Attachment O

TCorp Report- Financial Sustainability

Randwick City Council
a sense of community

Randwick City Council

Financial Assessment, Sustainability and Benchmarking Report

12 April 2013

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

New South Wales Treasury Corporation

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 Randwick City Council, the DLG and the Local Government Review Panel. TCorp shall not be liable to Randwick 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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Section 1 Executive Summary

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

TCorp's approach has been to:

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

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

- Operating surpluses have been posted in each review year when capital grants and contributions are excluded
- Liquidity has remained sound as indicated by an Unrestricted Current Ratio above benchmark
- Council's underlying operating performance, measured by EBITDA, has been on a positive trend between 2010 and 2012
- Council's financial flexibility is good as indicated by an Own Source Operating Revenue Ratio above benchmark in all four years

The Council reported $51.6m of Infrastructure Backlog in 2012 which represents 6.0% of its infrastructure asset value of $861.9m. Other observations include:

- Council's 2012 backlog value is at a similar level to the 2009 backlog total although the Infrastructure Backlog Ratio has decreased due to the Asset Revaluation process more than doubling the total value of infrastructure assets during the review period
- The largest asset category within the backlog is buildings at $22.6m. Council has an SRV in place to assist in addressing the buildings backlog.
- Council's asset maintenance funding has increased year on year and was above what the budgeted requirements were in 2011 and 2012
- Council has spent adequately on capital expenditure in each year with the Capital Expenditure Ratio above the benchmark in all four years
- Council has not spent enough in relation to asset renewals with the Buildings and Infrastructure Asset Renewal Ratio below the benchmark in all four years

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

- Operating surpluses (excluding capital grants and contributions) are forecast to continue for all 10 years
- Council's liquidity is expected to remain adequate with an Unrestricted Current Ratio above the benchmark for all forecast years
- Council's own source operating revenue is forecast to be above the benchmark for the forecast period indicating a sufficient level of financial flexibility

- Council is forecast to remain debt free throughout the 10 years
- Council's capital expenditure is forecast to be above the benchmark for all 10 years

In our view, the Council has the capacity to undertake additional borrowings of up to $86.7m from 2013. This is based on the following analysis:

- This is the maximum borrowings total before Council's DSCR reduces below 2.00x between 2013 and 2022
- Council has operated debt free for the last 11 years and has the capacity to utilise borrowings to assist with the reduction of their Infrastructure Backlog

From our review, Council appears to be in a sound position in terms of its long term Sustainability. Our key observations are:

- Council has demonstrated a track record of operating surpluses and these are forecast to continue
- Council has had sound liquidity over the review period and this is forecast to continue over the forecast period
- Council has a strong focus on the subject of Sustainability as indicated in their Community Strategic Plan and other IP&R documents. This has been recognised by Council receiving external awards for their work in this area since 2006
- Council's forecast capital expenditure is well above benchmark which should support an acceptable standard of assets
- Council has significant capacity to undertake debt to deal with any unexpected adverse financial situations

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 above the group average
- Council has not forecast any borrowings therefore they have not been compared to the group in relation to their capacity to utilise further borrowings from analysis of the DSCR and Interest Cover Ratio
- Council was in a sufficient liquidity position but was marginally below the group average liquidity level when measured using the Cash Expense Ratio as they invest the majority of their funds within investments to secure additional interest revenue and capital protection under the Federal Government's deposit guarantee scheme
- Council's Capital Expenditure Ratio is marginally below the group average but they have a comparatively lower level of Infrastructure Backlog in 2012
- Asset maintenance funding has been above the group average in each year and benchmark since 2011 and has been on an upward trend. Asset renewals have also been below benchmark in each year but on an upward trend since 2010, increasing above the group average in 2012

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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 and has acknowledged TCorp's comments
- Council has provided feedback in relation to where they believe TCorp's analysis can be improved in the future

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

Randwick City Council LGA	
Locality & Size	
Locality	Sydney Inner
Area	36.3 km²
DLG Group	3
Demographics	
Population as at 30 June 2011	128,989
% under 18	21%
% between 18 and 59	61%
% over 60	18%
Expected population 2021	141,100
Operations	
Number of employees (FTE)	497
Annual revenue	$117.3m
Infrastructure	
Roads	302.9 km
Bridges	1
Infrastructure backlog value	$51.6m
Total infrastructure value	$861.9m

Randwick City Council Local Government Area (LGA) is located in the eastern suburbs of Sydney, bounded to the north by Centennial Park, to the east by the Pacific Ocean and to the south by Botany Bay. Its natural coastline stretches for 29km from Clovelly in the north to Botany Bay in the south, encompassing eight beaches, six ocean pools, extensive foreshore areas and a number of rocky headlands.

The LGA includes the 13 suburbs of Kensington, Randwick, Clovelly, Kingsford, Coogee, South Coogee, Maroubra, Matraville, Malabar, Chifley, Little Bay, Phillip Bay and La Perouse. Part of the Port Botany area is also within the LGA.

The LGA's major regional facilities include the Randwick Hospitals Complex, the University of New South Wales, Randwick TAFE and many public and private schools.

Within Council's infrastructure, property, plant and equipment (IPP&E) as at 30 June 2012 there was:

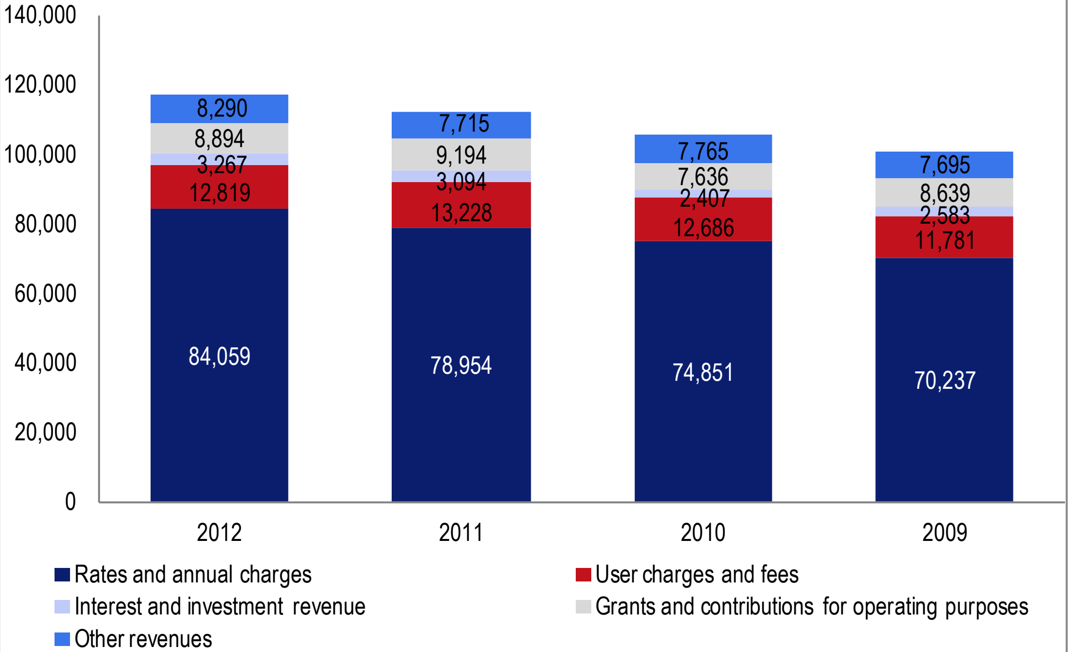
- $512.4m of roads, bridges and footpaths
- $194.4m of stormwater drainage
- $52.4m of specialised buildings
- $59.5m of depreciable land improvements
- $43.2m of non specialised buildings

