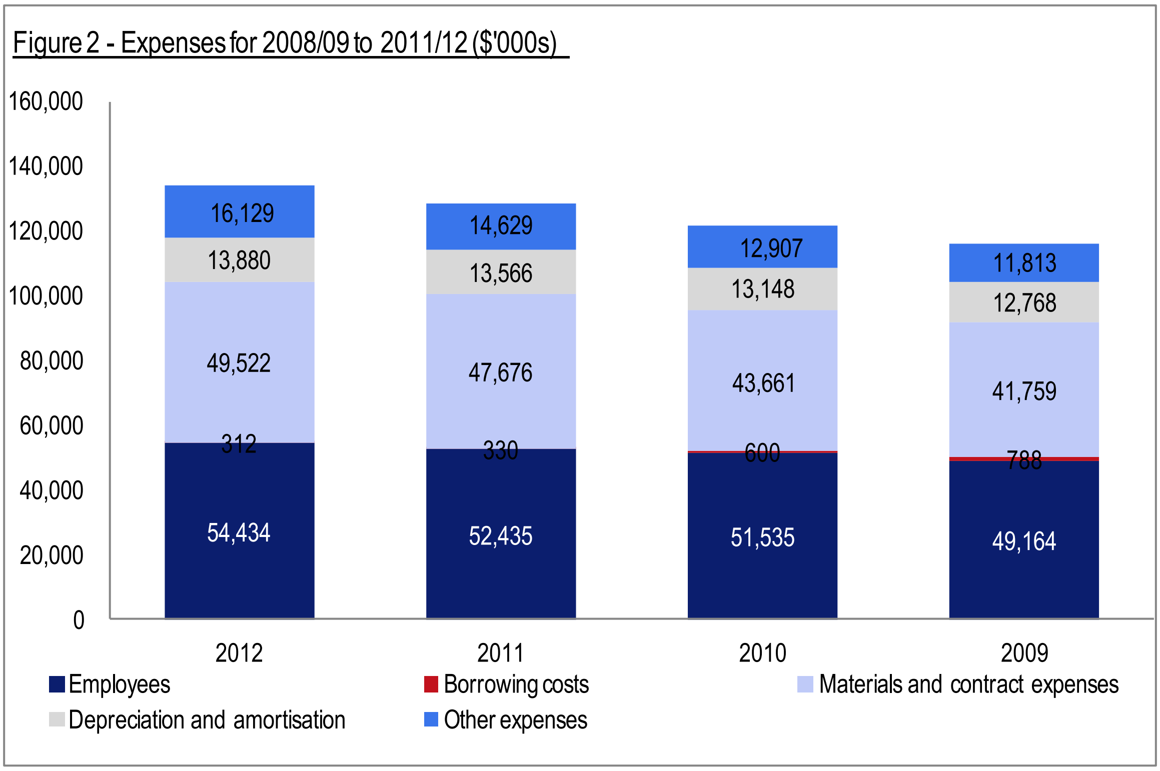


Key Observations

- Total revenues increased by 15.8% between 2009 and 2012. On a Compound Annual Growth Rate (CAGR) basis, growth was 5.0% p.a.
- Rates and annual charges have increased by a CAGR of 5.4% p.a, with growth mainly driven by domestic waste management services as rates have grown in line with rate peg increases.
- User charges and fees largely comprise charges for Kimbriki Waste & Recycling Centre, which accounted for 46.8% ($14.7m) in 2012. Child care centres accounted for 15.7% ($4.9m) in 2012 and childcare services have consistently operated at a net profit over the review period. Other significant components are restoration charges (6.2%), swimming centres (5.5%), planning and building regulation (5.5%), community centres (4.3%) and the Glen Street theatre (3.3%). These services operate at a loss but are considered important community services.
- Interest and investment revenue has decreased from $6.8m in 2009 to $5.1m in 2012. Investment income has decreased since 2009 due to falling levels of cash and investments held by Council. Interest and investment revenue for 2012 decreased by $0.9m as cash and investments decreased by $7.1m during the year.

- Of the other revenues in 2012, Council generated $2.0m (21.3%) from rental income , $1.9m (20.2%) from parking fines and $1.4m (14.9%) from recycling income.

3.2: Expenses



Key Observations

- Total expenses have grown by 15.7% ($18.0m) from 2009 to 2012, at a CAGR of 4.9%.
- Employee expenses have grown at an annual rate of 3.5% when compounded. Average wages per full time equivalent employee (FTE) increased by $14,500 to $79,300 per FTE over the review period. FTEs have decreased from 580 in 2009 to 545 in 2012 following Council revising its workforce plan, however average salaries grew following the employment of required engineering and OH&S professionals.
- Materials and contract expenses have increased by an average of 5.8% p.a. over the review period. This growth reflects the increase in waste disposal expenses in excess of CPI (that are largely offset by revenue increases), increased maintenance works on infrastructure assets and growing restoration works required due to increasing property developments.
- Depreciation and amortisation expense has grown by an average of 2.8% p.a. over the review period, during which time Asset Revaluation [increase] of $60.0m have occurred.
- Other expenses have grown by $4.3m to $62.2m in 2012, which is 10.9% CAGR over the four year review period. Waste levies accounted for $4.7m, the emergency services levy was $2.9m and electricity, heating and street lighting expenses combined accounted for $4.0m.

The growth in these components is the primary reason for the relatively large growth in other expenses over the review period.

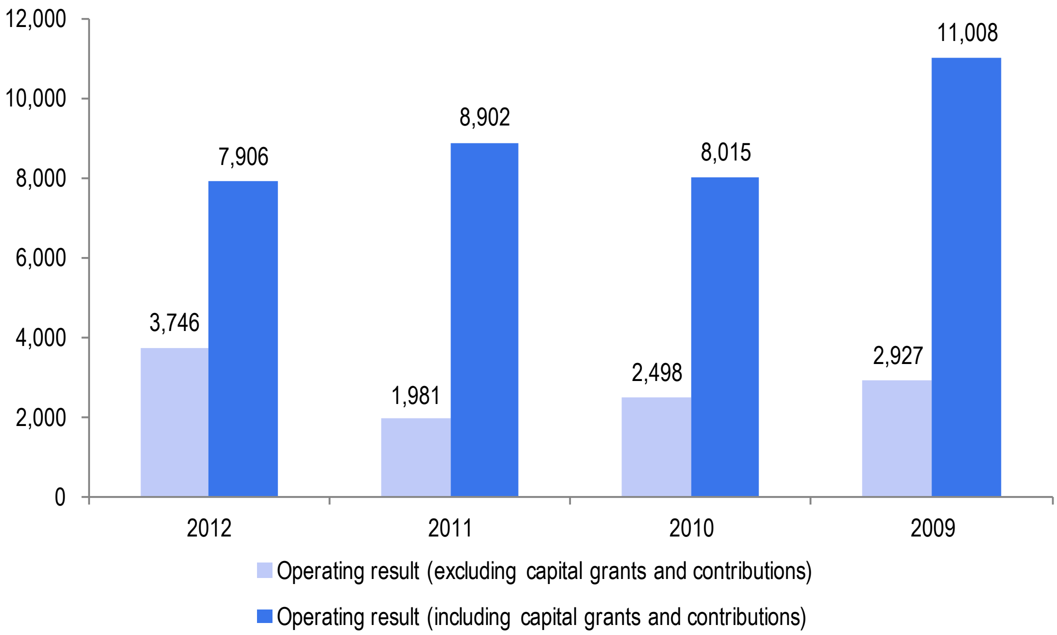
3.3: Operating Results

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 posted a positive net operating result (excluding capital grants and contributions) in each of the last four years. Operating surpluses were driven by increasing annual charges, significant increases in other income and modest employee expense growth.
- Council expenses include a non-cash depreciation expense ($13.9m in 2012). 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.

