community economy environment infrastructure organisation





Wyong Shire Council

Financial Reports

2009/2010

Wyong Shire Council
CENTRAL COAST

Wyong Shire Council

Income statement for the year ended 30 June 2010

Budget 2010* $'000		Notes	Actual 2010 $'000	Actual 2009 $'000
	Income from continuing operations:			
	Revenue:			
114,489	Rates and annual charges	3(a)	**113,199**	102,235
53,207	User charges and fees	3(b)	**51,713**	49,012
5,658	Interest and investment revenue	3(c), 16(a)	**8,522**	1,817
1,931	Other	3(d)	**5,451**	2,900
55,647	Grants and contributions operating	3(e,f), 16(a)	**23,330**	23,264
48,223	Grants and contributions capital	3(e,f), 16(a)	**29,423**	17,699
	Other income:			
2,750	Net gain from the disposal of assets	5	**131**	11,267
281,905	**Total income from continuing operations**		**231,769**	208,194
	Expenses from continuing operations:			
73,710	Employee benefits and on-costs	4(a)	**76,462**	70,082
15,295	Borrowing costs	4(b)	**9,621**	9,306
66,477	Materials and contracts	4(c), 16(a)	**46,475**	48,420
60,687	Depreciation	4(d)	**59,902**	50,331
25,128	Other	4(e), 16(a)	**39,874**	27,600
	Net loss from the disposal of assets	5		
241,297	**Total expenses from continuing operations**		**232,334**	205,739
40,608	**Net operating result for the year**		**(565)**	2,455
	Attributable to:			
40,608	Wyong Shire Council		**(565)**	2,455
(7,615)	**Net operating result for the year before grants and contributions provided for capital purposes**		**(29,988)**	(15,244)

* refer note 16

This statement is to be read in conjunction with the accompanying notes.

Wyong Shire Council

Special Schedule No 7 – Condition of Public Works
as at 30 June 2010

Asset class	Asset category	Depreciation rate %	Depreciation expense $000	Cost $000	Valuation $000	Accumulated depreciation $000	WDV $000	* Asset Condition	Estimated cost to bring to satisfactory (average) $000	Reqd. annual maintenance expense $000	Current annual maintenance expense $000
Public Buildings	Administration/Depot	2.50%	1,099		43,970	24,605	19,365	2.1	681	738	447
	Aged Care	2.50%	271		10,838	7,501	3,337	2.3	77	165	30
	Arts and Culture	2.50%	88		3,528	1,464	2,064	2.0	48	65	25
	Child Care	2.50%	311		12,448	6,367	6,081	2.1	187	118	124
	Community Centres and Halls	2.50%	643		25,739	18,654	7,085	2.8	627	511	143
	Heritage Buildings	2.50%	41		1,651	1,679	(28)	2.5	54	25	3
	Holiday Parks	2.50%	404		16,160	7,060	9,100	2.7	667	315	205
	Neighbourhood and Youth	2.50%	193		7,719	4,972	2,747	2.6	131	25	80
	Public Amenity	2.50%	268		10,736	6,664	4,072	2.5	590	517	442
	Recreation Centres	2.50%	355		14,212	2,346	11,866	2.5	122	97	50
	Residential	2.50%	92		3,673	3,167	506	3.1	385	53	12
	Sport and Recreation	2.50%	397		15,895	7,668	8,227	2.5	268	298	113
	Surf Clubs	2.50%	193		7,737	4,011	3,726	2.8	403	188	47
	Swimming Pools	2.50%	87		3,468	2,388	1,080	2.7	104	59	1
	Tourist Offices	2.50%	13		524	373	151	2.0	8	15	1
			4,455		**178,298**	**98,919**	**79,379**		**4,352**	**3,189**	**1,723**
Public Roads	Sealed Road Surface	7.07%	5,531		78,238	46,040	32,198	3.2	31,953	1,330	1,131
	Sealed Road Structure	2.11%	6,816		323,026	138,300	184,726	3.2	94,130	3,871	3,118
	Unsealed Roads	19.95%	522		2,615	2,615		3.2	1,566	39	30
	Kerb and Gutter	1.25%	809		64,736	14,584	50,152	2.8	4,788	2,000	80
	Bridges	1.10%	89		8,124	5,735	2,389	3.9	3,345	65	65
	Footpaths	1.00%	293		29,305	3,944	25,361	2.5	3,541	320	280
			14,060		**506,044**	**211,218**	**294,826**		**139,323**	**7,625**	**4,704**

Wyong Shire Council

Special Schedule No 7 – Condition of Public Works
as at 30 June 2010 (continued)