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

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

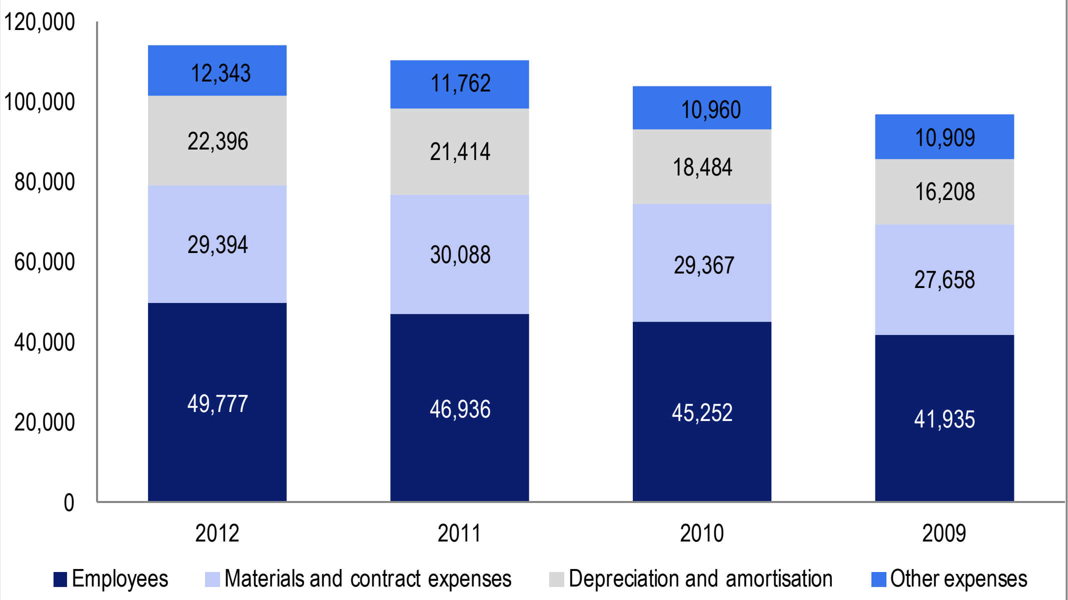


Key Observations

- Total operating revenues have increased by $16.4m (16.3%) over the review period to $117.3m in 2012.
- Rates and annual charges represent 71.6% of the total operating revenues in 2012 and have increased by between 5.5% and 6.6% in each of the three years. The increase in 2012 was attributable to ordinary rate increases of $3.6m to $55.6m and increased domestic waste management services annual charges of $1.3m to $23.9m. The increases in ordinary rates in 2012 and 2011 were above the rate peg due to a three year special rate variation (SRV) of an additional 2.69% p.a., agreed to fund a seven year 'Buildings for the Community' upgrade program. Council also benefitted from an environmental special rate that has been in place since 2004 and was extended in 2009 for a further five years. This provided $3.3m in rates revenue in 2012.
- User fees and charges have increased year on year until 2012. The main contributors in 2012 were aquatic centre fees of $3.4m and planning and building regulation fees of $1.7m.
- Operating grants and contributions increased in 2011 to $9.2m due to a $2.0m contribution in relation to parks and beaches.
- Other revenues have remained consistent from 2009 to 2011. In 2012 it increased by $0.6m, driven by a $0.8m increase in parking fines to $4.6m. The other main contributor was $2.4m from rental income of 'other council properties'.

3.2: Expenses

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



Key Observations

- Total expenses have increased by $17.2m (17.8%) over the review period to $113.9m in 2012.
- Employee costs represent 43.7% of expenses in 2012 and have increased in 2012 due to annual salary and wage rises of $2.3m and a $0.6m increase in employee leave entitlements. The annual increases over the period have been between 3.7% and 7.9% with increases in employee leave entitlements, superannuation and salaries and wages driving costs up at a higher rate than CPI. The total number of full time equivalent employees increased from 480 to 497 over the period.
- Council has been debt free since 2001 therefore they do not have any borrowing costs.
- Materials and contract expenses have generally increased over the period but it decreased in 2012 due to a $2.2m decrease in IT managed service provider costs. The main 2012 costs are garbage and recycling contracts of $10.2m and ‘other contractor and consultancy costs’ of $11.0m.
- Depreciation was the expense category with the largest increase. It increased by $6.2m over the period as the Asset Revaluations increased the infrastructure asset depreciation expense by $3.7m in 2011 to $11.3m and $2.2m in 2010 to $7.6m. The 2012 increase was driven by increases in buildings’ depreciation expense, which increased by $0.7m in total to $5.3m.
- Other expenses increased in 2012 due to a variety of increases with a $0.2m increase in street lighting costs to $2.4m being the largest. Other contributors were the NSW Fire Brigade Levy of $2.2m and Insurance expense of $2.0m. In 2011, the increase was due to a $0.5m increase in street lighting expense to $2.2m.

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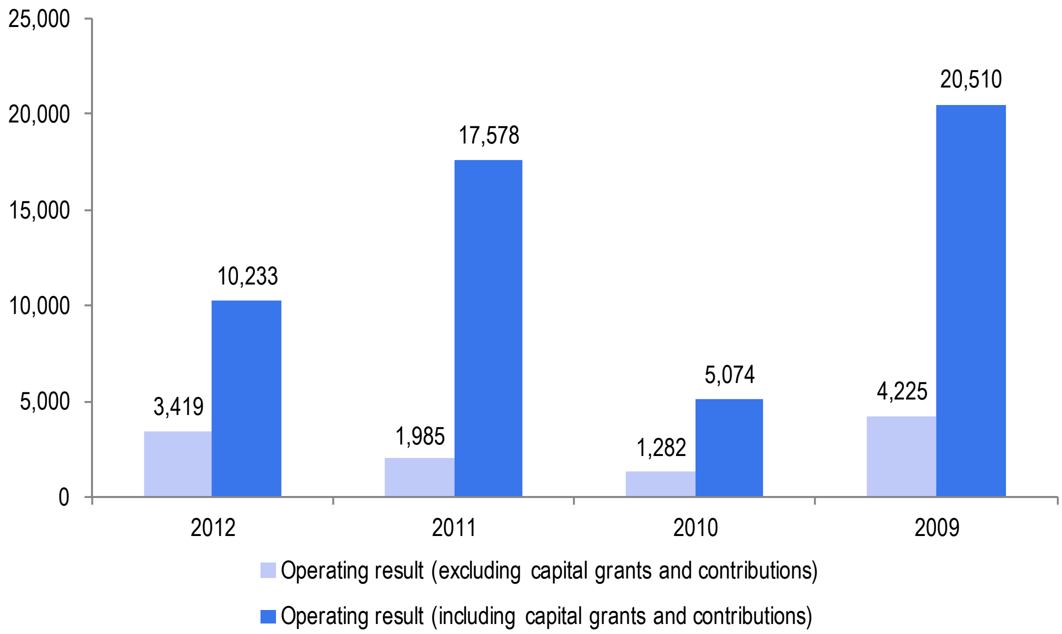
3.3: Operating Results

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 has achieved operating surpluses in all four years when capital grants and contributions are excluded.
- Council expenses include a non-cash depreciation expense, ($22.4m in 2012). While 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 larger increases in this expense are one of the factors for the reduced surpluses in 2010 and 2011.

3.4: Financial Management Indicators

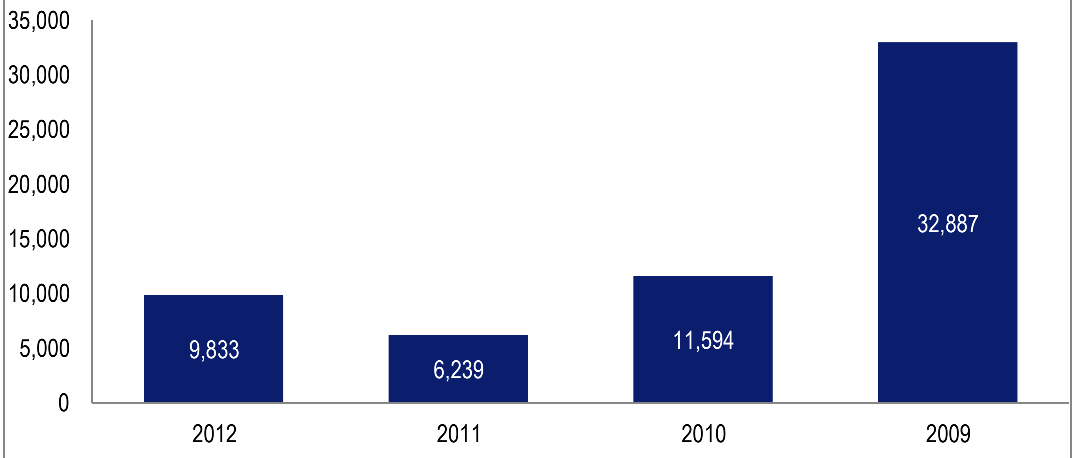
Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	25,815	23,399	19,766	20,433
Operating Ratio	2.9%	1.8%	1.2%	4.2%
Interest Cover Ratio	N/A	N/A	N/A	N/A
Debt Service Cover Ratio	N/A	N/A	N/A	N/A
Unrestricted Current Ratio	2.83x	2.44x	2.52x	3.25x
Own Source Operating Revenue Ratio	78.0%	72.1%	80.2%	70.0%
Cash Expense Ratio	1.3 months	0.8 months	1.6 months	4.9 months
Net Assets ($'000s)	1,292,053	1,283,821	1,270,950	2,106,037