3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	17,938	15,877	16,246	16,483
Operating Ratio	2.7%	1.5%	2.0%	2.5%
Interest Cover Ratio	57.49x	48.11x	27.08x	20.92x
Debt Service Cover Ratio	16.94x	6.10x	3.02x	7.37x
Unrestricted Current Ratio	3.35x	2.74x	3.14x	3.41x
Own sourced revenue	80.8%	79.6%	79.9%	76.7%
Cash expense ratio	0.7 months	1.2 months	1.1 months	2.4 months
Net assets ($'000s)	2,444,669	2,433,417	3,574,559	3,382,576

Key Observations

- Council's EBITDA has marginally increased over the four year period.
- Council borrowings have decreased from $6.4m to $0.8m over the review period.
- The Unrestricted Current Ratio and Interest Cover Ratio has been well above the benchmarks in all four years indicating liquidity is sufficient
- Cash Expense Ratio has been below benchmark over the review period, however Council had $36.2m of unrestricted current investments in 2012 to support its cash position.
- The Own Source Operating Revenue Ratio has been well above the benchmark in all four years, reflecting Council's strong degree of self Sustainability.
- Net Assets have decreased by $937.9m over the review period, mainly due to an adjustment to community land of $1.2b in 2011.
- The Asset Revaluations over the last four years have resulted in some volatility in Net Assets. 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 the ongoing operations of Council.
- When the Asset Revaluations are excluded, the underlying trend in all four years has been a expanding Infrastructure, Property, Plant and Equipment (IPP&E) asset base with asset purchases being larger than the combined value of disposed assets and annual depreciation. Over the last four years this amounted to a $247.0m net increase in IPP&E.

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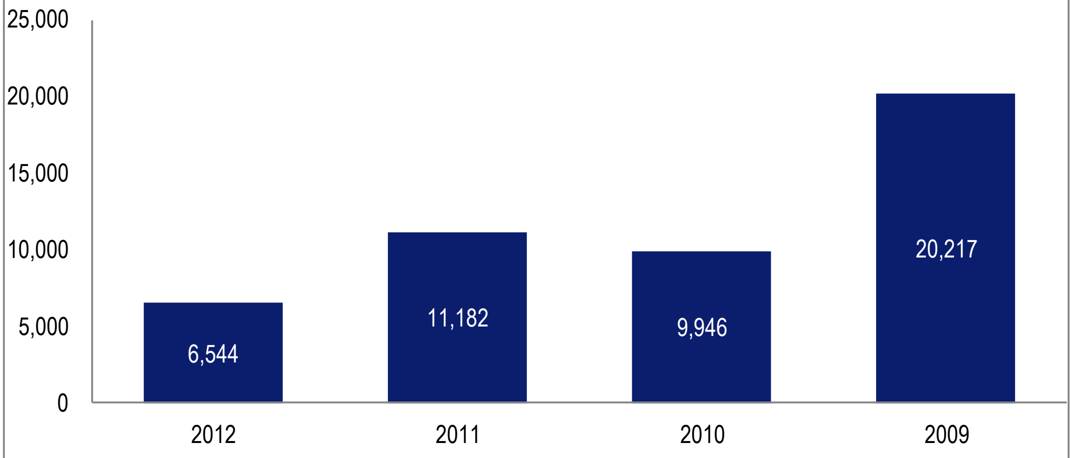
3.5: Statement of Cashflows

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



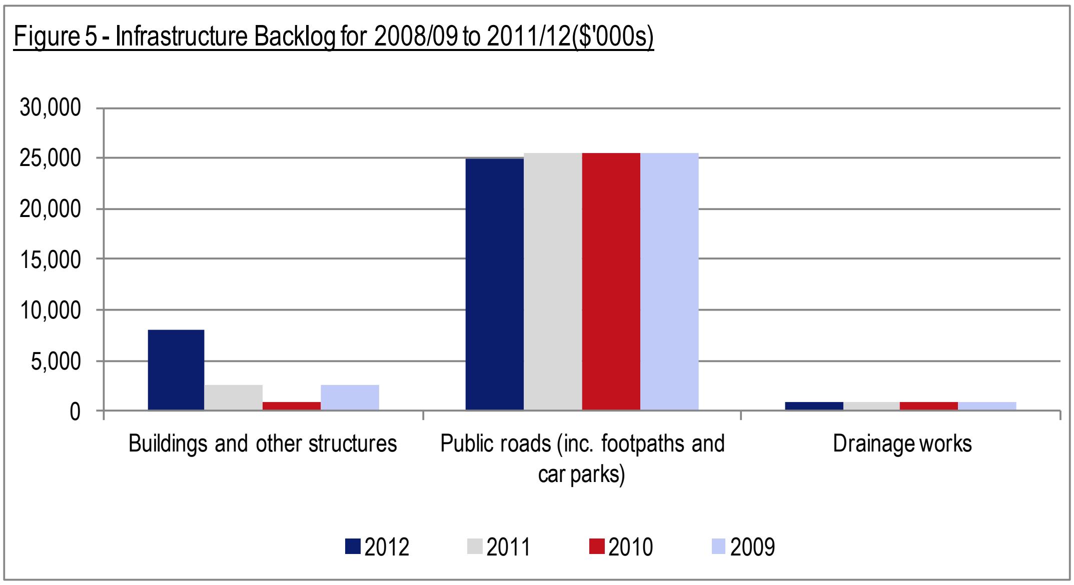
Key Observations

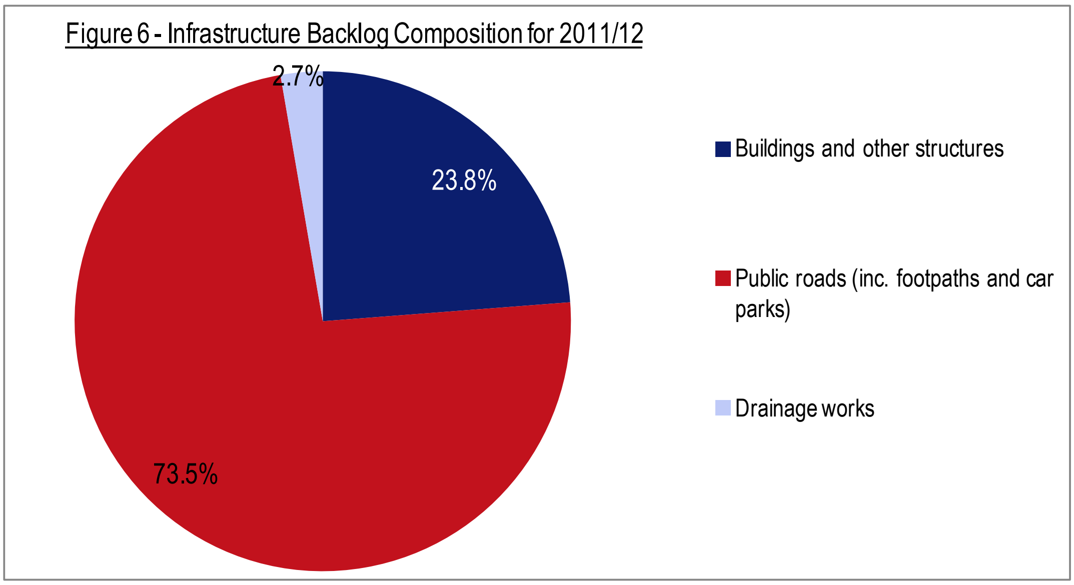
- Cash and cash equivalents have decreased over the review period.
- The Unrestricted Current Ratio indicates Council had sufficient liquidity.
- Within the $79.4m in total cash and investments, $33.2m was externally restricted, $9.9m was internally restricted and $36.3m was unrestricted.