Asset class	Asset category	Depreciation rate %	Depreciation expense $000	Cost $000	Valuation $000	Accumulated depreciation $000	WDV $000	* Asset Condition	Estimated cost to bring to satisfactory (average) $000	Reqd. annual maintenance expense $000	Current annual maintenance expense $000
Water	Treatment Plants	2.78%	1,195		45,548	19,416	26,132	2.0			489
	Reservoirs	2.21%	504		24,129	9,751	14,378	2.0			240
	Mains	1.63%	8,774		594,407	170,914	423,493	2.5	6,699	11,888	3,605
	Pump Stations	4.05%	78		2,031	1,245	786	2.7	1,202	30	226
			10,551		**666,115**	**201,326**	**464,789**		**7,901**	**11,918**	**4,560**
Sewerage	Pump Stations	4.44%	1,994		46,387	22,737	23,650	3.0	3,113	696	2,114
	Mains	1.32%	4,535		373,720	74,846	298,874	2.2	12,296	7,474	1,561
	Treatment Works	4.65%	6,220		139,458	72,128	67,330	2.8	2,022	2,092	1,835
			12,749		**559,565**	**169,711**	**389,854**		**17,431**	**10,262**	**5,510**
Drainage Works	Pipes-all sizes	0.83%	842		101,461	23,395	78,066	3.0	7,019	1,218	205
	Culverts and Channels	1.15%	841		73,125	20,904	52,221	3.0	6,271	878	594
	GPTs // wetlands	1.25%	15		1,209	440	769	3.0	132	37	243
	Pits	1.25%	169		13,538	4,929	8,609	3.0	1,479	162	230
	Headwalls	1.25%	21		1,709	623	1,086	3.0	187	20	14
			1,888		**191,042**	**50,291**	**140,751**		**15,088**	**2,315**	**1,286**
Total	**All Assets**		**43,703**		**2,101,064**	**731,465**	**1,369,599**		**184,095**	**35,309**	**17,783**

This Schedule is to be read in conjunction with the explanatory notes following.

6.4 2012-16 Delivery Plan Community Survey

TRIM REFERENCE: F2004/07006 - D02835916
AUTHOR: Cate Trivers; Chief Financial Officer

0.49ARY
The adopted 2012-2015 WSC Strategic Plan identified Council's long term financial sustainability target of a break-even operating result by 30 June 2015, and that to achieve this Council would target an operating shortfall of $10,000,000 in 2012-2013. Underpinning this there is a need to conduct community engagement and consultation to assess the communities' needs, service priorities, desired levels of service, and the preparedness to pay in order to achieve targeted annual reduction in services / service Levels.

RECOMMENDATION

1 *That Council authorise the General Manager to commence consultation with the community on the 2012-2016 WSC Council Strategic Plan including defining the Four Year Delivery Plan service levels and community priorities.*

2 *That Council authorise the General Manager to engage an independent specialist to develop a Community Engagement Program and conduct a series of activities, including a Community Survey, in keeping with Council's Community Engagement Strategy, to determine the communities needs, service priorities, desired levels of service, and preparedness to pay for services.*

3 *That the General Manager report back to Council the initial results of the community engagement in March to inform Council's prioritisation of services and capital to enable the finalisation of the 2012-2016 WSC Council Strategic Plan.*

ORDINARY MEETING HELD ON 23 NOVEMBER 2011

RESOLVED unanimously on the motion of Councillor SYMINGTON and seconded by Councillor VINCENT:

1 ***That Council authorise the General Manager to commence consultation with the community on the 2012-2016 WSC Council Strategic Plan including defining the Four Year Delivery Plan service levels and community priorities.***

2 ***That Council authorise the General Manager to engage an independent specialist to develop a Community Engagement Program and conduct a series of activities, including a Community Survey, in keeping with Council's Community Engagement Strategy, to determine the communities needs, service priorities, desired levels of service, and preparedness to pay for services.***

3 ***That the General Manager report back to Council the initial results of the community engagement in March to inform Council's prioritisation of services and capital to enable the finalisation of the 2012-2016 WSC Council Strategic Plan.***

FOR: COUNCILLORS BEST, EATON, GRAHAM, MATTHEWS, MCBRIDE, MCNAMARA, SYMINGTON, VINCENT, WEBSTER AND WYNN

AGAINST: NIL

BACKGROUND

WSC is required to adopt the DLG's Integrated Planning and Reporting Framework from 1 July 2012 as part of the Group 3 Councils. To do this Council is required to have a Community Strategic Plan, Four Year Delivery Plan, Annual Plan, Long Term Financial Strategy (10 year) (LTFS), Asset Management Strategy and Workforce Management Strategy.

In 2010 Council implemented the framework as an initial step in complying with the requirements, however identified the need to further consult with the community on service levels and Council's long term financial sustainability. As part of this process Council timetabled programs for 2011-2012 to improve Council's financial position and inform Council's 2012-2016 Four Year Delivery Program priorities.