Key Observations

- Council's underlying performance, as measured by EBITDA, has improved over the four year period. As Council has operated on a debt free basis since 2001 the Interest Cover Ratio and Debt Service Cover Ratio are unable to be calculated. When analysing the EBITDA it is clear that the Council would be able to service a significant level of borrowings should the situation arise where Council determined that it was appropriate to do so.
- The Operating Ratio has remained above the benchmark of negative 4.0% with the successive operating surpluses achieved.
- Council's Unrestricted Current Ratio has remained strongly above the 1.5x benchmark indicating that Council has had sound liquidity throughout the review period.
- Council's Own Source Operating Revenue Ratio has been comfortably above the 60.0% benchmark in each year indicating Council has sufficient financial flexibility.
- The Cash Expense Ratio has trended downwards until 2011 and has been below the benchmark from 2010 to 2012. The reason for the decrease is the increased utilisation of term deposit accounts by Council that are classified under current investments. This highlights Council's prudent financial management as they achieved a higher return on their cash.
- Net Assets have decreased over the period due to the Asset Revaluations process. Community land was reduced in value by $1.3b while infrastructure assets increased in value by $436.6m. 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 a Council.
- When excluding the Asset Revaluations, Council has increased the IPP&E asset base by $34.5m over the review period, with asset purchases being higher than the combined 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 decreased over the four year period. Council's funds are mainly held in term deposit accounts classified under current investments.
- Overall cash, cash equivalents, and investments have increased from $39.3m in 2009 to $53.8m in 2012. Of the $53.8m, $23.9m is externally restricted, $28.8m is internally restricted and $1.1m is unrestricted.
- Within the investments portfolio of $44.0m valued at 30 June 2012, $27.0m in current term deposits, $16.0m in Negotiable Certificates of Deposit (NCDs) and FRNs and $1.0m in non-current term deposits.
- 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)

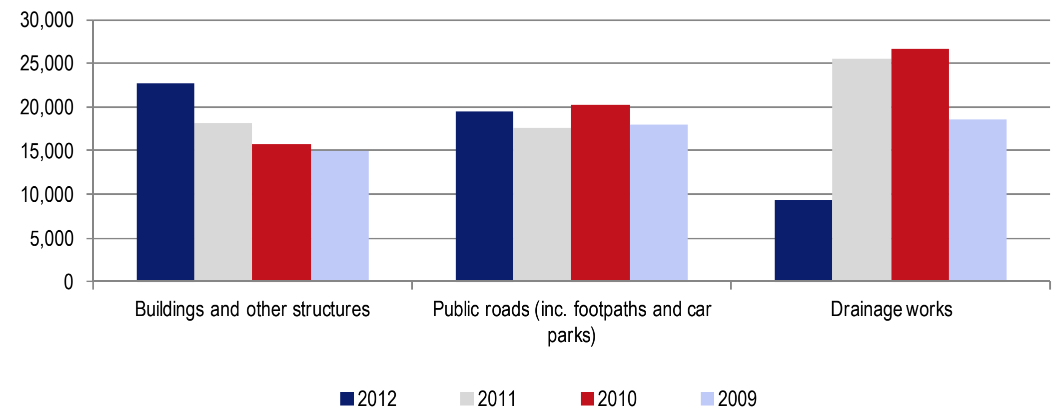
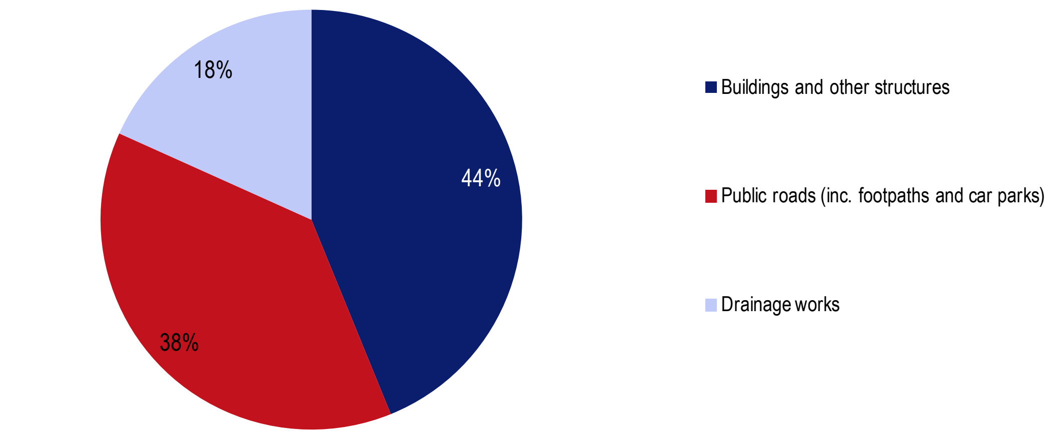


Figure 6 - Infrastructure Backlog Composition for 2011/12



Council's Infrastructure Backlog in 2012 is dominated by buildings and other structures that total $22.6m. The drainage works backlog reduced by $16.1m to $9.4m in 2012. This reduction was a result of the completion of a seven year drainage data collection process that concluded in October 2011 and now allows Council to accurately state the drainage asset quality and backlog figure. An understanding of how the community views drainage assets at a satisfactory standard has also assisted in a reduced requirement to bring the assets to the satisfactory standard.

The buildings and other structures total has increased in each year and this has also occurred following a comprehensive review of the condition of the assets. The Buildings for the Community SRV will assist to reduce the backlog figure over the seven year plan with the impact likely to be seen in the later years of the seven year program according to Council.

Council is in the process of completing an updated LTFP beginning in 2014 that allocates additional funds to the renewal of infrastructure assets that should eliminate the Infrastructure Backlog by 2023. These additional funds will be allocated from both increased revenues, partly from the SRV and decreasing expenses as Council makes IT savings and reduced superannuation contributions.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	51,643	61,383	62,507	51,473
Required annual maintenance ($'000s)	15,377	18,784	18,433	13,245
Actual annual maintenance ($'000s)	21,495	19,259	17,725	11,032
Total value of infrastructure assets ($'000s)	861,894	856,191	838,879	389,556
Total assets ($'000s)	1,319,428	1,309,981	1,296,338	2,128,595
Building and Infrastructure Backlog Ratio	0.06x	0.07x	0.07x	0.13x
Asset Maintenance Ratio	1.40x	1.03x	0.96x	0.83x
Building and Infrastructure Renewals Ratio	0.74x	0.69x	0.60x	0.72x
Capital Expenditure Ratio	1.26x	1.67x	1.13x	1.73x

The Building and Infrastructure Backlog Ratio has reduced over the period despite the actual backlog remaining static. This is due to the Asset Revaluations that more than doubled the total value of infrastructure assets from 2010.

The Asset Maintenance Ratio has improved year on year and has been above the 1.00x benchmark since 2011 indicating that Council increased its investment in maintaining the operating standard of their assets.

The Building and Infrastructure Renewals Ratio has remained fairly consistent but was below the benchmark in each year indicating that Council has not invested enough to renew assets to their original standard.