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





Council reported a $16.7m Infrastructure Backlog in 2012, of which 37.0% ($6.8m) related to drainage works while 22.6% related to buildings and other structures (including footpaths and car parks). The Backlog represents 2.1% of total infrastructure assets.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	16,732	15,224	11,594	13,300
Required annual maintenance ($'000s)	5,599	8,911	6,331	11,705
Actual annual maintenance ($'000s)	5,450	7,222	4,374	6,559
Total value infrastructure assets ($'000s)	788,846	774,348	735,492	541,800
Total assets ($'000s)	2,479,009	2,474,365	3,612,550	3,424,713
Infrastructure Backlog Ratio	0.02x	0.02x	0.02x	0.02x
Asset Maintenance Ratio	0.97x	0.81x	0.69x	0.56x
Building and infrastructure asset renewal ratio	1.55x	1.86x	1.69x	1.06x
Capital Expenditure Ratio	1.98x	2.26x	2.31x	2.63x

The Infrastructure Backlog Ratio has been consistently in line with benchmark over the review period.

The Asset Maintenance Ratio has been on an upward trend but has not met benchmark over the review period. This indicates that Council have not been spending enough on asset maintenance but has been improving each year.

However, Council's Building and Infrastructure Renewals Ratio has also been consistently above the benchmark, which indicates Council is spending at levels above the required amount on asset renewal. Council has been undertaking an increased level of renewal works over the review period which has negated the need for a higher level of maintenance.

The Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has been above benchmark in each of the past four years. This is reflective of the growing developer investments for capital works and Council investments in IPP&E.

3.6(c): Capital Program

The following figures have been sourced from Council and differ slightly from the Council's Annual Financial Statements at Special Schedule No. 8 and are not audited. Council's Special Schedule 8 shows rounded numbers for ease of reporting. New capital works are major non-recurrent projects.

Capital Program ($'000s)	Year ended 30 June			
	2012	2011	2010	2009
New capital works	10,132	9,569	11,250	26,612
Replacement/refurbishment of existing assets	18,788	23,235	20,900	9,213
Total	**28,920**	**32,804**	**32,150**	**35,825**

Large projects completed in 2012 included The Strand at Dee Why, Brookvale Oval upgrade, and stage one of the Narrabeen Lagoon Multi-use Trail.

IPP&E capital works in 2012 included, but were not restricted to;

- 13.75km (or 119,138 square metres) of road resurfaced
- 3,600 square metres of carpark resurfaced
- 2,779 potholes repaired
- 564m of kerb and gutter repaired
- 742 square metres of footpath repaired
- 3.17km of new footpath constructed
- 2,360 square metres of footpath renewed

3.7: Specific Risks to Council

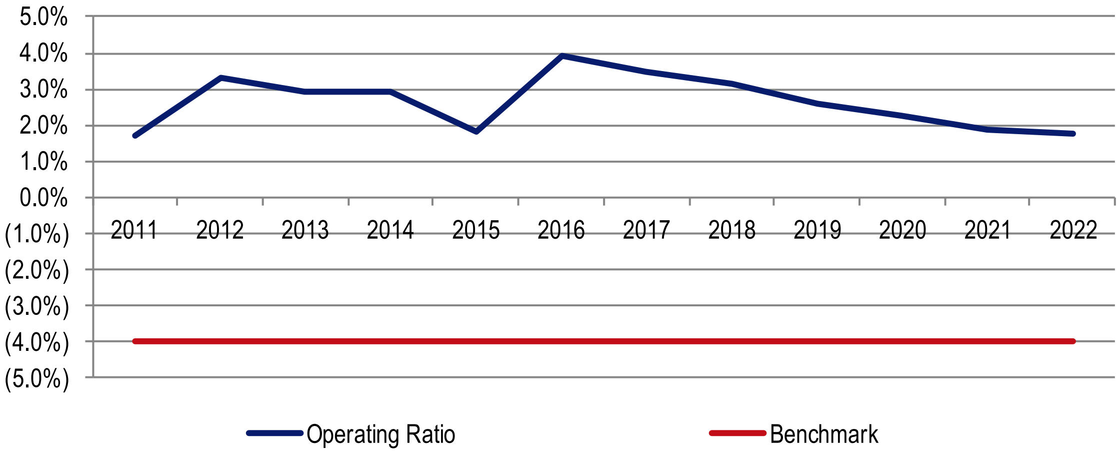
- Acquisitions of new open space - The Warringah Local Environmental Plan 2012 classifies a number of privately owned land parcels as Local Open Space or Bushland to provide amenity for local neighbourhoods. Council will be required to purchase these land parcels when notified in writing by the owners and are subject to valuation at that time. Reliable estimates as to the value of any potential liability (and subsequent land asset values) from such potential acquisitions is difficult.
- Delivering a Major Regional Centre in Dee Why – Brookvale/Dee Why have been identified as the major centres for the North East Sub region in the state government's Metropolitan Plan for Sydney 2036. Significant investment is required by both private and public land holders to create an attractive, liveable and thriving centre by the sea. The Council is developing a Masterplan for Dee Why to guide the transformation of the precinct and will deliver new community facilities and open spaces, attractive streetscapes and 560 new Council public car parking spaces.
- Changing age profile of our community – we are living longer and are seeing an increase in the proportion of residents in our community aged 50 years or older. This places higher demand on services and infrastructure needed to support an aging population. The Council is currently developing a Health Aging Strategy to identify how we can allow our community to age in place.
- Better transport access – Residents have a high dependency on car-based travel to get around and traffic congestion is a significant issue limiting the growth of the local economy. The Northern Beaches Regional Action plan commits the State government to investigating a Bus Rapid Transit (BRT), Council will work in partnership with the State and also construct park and ride facilities for commuters at Dee Why.

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 this represents Council's consolidated position.

4.1: Operating Results

Figure 7- Operating Ratio for General Fund

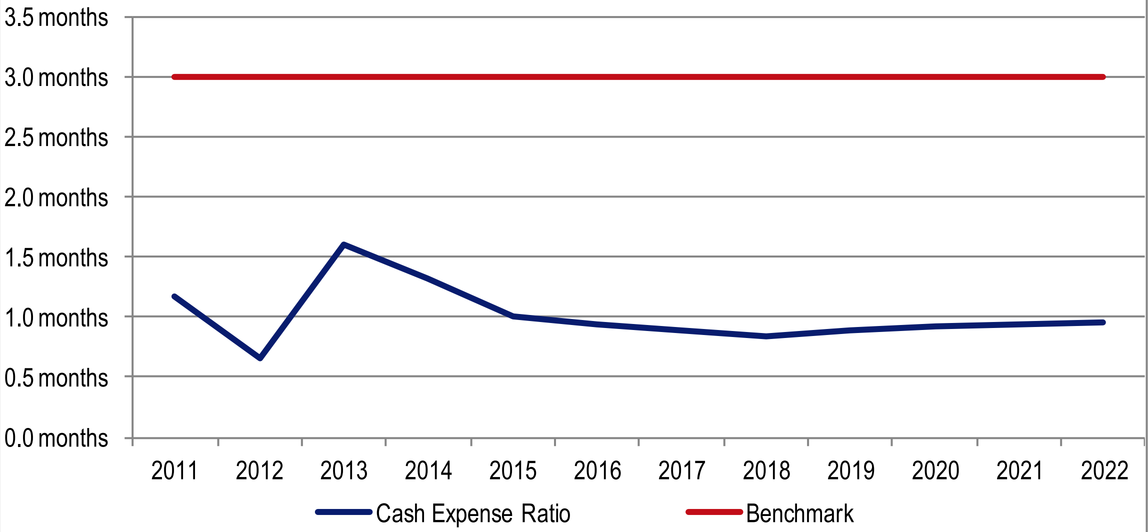


The Operating Ratio remains consistently above the benchmark which will support Council's ongoing sustainability and financial strength.