Council adopted the 2012-2015 WSC Strategic Plan on 22 June 2011 which included the Annual Plan and Four Year Delivery Plan, the Long Term Financial Strategy, Asset Management Strategy, and Workforce Strategy. The Long Term Financial Strategy identified future operating short-falls which are financially unsustainable, and adopted an intervention strategy to reduce Council's operating deficits to break-even by 30 June 2015.

The Long Term Financial Strategy identified for 2012-2013 the introduction of a change to the rating structure to a minimum rate and reduction of Operating Deficit to $10,000,000 (short-fall). The Long Term Financial Strategy also identified the investigation of a special variation in 2013-2014 to fund essential infrastructure subject to the assessment of service levels community needs.

CURRENT STATUS

WSC has conducted significant consultation with the Community in the process of formulating and informing the Community Strategic Plan.

In 2008-2009 Council conducted a series of consultations with over 5,000 residents of Wyong Shire, information sessions and workshops with state government representatives and community reference groups that formulated priority objectives for how the Community could best improve the quality of life on the Central Coast over the next 20 years. The Community Strategic Plan was first adopted by Council in 2009, and updated in 2010.

In 2010 Council conducted a Service Delivery Review which focused on how Council could improve productivity for the operational service delivery process and resulted in a reorganisation of Council's internal resources. This resulted in identified savings / opportunities of $900,000, and an on-going recurrent projected saving of up to $7.6m per annum. To date as at the end August 2011, savings have been achieved including $2.2m one-off and $3.0m in recurrent savings. Council continues to review it's cost base and has been running internal innovation campaigns.

In 2011-2012 Council identified the following actions in the LTFS to improve Council's long term sustainability including:

1. Review of LEP and a review of land zonings as appropriate
2. Establish a property investment portfolio and review existing property assets to maximise investment potential and future income generation
3. Review and reduce operating costs including asset rationalisation
4. Target annual reduction in Services / Service Levels, maximise user pays where appropriate and ensure prices reflect the actual operating costs of each service

Consultation on items 1 and 2 has already commenced, item 3 is being actioned through the individual service unit business plans, and item 4 requires Council to consult with the community on service levels, community needs, priorities and willingness to pay.

THE PROPOSAL

That Council develop a Community Engagement Program and engage an independent consultant with the necessary skills and experience to consult with the community on their service needs and expectations, priorities and preparedness to pay for changes in service levels, and report back to Council.

This Community Engagement Program will identify a series of consultations to occur with the community over twelve to eighteen months and provide information to inform the priorities in the 2012-2016 WSC Community Strategic Plan and to provide feedback to the community from the consultation.

The initial phase will include a Community Survey which provides a baseline for what the community values in service delivery and what their needs are. To ensure that the community outcomes are actionable by Council, this will include information on what different levels of service cost to provide and ask the community for feedback on what they are prepared to pay for different services.

As Council already has significant annual underfunding of recurrent expenditure (2010/11 Operating Deficit $17.4m, 2011/12 Budgeted Operating Deficit $14.9m), the challenge is to manage community expectations around what is affordable. This also represents the opportunity for the community to identify services they see as discretionary which Council should reduce to save costs / or divert money to more important services, and or cease.

STRATEGIC LINKS

Wyong Shire Council Strategic/ Annual Plan

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities.

Contribution of Proposal to the Principal Activity

Council's services span all principal activities, with the potential of the community consultation impacting across the board. Due to unfunded issues it is expected that some services will increase, whilst others may decrease or alternate funding sources (eg user pays) be identified.

Long Term Financial Strategy

Council's LTFS identifies the challenges facing WSC in meeting the current levels of service in a financially sustainable manner and the projected operating short-falls without Council intervention. To address this Council has adopted a four year strategy to return Council's financial position to an Operating break-even (before capital grants) by 30 June 2015.

Council's LTFS identified that;

> "In 2011/12 Council will review Services and assets employed to maximise service delivery and economic outcomes for the community.
> Long term financial sustainability is dependent on Council being able to meet daily operations (recurrent) expenditure within the Operating Income sources."

[*Wyong Shire Council Strategic Plan 2011-2015*, page 149].

Council's LTFS also adopted Financial Sustainability Targets to manage to an Operating Surplus and to achieve sustainability in asset management, through an adopted Building and Infrastructure Renewals ratio > 1.0 and an Asset Sustainability ratio of > 0.50 per year.

Asset Management Strategy

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities which will impact on what assets council employs to provide services, and what level of maintenance / operations are required to meet community needs.

Workforce Management Strategy

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities and may impact on the long term workforce requirements for council.

Link to Community Strategic Plan (2030)

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities.