Council's Capital Expenditure Ratio, which takes into account assets which improve performance or capacity, has been above the benchmark in all four years. This indicates that the Council has expanded their Net Assets by a sufficient amount each year to manage the growth of the LGA and the related increase in asset utilisation. Council has indicated the Capital Expenditure Ratios have been boosted by capital dedications received, particularly in 2009 and 2011, in relation to the Prince Henry development at Little Bay of $12.6m in 2009 and $10.0m in 2011. Without the dedications these respective ratios reduce to 0.96x and 1.20x.

The Building and Infrastructure Renewals Ratio and Capital Expenditure Ratio suggest that Council has spent more on the funding of new assets or improvements rather than the renewal of existing building and infrastructure assets. Council has stated that they have spent considerable funds on the remediation of former landfill sites in order to upgrade these to the current environmental standards. While Council calculates these amounts within an additional Buildings, Infrastructure and Open Space Renewals Ratio due to their perceived importance, we have not taken this ratio into consideration as this is not comparative with all other councils in NSW.

3.6(c): Capital Program

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

Capital Program ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
New capital works	8,883	0	0	12,600
Replacement/refurbishment of existing assets	28,693	27,675	22,289	0
Total	**37,576**	**27,675**	**22,289**	**12,600**

The above figures are not necessarily completely accurate as they are unaudited. Council has indicated that the 2009, 2011 and 2012 figures should be amended to match the asset addition figures in Note 9a of the audited financial statements however we have left these figures as stated within the original special schedules for the purpose of this report.

The Buildings for Community SRV began in 2011 and will generate $34.1m for a seven year capital program. In 2011 Council managed the following projects in relation to this scheme:

- Coogee Surf Life Saving Club remediation
- Clovelly Surf Life Saving Club remediation
- South Maroubra Life Saving Club remediation
- New facility for park users and sports teams in Pioneers Park

Other projects that Council undertook during 2011 included:

- Heffron Park Redevelopment Stage 1 – including new pedestrian and shared pathways, car parking and drainage and stormwater works
- Chifley Reserve remediation and upgrade – design concepts finalised that cover all aspects of the development of the former tip site into a recreation area. This includes playing fields, a skate park, pathways, car parks, lighting, drainage, landscaping and irrigation
- Coastal Walkway extension – This walkway s one of the LGA's most popular tourist attractions and continues to be extended each year. Council has commenced discussions to extend the walkway through to Botany Bay, and a route across Malabar Headland
- Bangor Park upgrade - $0.2m was spent on a new playground and bank stabilisation at the park in Coogee

3.7: Specific Risks to Council

- Environmental issues / climate change. Council has 29km of coastline and with this comes the risk that rising sea levels from the impact of global warming could impact the local community and landscape. The community is also concerned about the pressure on natural resources and energy consumption. The environmental levy that has been in place since 2004 and is due to expire in 2014 has enabled Council to focus on coastal protection, sustainable living within the community and workforce and biodiversity protection. These sustainability efforts have seen Council receive a number of prestigious awards and external grants.
- Ageing workforce. Just below 30% of Council's employees are aged 50 or over. This is an issue facing a number of NSW councils that have an above average age of employees against the public and private sector averages. Council mitigate this issue by increasing the reserve for employee leave entitlements that is calculated on the age profile of employees but also need to build into their staffing plans the need for staff replacements as these older employees retire in future years. Council has informed TCorp that their 2013-23 Workforce Plan analysed the age profile of staff and noted that the average age of staff decreased over a three year period from 43 to 41 years of age, in part due to the retirement of staff who had delayed their plans during the global financial crisis. The Plan also sets out a number of strategies to ensure the sustainability of the workforce capability including building and transferring skills and knowledge, leadership programs, traineeships and apprenticeships, the 'ICARE about Learning' annual program based on the Business Excellence Framework, secondments, annual individual learning and development programs, recruitment strategies and Workplace Health and Safety measures in addition to a strong culture of record keeping through the TRIM document management system.
- Political risks. Councillors are not always completely aware of the impacts of their policy decisions which can have negative consequences for Council's operations and management. Council has addressed this through a programmed and disciplined approach to integrated planning, and educating and working to ensure that Councillors and management are working in unison for the benefit of the community.

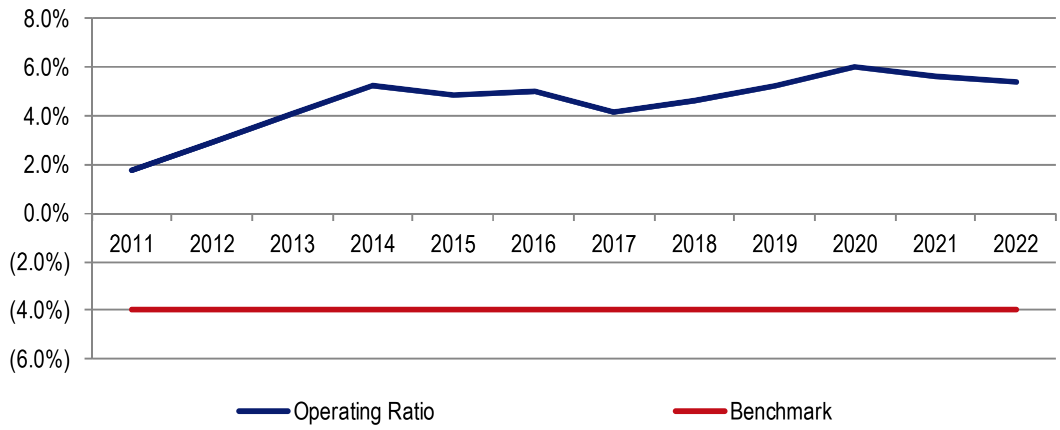
Section 4 Review of Financial Forecasts

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

Council's financial forecast was completed in 2010 and therefore we have extracted the forecast figures from 2013 onwards while stating the 2011 and 2012 audited annual figures. The LTFP was created with three models, with model three including the SRV for three years that was approved by the Minister of Local Government to begin in the 2010/11 financial year. This is the model that our analysis focuses on.

4.1: Operating Results

Figure 7- Operating Ratio for General Fund



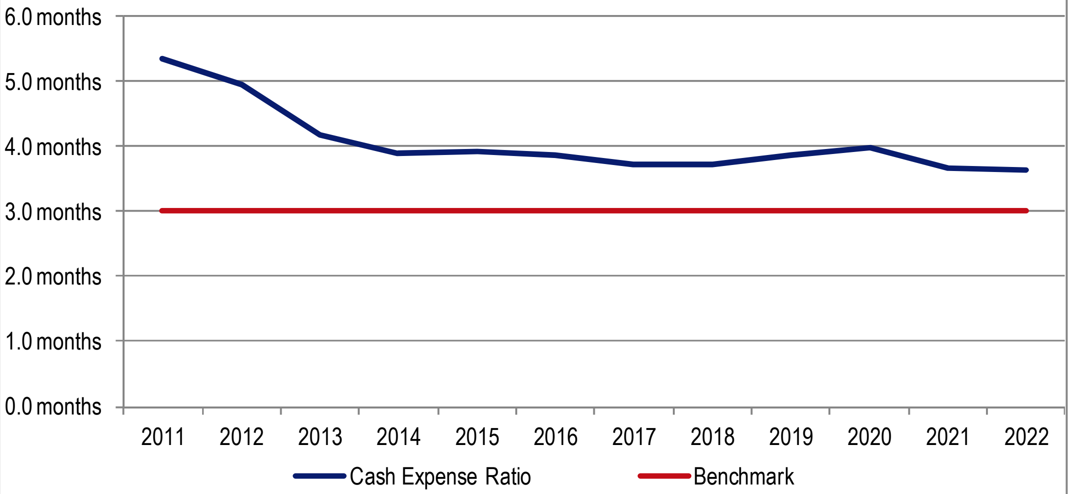
Council has forecast that their Operating Ratio will remain positive and improve from the historic ratio of 1.8% in 2011 and 2.9% in 2012 for each year of the model. The strongest ratio is 6.0% in 2020 or a $9.1m surplus.

With Council's historical operating surpluses the forecast appears reasonable.