4.2: Financial Management Indicators

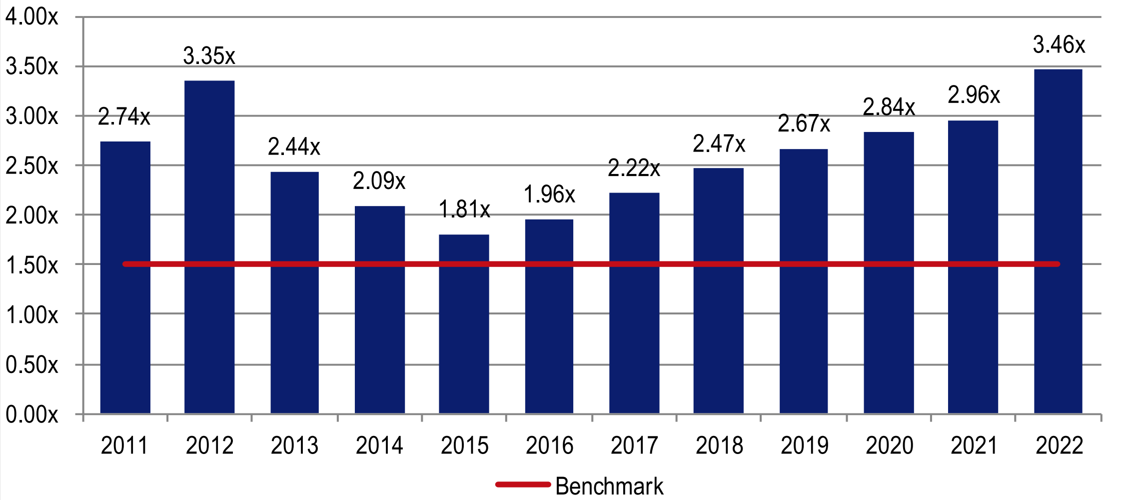
Liquidity Ratios

Figure 8 - Cash Expense Ratio for General Fund



Cash Expense Ratio should be below benchmark in all years of the review period; however Council had $36.2m of unrestricted current investments in 2012 which supports its liquidity position.

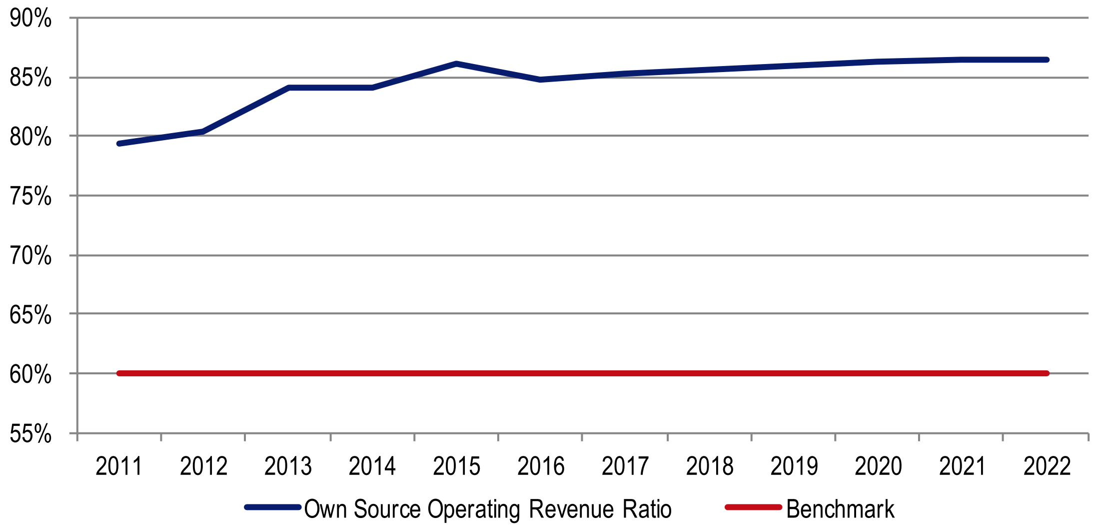
Figure 9 - Unrestricted Current Ratio for General Fund



The Unrestricted Current Ratio is forecast to decline to a low of 1.81x in 2015, which is driven by a decline in current investment assets coupled with an increase in debt service requirements following the drawdown of $17.5m in 2014 infrastructure works at Council's Waste Landfill Site. Overall, the ratio is above benchmark indicating that Council's liquidity is sound.

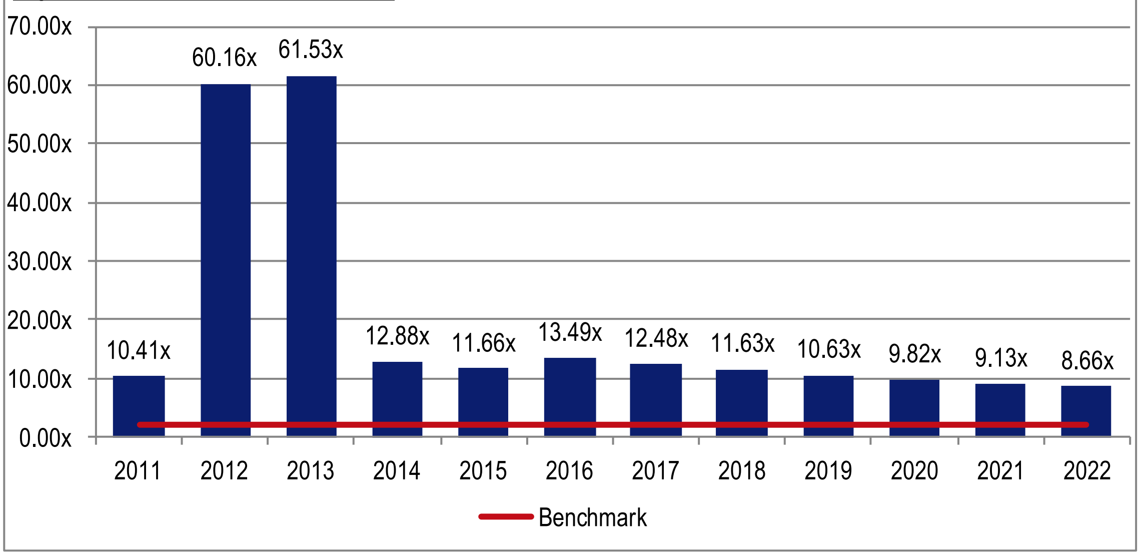
Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund

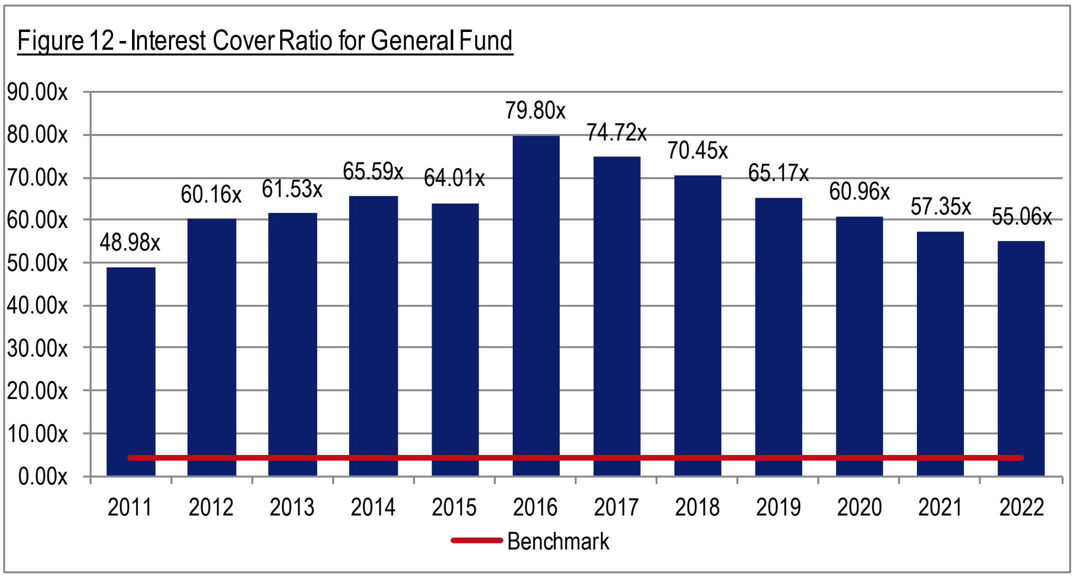


The Own Source Operating Ratio remains consistently above the benchmark which indicates Council's financial flexibility.

Figure 11 - DSCR for General Fund

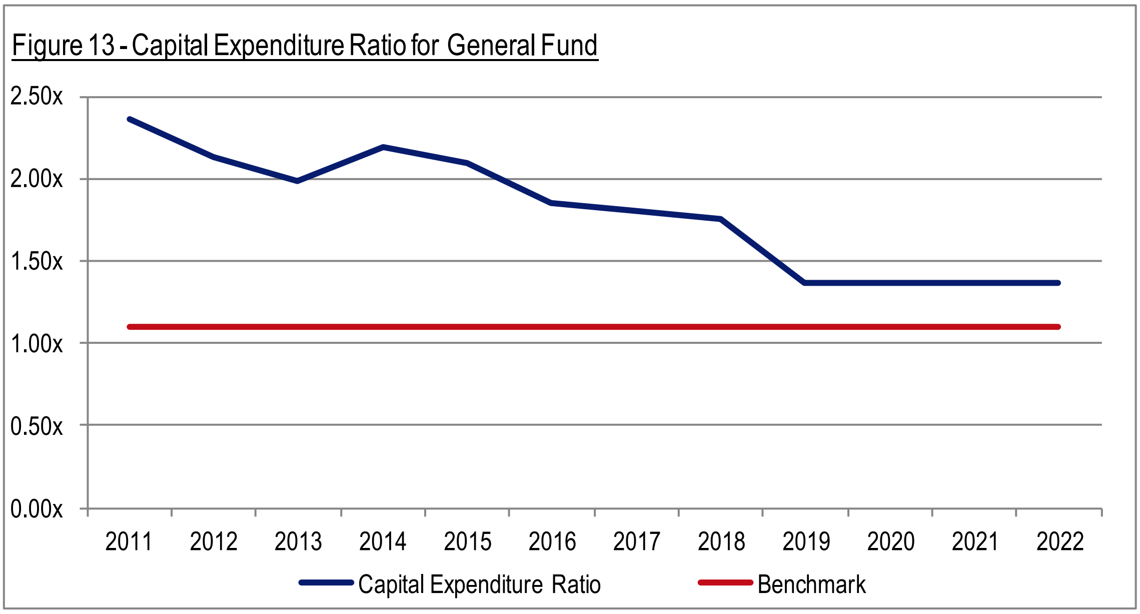


The DSCR ratio is forecast to be significantly above benchmark and demonstrates Council's capacity to service more debt if required.



The Interest Coverage Ratio, similarly to the DSCR demonstrates Council's ability to service more debt.

4.3: Capital Expenditure



Over the 10 years of the forecast Council's capital expenditure will significantly exceed the benchmark and will exceed depreciation by $86.4m in nominal terms resulting in an increasing asset base. This supports forecasts of a growing population and Council may be able to reduce its Infrastructure Backlog.

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 assumes current service levels are maintained.
- Rates and annual charges are forecast to increase by 2.7% p.a.
- User fees and charges are forecast to increase by 2.7% p.a.
- Grants and contributions for operating purposes are forecast to increase by 2.7% p.a.
- Grants and contributions for capital purposes are forecast to increase by 2.7% p.a.
- Interest and investment revenues are forecast to increase by 5.0% p.a.
- Employee expenses are forecast to increase by 3.5% p.a.
- Materials and contracts are forecast to increase by 2.7% p.a.
- TCorp find the key assumptions underpinning the LTFP reasonable when compared to our benchmarks.

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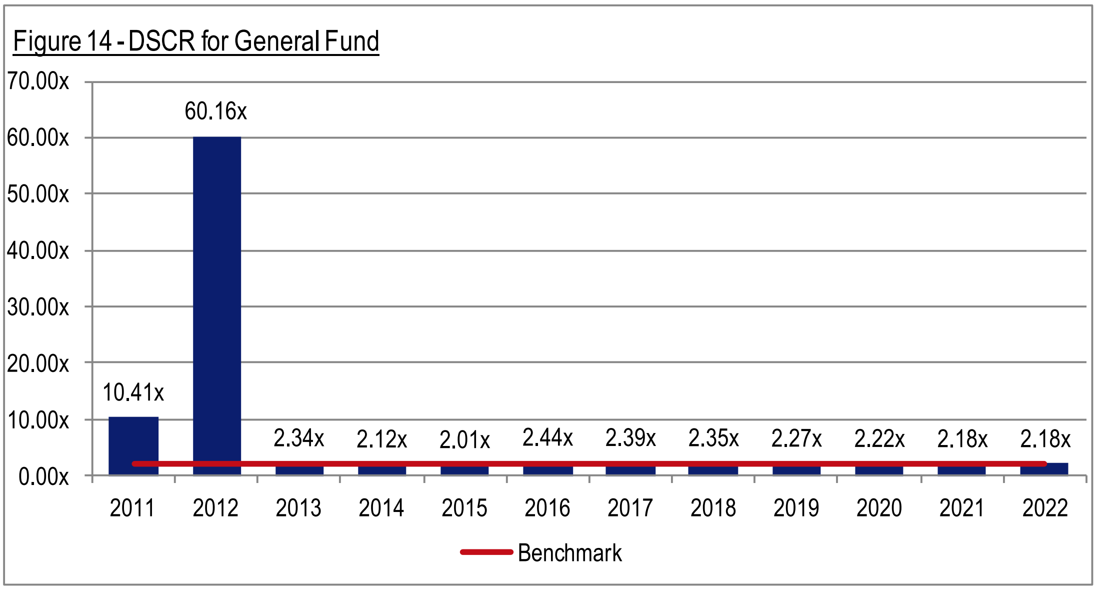
4.5: Borrowing Capacity

When analysing the financial capacity of the Council we believe Council will be able to incorporate additional loan funding in addition to its existing debt facilities (if any) and those included in its LTFP. Some comments and observations are:



- Based on a benchmark of DSCR>2.0x, up to $53.5m could be borrowed in addition to any existing borrowings
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at 7.5% p.a.

4.6 Sustainability

Council management have run a fiscally responsible operation which at this time appears to support a Sustainable position in the long term.

Council have provided targeted levels of service with the residents while building up significant cash reserves over the last number of years. The planned expenditure of these reserves over the next 10 years will enable sufficient capital expenditure to keep infrastructure assets in current satisfactory condition.

Other areas where management have shown foresight for longer term Sustainability include:

- Reducing staff numbers and keeping salaries and wages static
- Prudence in applying for capital grants, taking into account the longer term operational costs
- Infrastructure management has been sound
- Council's Infrastructure Backlog is reasonable compared to benchmark
- Council's partnership with the other SHOROC councils (Manly, Mosman, and Pittwater) has resulted in a solid platform for a regional approach to shared concerns and joint solutions.

In considering the longer term financial Sustainability of the Council we consider Council to be in a sound position. We make the following additional comments:

- Council's LTFP forecasts above benchmark performance across the forecast period in nearly all areas including operating surpluses
- Council's forecast capital expenditure program is sufficient to ensure the current service levels can be maintained and the Infrastructure Backlog reduced
- Council has built up good levels of cash reserves which can be used to fund its forecast capital expenditure program

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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.