4.2: Financial Management Indicators

Liquidity Ratios

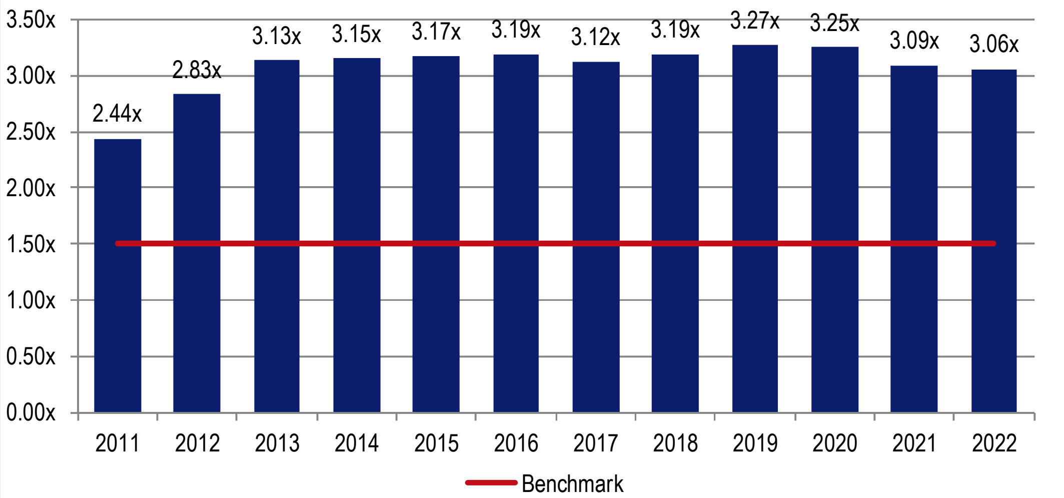
Figure 8 - Cash Expense Ratio for General Fund



Council's cash and investments are combined within their forecast and therefore their Cash Expense Ratio utilises this combined figure. With the majority of Council's investments held within term deposit accounts this shows a realistic ratio position.

The ratio remains above the 3.0 month benchmark for each year, although the ratio decreases from the 2011 historic result of 6.4 months when investments are included, to the lowest ratio of 3.6 months in 2022.

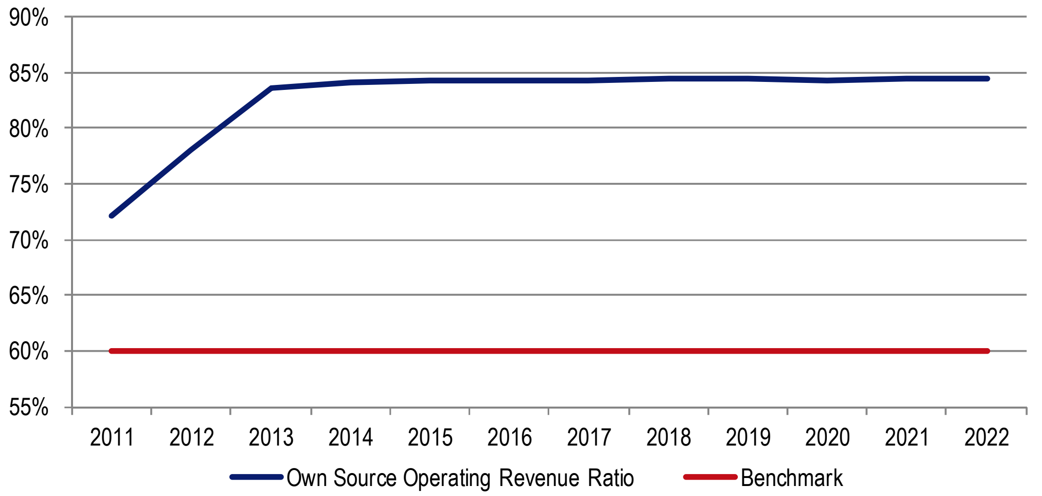
Figure 9 - Unrestricted Current Ratio for General Fund



The Unrestricted Current Ratio is forecast to improve from the 2011 historical result back to a similar level to 2009. This indicates that Council do not foresee any liquidity issues over the forecast period.

Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund



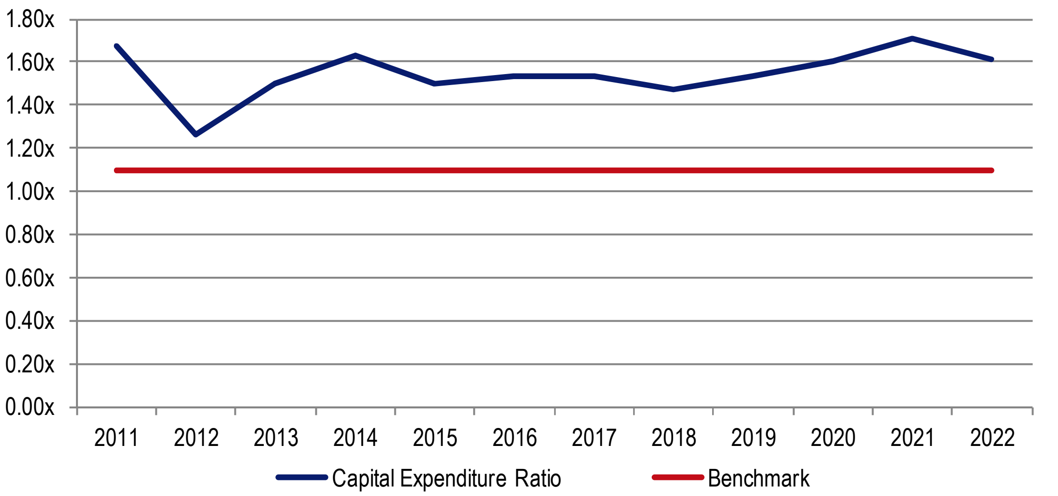
Council's Own Source Operating Revenue Ratio is forecast to improve further from the strong 2011 and 2012 historic results before reaching a plateau from 2013 onwards. The three year SRV that began in 2011 and will finish in 2013 is the main driver for the ratio improvement until that year. The other factor is that capital grants and contributions are forecast to be lower than the average over the last four years. This helps to skew the ratio upwards.

The ratio plateau's at approximately 84%, significantly higher than the 60% benchmark, highlighting Council's strong financial flexibility and low reliance on grant and contributions funding.

As Council has been operating debt free since 2001 and plans to remain in that position over the forecast period, the DSCR and Interest Cover Ratio are unable to be calculated. A calculation of the possible debt that Council could manage is stated within Section 4.5.

4.3: Capital Expenditure

Figure 11 - Capital Expenditure Ratio for General Fund



The Capital Expenditure Ratio has historically been above the benchmark and is forecast to increase during the next 10 years. The Council remains committed to improving existing infrastructure assets while also expanding their infrastructure asset base over the forecast period.

The forecast cumulative capital expenditure over the forecast period is $353.8m against a cumulative forecast depreciation of $226.2m.

This forecast capital expenditure above the benchmark could be used to reduce or eliminate the Infrastructure Backlog. Within the capital expenditure figures over the forecast period there are sufficient asset renewal totals to reduce and eradicate the 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 rates 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>