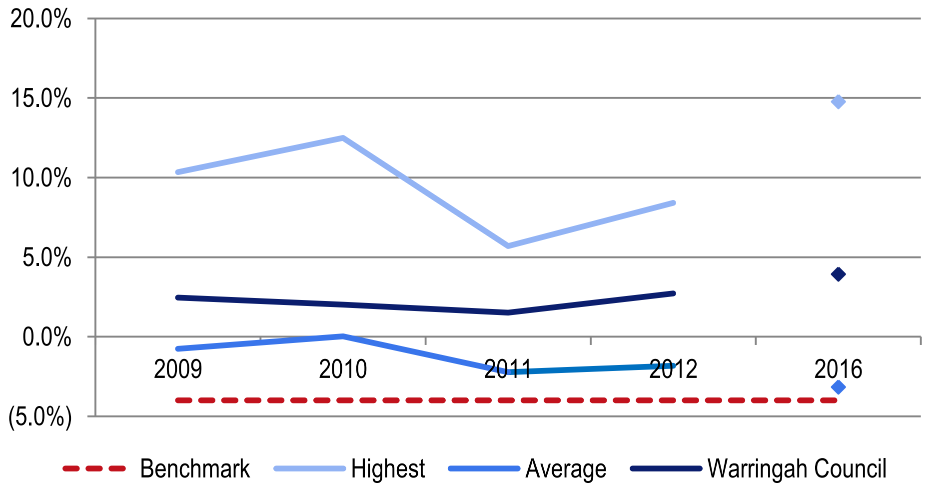
In Figure 15 to Figure 21, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), 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.

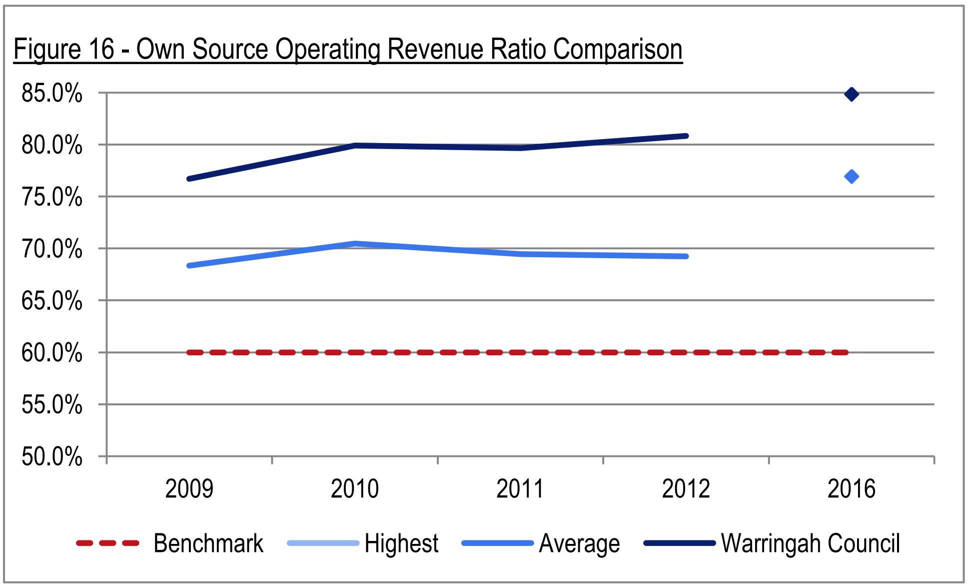
Please note that this section of the report has been prepared separately to the LIRS financial assessment and includes the latest information at the time of preparation which includes data from the 2012 financial year.

Financial Flexibility

Figure 15 - Operating Ratio Comparison



The Council's operating ratio is above average and the benchmark. The Council's financial sustainability will remain strong with the operating ratio forecast to improve in 2016.



The Council has strong financial flexibility with its own source operating ratio above benchmark and the average. The ratio is forecast to improve to 85% by 2016.

Liquidity

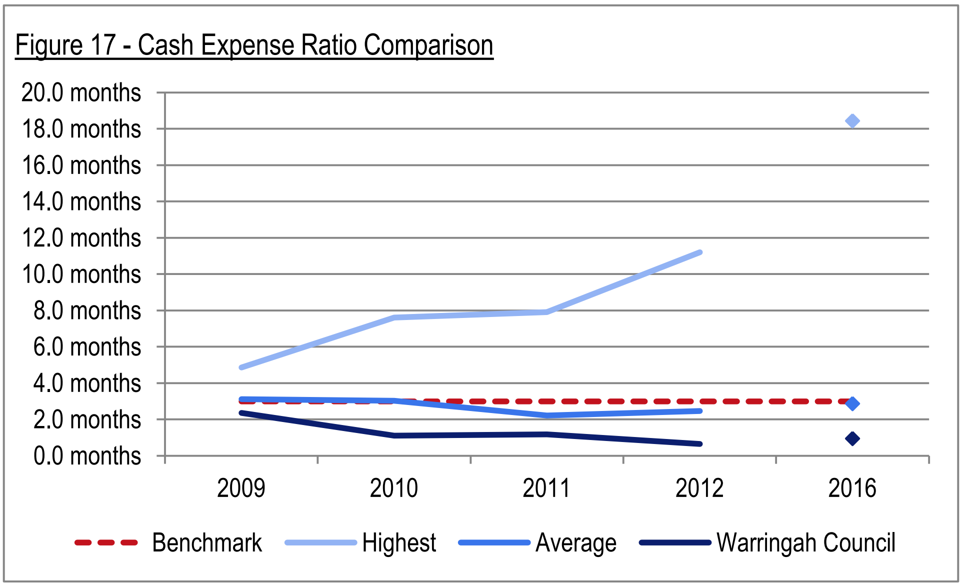
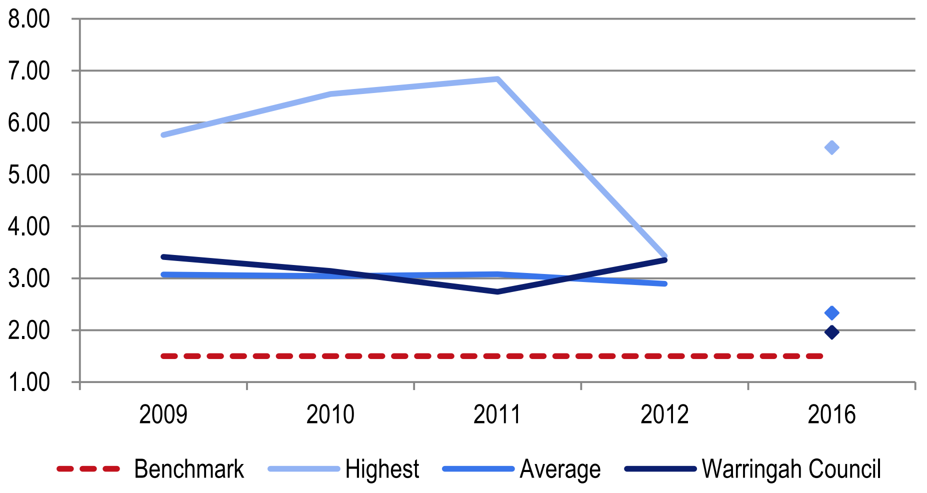


Figure 18 - Unrestricted Current Ratio Comparison



The Council's liquidity is sound with the unrestricted current ratio remaining above the benchmark but expected to fall below average in 2016. While the Cash Expense Ratio is below benchmark, it does not take into account the $36.2 million in current investments as at 2012. This balance is projected to fall in the medium term.

Debt Servicing

Figure 19 - Debt Service Cover Ratio Comparison

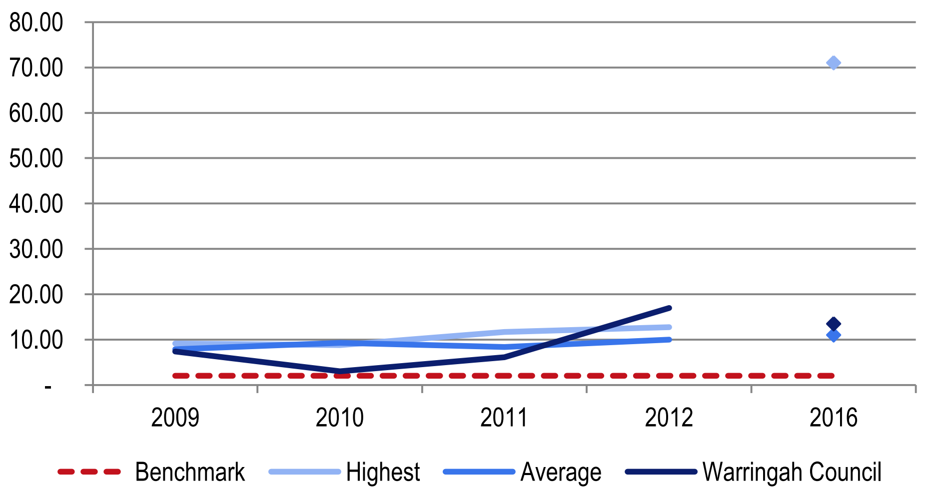
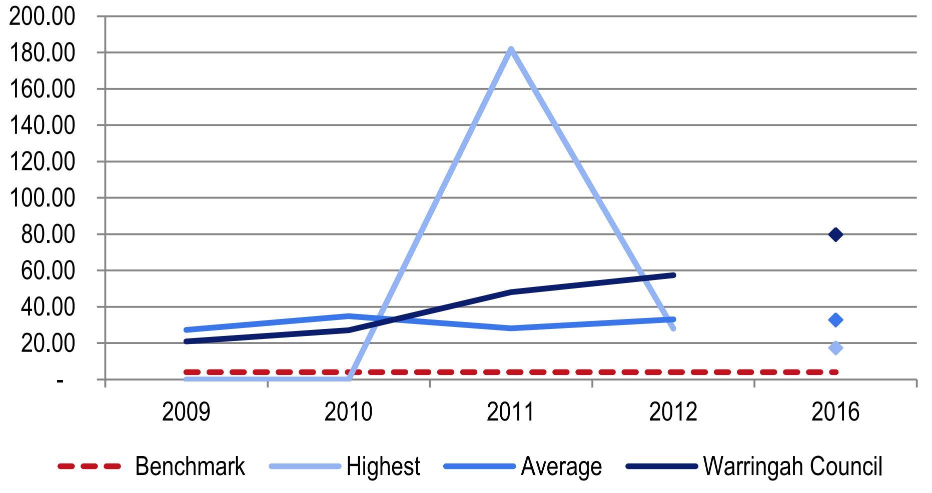


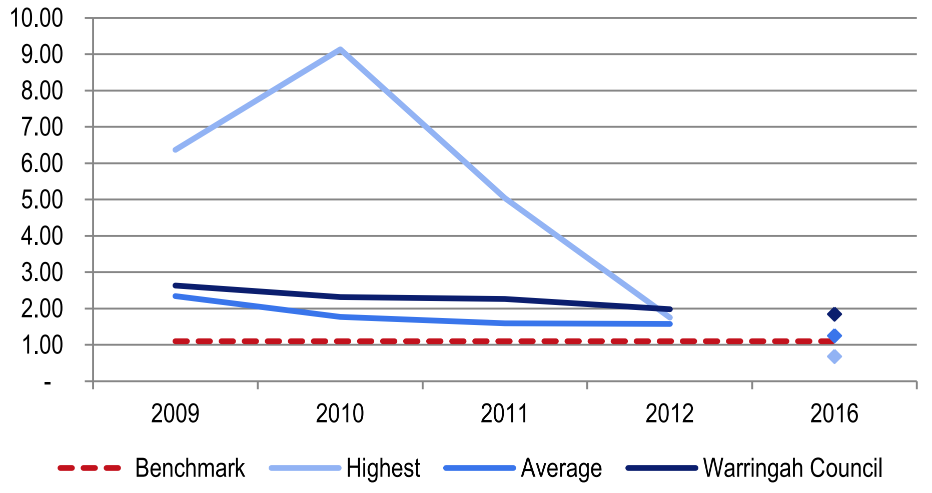
Figure 20 - Interest Cover Ratio Comparison



The Council has strong debt service capacity with both the DSCR and the Interest Cover Ratio above benchmark. This trend is forecast to continue over the medium term and suggests that the Council can support more debt if required.

Asset Renewal and Capital Works

Figure 21 - Capital Expenditure Ratio Comparison



The Council's capital expenditure ratio is above average and benchmark. This trend is expected to continue to 2016.

Figure 22 - Asset Maintenance Ratio Comparison

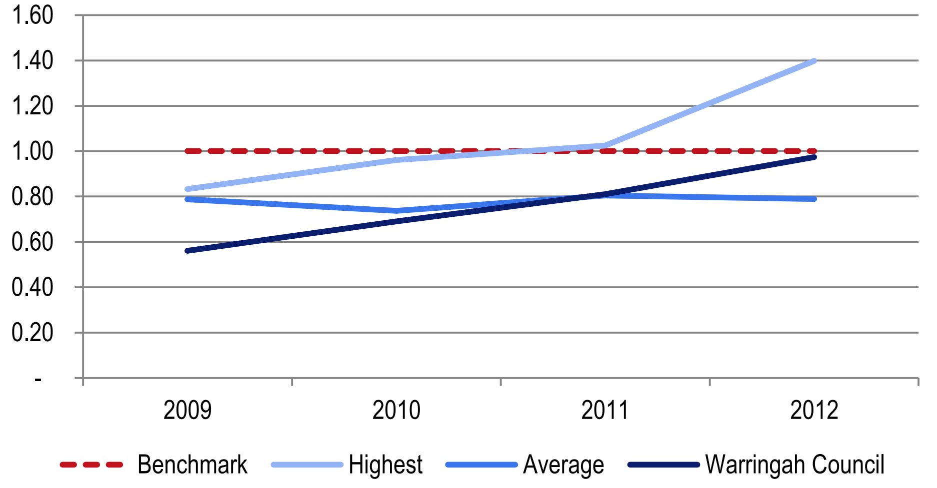
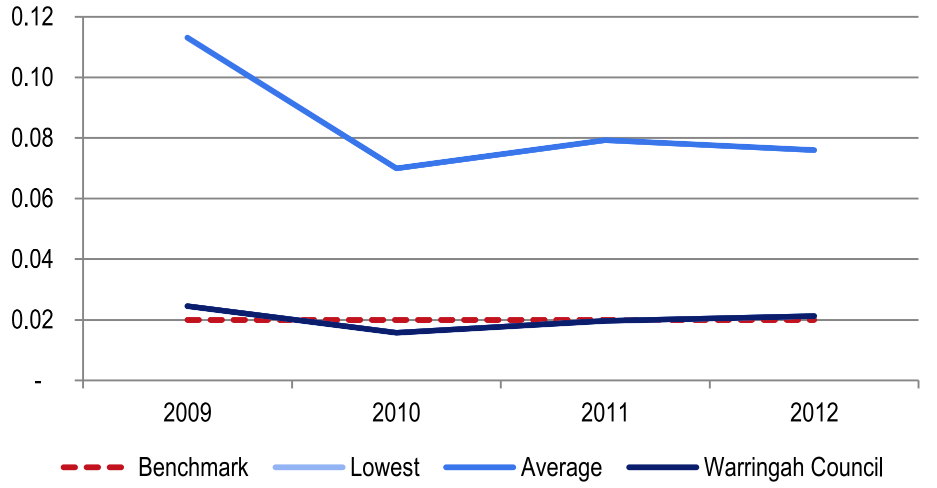
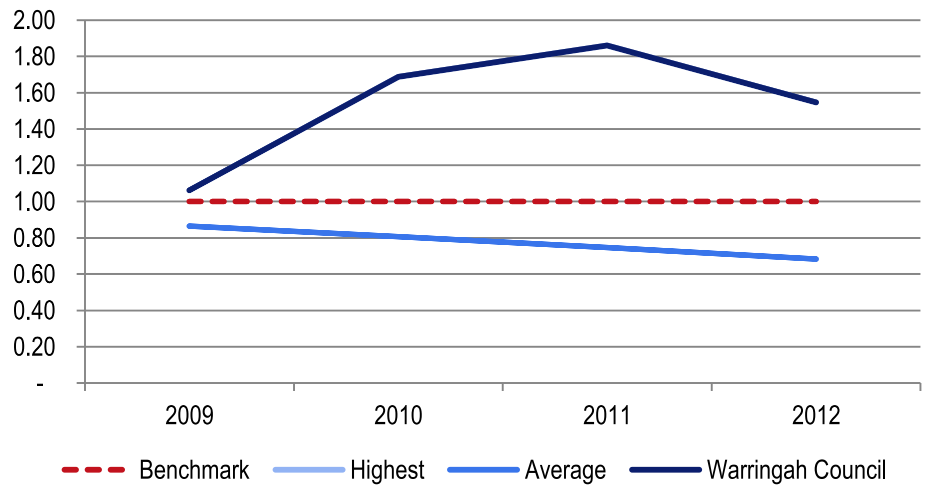