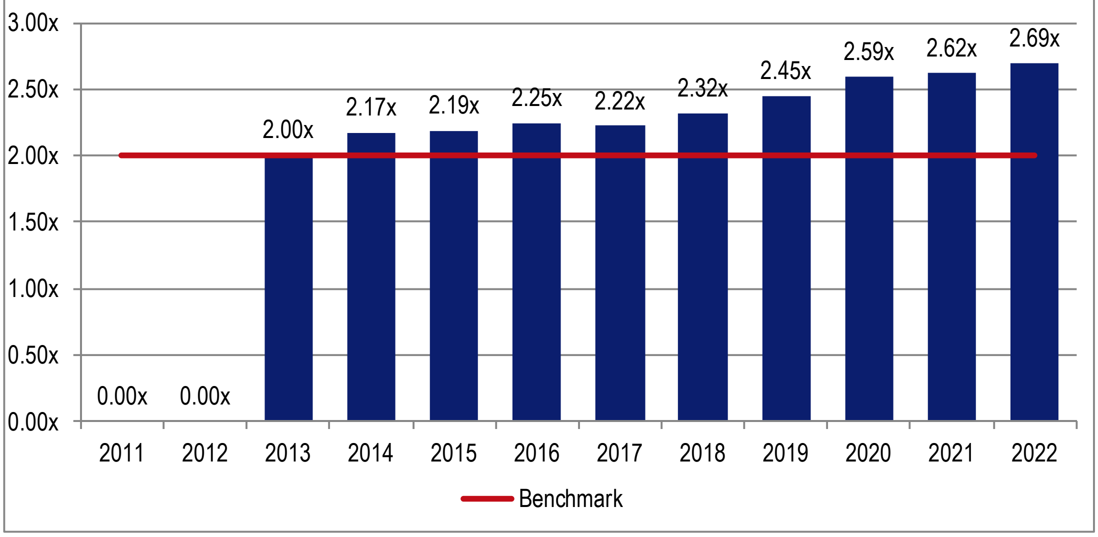
- Council's LTFP is developed with the focus of maintaining existing service levels to the community and is based upon the 2011 budget financial figures.
- Council has forecast the aquatic centre fees to increase in 2014 after an upgrade and when the additional gym facility becomes operational. This increases the commercial activity revenues by $2.1m of the $2.5m total increase in 2014 within the forecast, increasing user charges and fees by 17.1% in that year.
- Depreciation expense is forecast from the 2010 figures, and the 2011 and 2012 actual increases have been at a higher rate than the forecast. This results in potentially understated depreciation forecast figures for 2013 to 2022. Council has updated the depreciation figures within the draft LTFP for 2014 and these show a more accurate figure in each year.
- We consider the assumptions utilised within the forecast to be reasonable with the exception of the comment above regarding depreciation within the LTFP forecast analysed.

4.5: Borrowing Capacity

When analysing the financial capacity of the Council we believe Council will be able to incorporate additional loan funding. Some comments and observations are:

- Based on a benchmark of DSCR>2x, up to $86.7m could be borrowed
- Utilising borrowings is one option available to help Council reduce or eliminate their Infrastructure Backlog
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at an interest rate of 7.5%

Figure 12 - DSCR for General Fund with new borrowings of $86.7m in 2013



4.6 Sustainability

General Sustainability

Council has addressed the challenge of sustainability within their Community Strategic Plan (CSP) and other IP&R documents. They have utilised the 'Principles for Sustainable Cities' that are a high level set of aims being used by councils and other governing bodies throughout the world. These were devised within the United Nations Environment Program (UNEP) to assist cities in sustainable development. These 10 principles integrate well within one of Council's six themes of 'Responsible Management' that focuses on leadership in sustainability.

Councillors also confirmed the commitment to sustainability by signing the International Earth Charter in 2008 that commits to sustainability, democratic and governance principles that was signed by more than 3,500 organisations worldwide.

Council adopted the Business Excellence Framework that has provided a systematic and structured framework that enables the development and improvement of their management and leadership systems. The success of this strategy led to Council being awarded the Bluett Award in 2006, an annual award that is specific to NSW councils and is only awarded to one municipal council and one shire council per year. Council also received the Local Government Managers Australia Gold Award for management excellence in 2008.

Another of Council's six themes is 'Looking after the Environment' and this focuses on environmental sustainability. Council has an Energy Savings Action Plan, Water Savings Action Plan and Waste Management Strategy that are all focussed on assisting this theme. They also have a long standing 'Sustainability Agreement' with the University of NSW for joint research, projects and promotions that include the encouragement of sustainable transport in preference to private vehicle usage.

Financial Sustainability

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

- Council's current LTFP shows a continuation of the strong financial position over the forecast period with operating surpluses trending upwards.
- Liquidity is forecast to remain sound.
- Capital expenditure is forecast to be at levels above what is required to maintain and expand assets at an acceptable standard
- Council operates debt free however they have the capacity to utilise borrowings in the future that could assist with the issue of intergenerational equity for funding long term capital projects and reducing or eliminating the Infrastructure Backlog
- Council has significant capacity to undertake debt to deal with any unexpected adverse financial situations

Section 5 Benchmarking and Comparisons with Other Councils

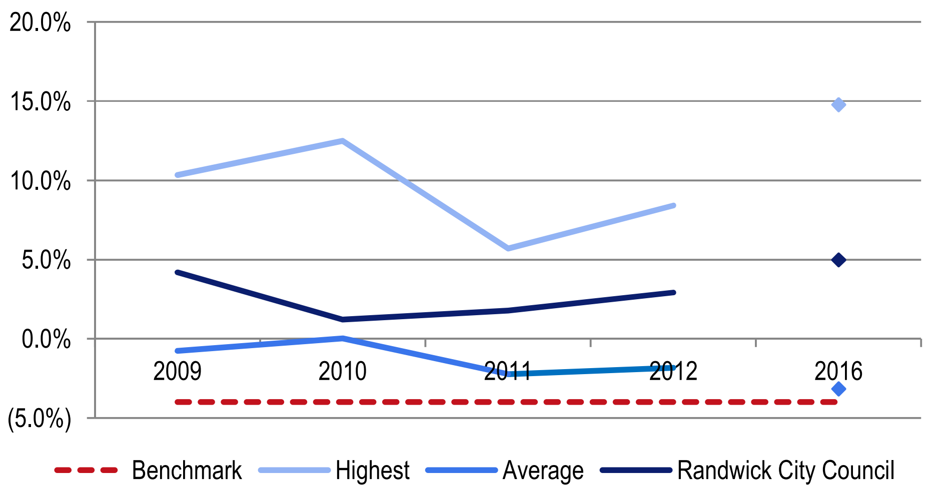
Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis for councils operating more than one fund. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council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

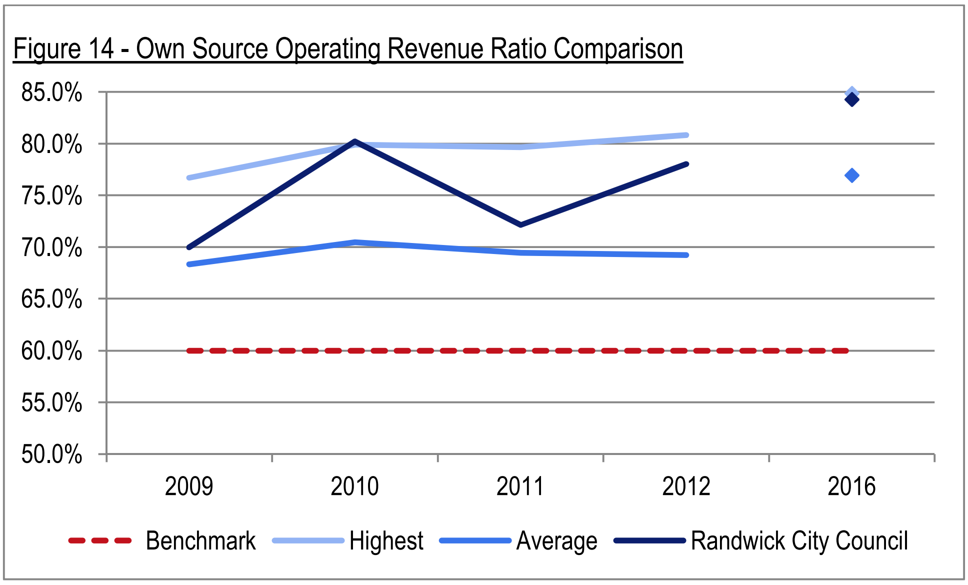
Financial Flexibility

Figure 13 - Operating Ratio Comparison



Council's Operating Ratio has been above the group average and benchmark in each year and is forecast to remain in that position in the medium term.

New South Wales Treasury Corporation

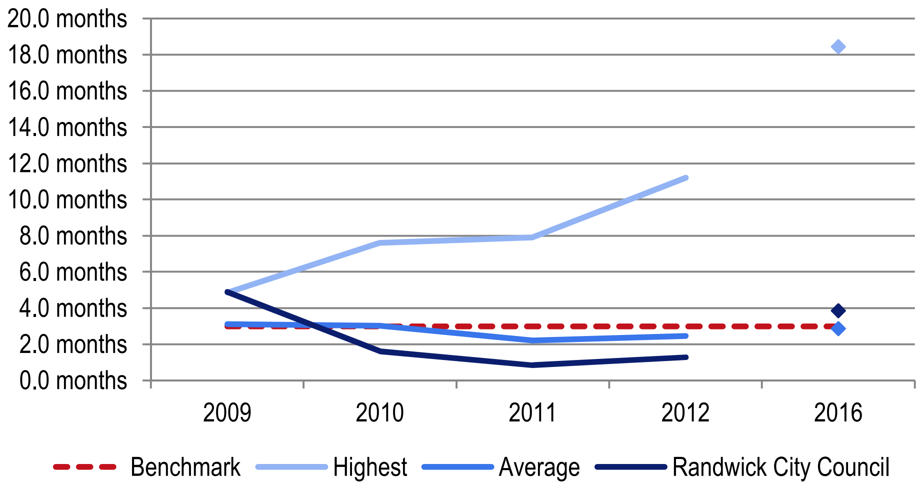


Council's Own Source Operating Revenue Ratio has remained above the benchmark and group average in each year. It is forecast to increase further above the benchmark although the reduction in forecast grants and contributions skews the ratio upwards in 2016. Council has advised their LTFP only includes recurrent and awarded grants and an estimate of future s94 development contributions. No projections are included for potential new grants to ensure the LTFP is not reliant on uncertain funds.

New South Wales
Treasury Corporation

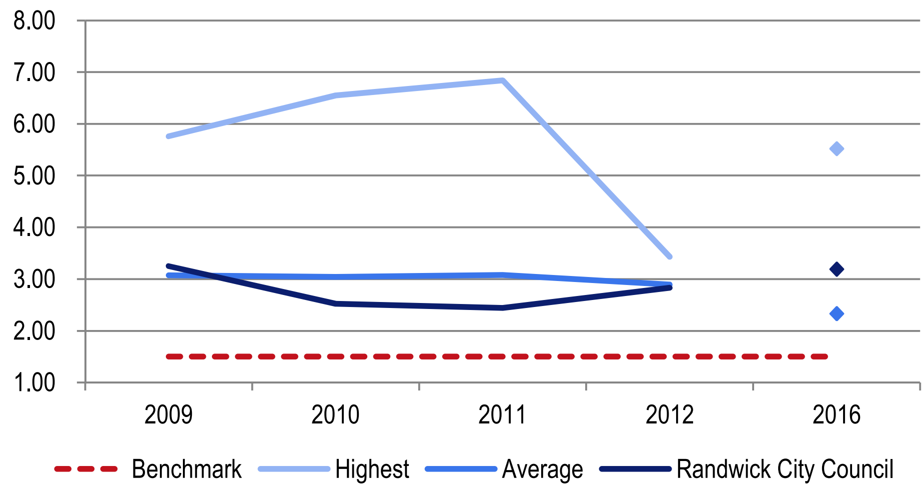
Liquidity

Figure 15 - Cash Expense Ratio Comparison



Council's Cash Expense Ratio has been below the group average and benchmark since 2010 but is forecast to increase above both indicators in the medium term. Council invests the majority of its funds within investments that are not captured within this ratio, so this is not of any concern. The major reason Council held the majority of its funds in investment securities was to ensure capital protection for funds under the Federal Government's deposit guarantee scheme. Council has advised it manages its cashflow on a daily basis using detailed information regarding both projected cash outflows and inflows. Investment terms are set based on this information to ensure the Council only holds the funds required for the immediate future in cash.

Figure 16 - Unrestricted Current Ratio Comparison



Council's Unrestricted Current Ratio has been below the group average since 2010 but has remained above the benchmark in each year. It is forecast to remain above the benchmark and increase above the group average in 2016. This ratio can be influenced by a council's investment policy and whether investments have been classified current or non-current assets. Investments that are due to mature in greater than 12 months are considered a non-current asset.

Debt Servicing

Council has been debt free throughout the review period 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

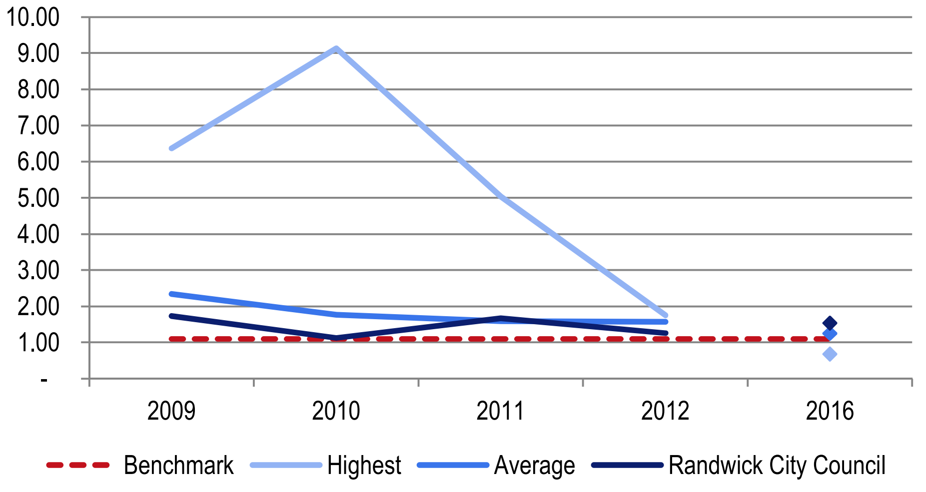
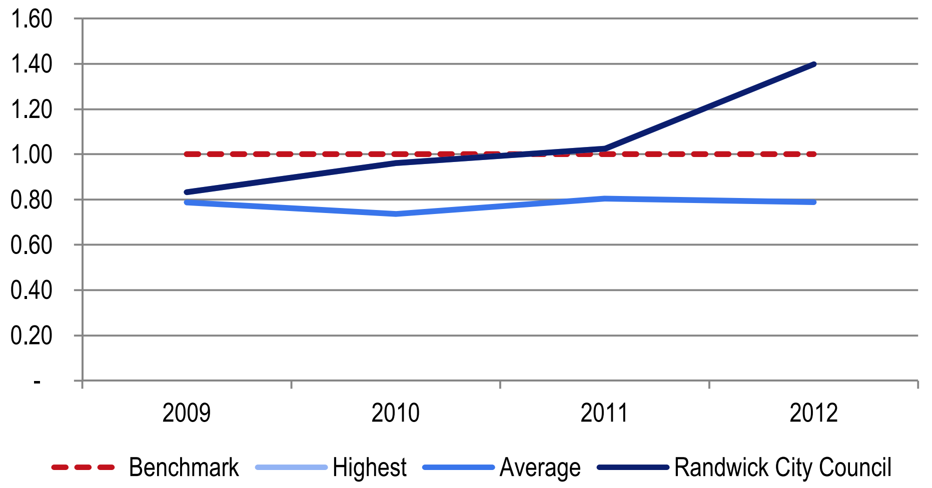


Figure 18 - Asset Maintenance Ratio Comparison



Council's Capital Expenditure Ratio has been below the group average in three of the four years but remained above the benchmark. The forecast medium term position is expected to improve to above the group average. This ratio may include the value of assets dedicated to councils as 'capital expenditure', thereby inflating individual and average ratios beyond what they would otherwise have been for the period.

Council's Asset Maintenance Ratio has been on an upward trend and increased above the benchmark from 2011 and has been above the group average in each review year.