Figure 23- Infrastructure Backlog Ratio Comparison



The Council's infrastructure backlog remains consistent with the benchmark level over the review period. Its asset renewal has also increased to be just below the benchmark in 2012. Maintenance level should continue to increase to ensure infrastructure backlog levels are maintained.

Figure 24 - Building and Infrastructure Asset Renewal Ratio



The Council's asset renewal ratio is above both benchmark and average which should ensure that ongoing asset maintenance can be minimised.

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 to be in a sound Sustainability position.

We base our recommendation on the following key points:

- Council reported operating surpluses each year over the review period and these are forecast to continue
- Salaries and wages have remained static over recent years and future growth is in line with TCorp benchmarks
- Council has had very strong levels of liquidity throughout the period as indicated by its Unrestricted Current Ratio being well above the benchmark
- Council's forecast capital expenditure will be sufficient to not only keep infrastructure assets in their current satisfactory condition but to provide for expansion or improvement of assets
- Council's high cash reserves will better enable asset renewal in the long term
- Council has a manageable Infrastructure Backlog which could be reduced by the significant forecast capital expenditure program

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	83,119	79,257	76,958	70,993	4.9%	3.0%	8.4%
User charges and fees	31,792	30,287	26,797	26,664	5.0%	13.0%	0.5%
Interest and investment revenue	5,079	5,950	5,343	6,800	(14.6%)	11.4%	(21.4%)
Grants and contributions for operating purposes	8,677	7,549	7,483	9,117	14.9%	0.9%	(17.9%)
Other revenues	9,356	7,574	7,768	5,645	23.5%	(2.5%)	37.6%
Total revenue	**138,023**	**130,617**	**124,349**	**119,219**	**5.7%**	**5.0%**	**4.3%**
Expenses							
Employees	54,434	52,435	51,535	49,164	3.8%	1.7%	4.8%
Borrowing costs	312	330	600	788	(5.5%)	(45.0%)	(23.9%)
Materials and contract expenses	49,522	47,676	43,661	41,759	3.9%	9.2%	4.6%
Depreciation and amortisation	13,880	13,566	13,148	12,768	2.3%	3.2%	3.0%
Other expenses	16,129	14,629	12,907	11,813	10.3%	13.3%	9.3%
Total expenses	**134,277**	**128,636**	**121,851**	**116,292**	**4.4%**	**5.6%**	**4.8%**
Operating result (excluding capital grants and contributions)	**3,746**	**1,981**	**2,498**	**2,927**	89.1%	(20.7%)	(14.7%)
Operating result (including capital grants and contributions)	**7,906**	**8,902**	**8,015**	**11,008**	(11.2%)	11.1%	(27.2%)

Table 2 - Items excluded from Income Statement

Excluded items	2012	2011	2010	2009
Grants and contributions for capital purposes	4,160	6,921	5,517	8,081
Sale of Access Rights (Other Rev)	0	0	5,000	0
Increase (Decrease) in the fair value of investments	(250)	(3)	298	(321)
Increase (Decrease) in the fair value of investment properties	0	50	50	(200)
Net share of interests in joint ventures and associates using equity method	377	71	0	0
Interest and investment losses	0	0	216	323
Gain on disposal of assets	205	167	308	0
Loss on disposal of assets	0	0	0	(5)

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	6,544	11,182	9,946	20,217	(41.5%)	12.4%	(50.8%)
Investments	68,537	71,038	71,707	50,544	(3.5%)	(0.9%)	41.9%
Receivables	6,584	8,294	7,471	6,619	(20.6%)	11.0%	12.9%
Inventories	96	90	90	107	6.7%	0.0%	(15.9%)
Other	1,037	862	537	457	20.3%	60.5%	17.5%
	2,944	2,944	2,944	2,944	0.0%	0.0%	0.0%
Total current assets	85,742	91,466	89,751	77,944	(6.3%)	1.9%	15.1%
Non-current assets							
Investments	4,318	5,623	14,066	33,743	(23.2%)	(60.0%)	(58.3%)
Receivables	497	497	446	480	0.0%	11.4%	(7.1%)
Infrastructure, property, plant & equipment	2,383,286	2,369,616	3,502,380	3,306,606	0.6%	(32.3%)	5.9%
Investments accounted for using the equity method	1,226	849	778	996	44.4%	9.1%	(21.9%)
Intangible assets	1,840	2,100	2,050	2,000	(12.4%)	2.4%	2.5%
Investment property	2,100	1,270	135	0	65.4%	840.7%	N/A
Total non-current assets	2,393,267	2,379,955	3,519,855	3,343,825	0.6%	(32.4%)	5.3%
Total assets	**2,479,009**	**2,471,421**	**3,609,606**	**3,421,769**	**0.3%**	**(31.5%)**	**5.5%**
Current liabilities							
Payables	13,766	18,602	15,850	16,743	(26.0%)	17.4%	(5.3%)
Borrowings	491	574	1,427	1,528	(14.5%)	(59.8%)	(6.6%)
Provisions	12,457	11,582	11,162	10,646	7.6%	3.8%	4.8%
Total current liabilities	26,714	30,758	28,439	28,917	(13.1%)	8.2%	(1.7%)
Non-current liabilities							
Payables	600	400	200	0	50.0%	100.0%	N/A
Borrowings	274	508	811	4,824	(46.1%)	(37.4%)	(83.2%)
Provisions	6,752	6,338	5,597	5,452	6.5%	13.2%	2.7%
Total non-current liabilities	7,626	7,246	6,608	10,276	5.2%	9.7%	(35.7%)
Total liabilities	**34,340**	**38,004**	**35,047**	**39,193**	**(9.6%)**	**8.4%**	**(10.6%)**
Net assets	**2,444,669**	**2,433,417**	**3,574,559**	**3,382,576**	**0.5%**	**(31.9%)**	**5.7%**

Table 4-Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
Cash flows from operating activities	21,035	24,646	25,529	26,370
Cash flows from investing activities	(24,926)	(21,845)	(31,916)	(48,171)
Proceeds from borrowings and advances	330	707	888	526
Repayment of borrowings and advances	(747)	(2,272)	(4,772)	(1,447)
Cash flows from financing activities	(417)	(1,565)	(3,884)	(921)
Net increase/(decrease) in cash and equivalents	**(4,308)**	**1,236**	**(10,271)**	**(22,722)**
Cash and equivalents	6,544	11,182	9,946	20,217

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 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.

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.