Figure 19- Infrastructure Backlog Ratio Comparison

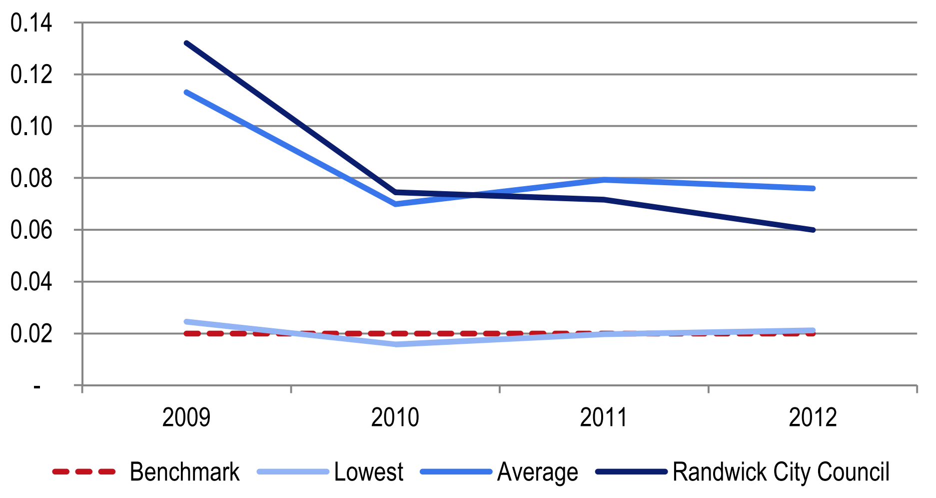
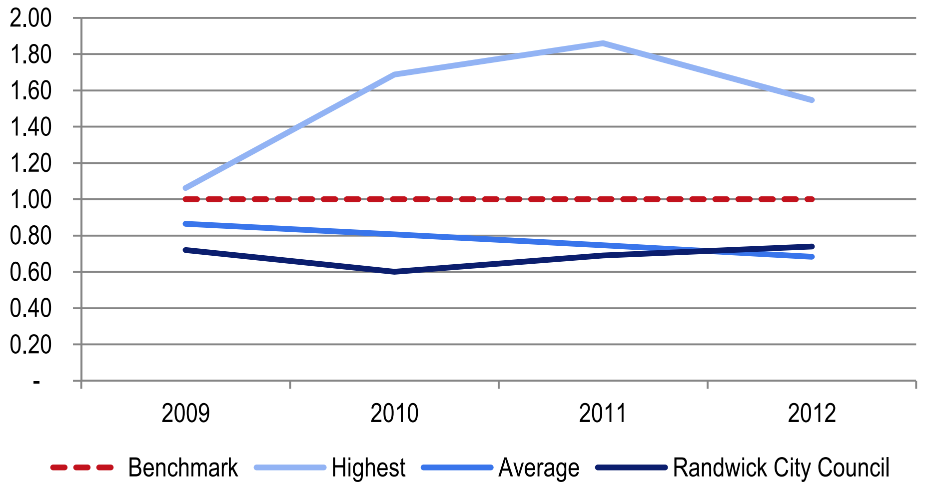


Figure 20 - Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog has been above the benchmark in each year but has been on a downward trend and has decreased below the group average since 2011. Council's Backlog total remained similar to the 2009 figure and it was the increase in the value of Council's infrastructure assets that resulted in the reduced ratio results. The Council has spent considerable funds on open space assets during the review period, however these assets are not captured within this ratio.

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 until 2012. Council has informed TCorp that their 2013 AMPs project that the funds allocated in the LTFP to these assets will eliminate the backlog within ten years.

Section 6 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan we consider Council to be in a sound Sustainability position.

We base our recommendation on the following key points:

- Council has historically produced operating surpluses excluding capital grants and contributions and this is forecast to continue over the next 10 years
- Council has had sound liquidity over the review period and this is forecast to continue over the next 10 years
- Council has good financial flexibility as indicated by their Own Source Operating Revenue Ratio above the benchmark over the review period and this is expected to increase in the next 10 years
- Council has operated debt free since 2001 and has significant capacity to undertake debt if required

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

- Council's Infrastructure Backlog has remained above $50m for the last four years. We suggest that Council should review its options for reducing the backlog. In discussions with Council they have highlighted that the backlog is forecast to reduce within their new LTFP 10 year forecast beginning in 2014, with additional funds allocated to asset renewal from increased revenues, partly from the SRV, and decreased expenses from IT cost savings and reduced superannuation payments from 2018 onwards. Included in these options should be considering the utilisation of borrowings that would assist in bringing forward funding the reduction of the backlog and also assist in addressing intergenerational issues. We would only support borrowings for renewal of assets and not maintenance of assets.

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	84,059	78,954	74,851	70,237	6.5%	5.5%	6.6%
User charges and fees	12,819	13,228	12,686	11,781	(3.1%)	4.3%	7.7%
Interest and investment revenue	3,267	3,094	2,407	2,583	5.6%	28.5%	(6.8%)
Grants and contributions for operating purposes	8,894	9,194	7,636	8,639	(3.3%)	20.4%	(11.6%)
Other revenues	8,290	7,715	7,765	7,695	7.5%	(0.6%)	0.9%
Total revenue	**117,329**	**112,185**	**105,345**	**100,935**	**4.6%**	**6.5%**	**4.4%**
Expenses							
Employees	49,777	46,936	45,252	41,935	6.1%	3.7%	7.9%
Borrowing costs	0	0	0	0	N/A	N/A	N/A
Materials and contract expenses	29,394	30,088	29,367	27,658	(2.3%)	2.5%	6.2%
Depreciation and amortisation	22,396	21,414	18,484	16,208	4.6%	15.9%	14.0%
Other expenses	12,343	11,762	10,960	10,909	4.9%	7.3%	0.5%
Total expenses	**113,910**	**110,200**	**104,063**	**96,710**	**3.4%**	**5.9%**	**7.6%**
Operating result	**3,419**	**1,985**	**1,282**	**4,225**	**72.2%**	**54.8%**	**(69.7%)**

Table 2 - Items excluded from Income Statement

Excluded items ($'000s)				
	2012	2011	2010	2009
Grants and contributions for capital purposes	6,814	15,593	3,792	16,285
Fair value adjustments of investment revenue/(losses)	(14)	564	1,199	(813)
Net gain/(losses) from the disposal of assets	(182)	449	294	3,018

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	9,833	6,239	11,594	32,887	57.6%	(46.2%)	(64.7%)
Investments	28,000	33,301	32,307	6,389	(15.9%)	3.1%	405.7%
Receivables	6,223	6,439	6,113	5,364	(3.4%)	5.3%	14.0%
Inventories	663	702	617	359	(5.6%)	13.8%	71.9%
Other	263	877	798	28	(70.0%)	9.9%	2750.0%
Total current assets	44,982	47,558	51,429	45,027	(5.4%)	(7.5%)	14.2%
Non-current assets							
Investments	15,984	8,006	0	0	99.7%	N/A	N/A
Receivables	511	435	534	515	17.5%	(18.5%)	3.7%
Infrastructure, property, plant & equipment	1,257,944	1,253,975	1,244,368	2,083,046	0.3%	0.8%	(40.3%)
Investments accounted for using the equity method	7	7	7	7	0.0%	0.0%	0.0%
Total non-current assets	1,274,446	1,262,423	1,244,909	2,083,568	1.0%	1.4%	(40.3%)
Total assets	**1,319,428**	**1,309,981**	**1,296,338**	**2,128,595**	**0.7%**	**1.1%**	**(39.1%)**
Current liabilities							
Payables	11,976	12,311	12,180	10,712	(2.7%)	1.1%	13.7%
Provisions	14,905	13,353	12,712	11,672	11.6%	5.0%	8.9%
Total current liabilities	26,881	25,664	24,892	22,384	4.7%	3.1%	11.2%
Non-current liabilities							
Payables	260	260	260	0	0.0%	0.0%	N/A
Provisions	234	236	236	174	(0.8%)	0.0%	35.6%
Total non-current liabilities	494	496	496	174	(0.4%)	0.0%	185.1%
Total liabilities	**27,375**	**26,160**	**25,388**	**22,558**	**4.6%**	**3.0%**	**12.5%**
Net assets	**1,292,053**	**1,283,821**	**1,270,950**	**2,106,037**	**0.6%**	**1.0%**	**(39.7%)**

Table 4-Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June			
	2012	**2011**	**2010**	**2009**
Cash flows from operating activities	32,781	29,559	25,068	20,206
Cash flows from investing activities	(29,187)	(34,914)	(46,361)	(19,120)
Proceeds from borrowings and advances	0	0	0	0
Repayment of borrowings and advances	0	0	0	0
Cash flows from financing activities	0	0	0	0
Net increase/(decrease) in cash and equivalents	**3,594**	**(5,355)**	**(21,293)**	**1,086**
Cash and equivalents	9,833	6,239	11,594	32,887

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.

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

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

New South Wales Treasury Corporation

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.