Budget Impact

Council's 2011-2012 Annual Budget includes a provision of $30,000 for a Community Survey and $20,000 resources to support the process through the ongoing implementation of the DLG's Integrated Planning and Reporting frameworks.

CONSULTATION

The subject of this report will form the basis of project brief and community consultation.

GOVERNANCE AND POLICY IMPLICATIONS

The results of the Community Survey will be to inform Council's Strategic Planning Framework.

MATERIAL RISKS AND ISSUES

Balancing community needs against Council's long term financial sustainability, to ensure that the community assets and amenity are maintained for future generations.

CONCLUSION

That Council authorise the General Manager to proceed with developing and implementing a community engagement program to provide information for decision making in the 2012-2016 Community Strategic Plan and that the initial results be reported back to Council's February planning workshops and to Council to assist in determining the prioritisation of Council's services, establish agreed service levels, and ensure the communities understanding of the costs of different service provisions.

ATTACHMENTS

Nil.

ADDITIONAL ITEM

24 October 2012 — Director's Report

To the Ordinary Council Meeting — Corporate Services Department

5.5 Service Standards Review - Results of Stage 1 Community Consultation

TRIM REFERENCE: F2012/00388 - D03033513

MANAGER: Maxine Kenyon, Director Community and Recreation Services

AUTHOR: Darryl Rayner, Manager Workplace Change

SUMMARY

Over the past two years, Council has put significant effort into reducing its deficit, creating efficiencies and productivity improvements, implementing cost savings and increasing income to continue delivering a range of services to the community. This has reduced the deficit from $30m to $15m in two years, with further reduction to break-even in 2014/15.

There is now limited scope for further significant internal savings, so in early 2012 Council commenced a process to identify how further financial sustainability could be achieved. Significant community consultation has occurred to identify values and priorities. This information has been used to guide Council staff in planning future service levels and reviewing our Long Term Financial Plan. This work has identified 3 scenarios for Council's financial future.

This report highlights the consultation undertaken to test those three scenarios and recommends an extensive engagement process with the community during November/December 2012 on these scenarios and their willingness to pay for these services levels.

RECOMMENDATION

1 *That Council receive the report on the Service Standards Review and note the conclusion.*

2 *That Council conduct a second phase of detailed community consultation during November/December 2012, on the community's willingness to pay for each of the three Funding Scenarios.*

3 *That Council request the General Manager to report the results of this consultation as soon as possible after completion.*

4 *That Council delegate to the General Manager the authority to take necessary action to comply with IPART deadlines for a Special Rate Variation application during December, 2012, subject to:*

   a) *the results of the November consultation showing community support for such action*
   b) *any such action being reported to the first Ordinary meeting of Council in 2013*
   c) *there is no prejudice to Council's ability to stop any subsequent action on*

a Special Rate Variation application.

ORDINARY MEETING HELD ON 24 OCTOBER 2012

RESOLVED unanimously on the motion of Councillor NAYNA and seconded by Councillor WEBSTER:

1 That Council receive the report on the Service Standards Review and note the conclusion.

2 That Council conduct a second phase of detailed community consultation during November/December 2012, on the community's willingness to pay for each of the three Funding Scenarios.

3 That Council request the General Manager to report the results of this consultation as soon as possible after completion.

4 That Council delegate to the General Manager the authority to take necessary action to comply with IPART deadlines for a Special Rate Variation application during December, 2012, subject to:

a) the results of the November consultation showing community support for such action

b) any such action being reported to the first Ordinary meeting of Council in 2013

c) there is no prejudice to Council's ability to stop any subsequent action on a Special Rate Variation application.

FOR: COUNCILLORS BEST, EATON, GRAHAM, GREENWALD, NAYNA, TAYLOR, TROY, VINCENT, WEBSTER

AGAINST: NIL

BACKGROUND

Council's adopted Long Term Financial Strategy identifies the investigation of a Special Rate Variation (SRV) in 2013-2014 to fund essential infrastructure, subject to the assessment of service levels and community needs. An essential first step in analysing the need for such a variation is to assess service levels and community needs. Council resolved in November 2011 to commence consultation with the community on service levels and community priorities in order to provide additional information to assist Council's Strategic Planning process. The major focus on improving Council's financial situation was well underway at the time and this type of information is essential for sound business planning. While efforts to reduce Council's operating deficit were starting to have positive impact, the cost of future service levels also needed to be taken into consideration. Until the community's required service levels are known, accurate future costing cannot not be developed, so the community consultation process is an essential first step. Consulting firm Tenix/Twyfords was engaged to facilitate the community consultation process, using best practice techniques.

Council has adopted a community engagement framework “Engage Me” which is based on industry best practice. For Stage 1 of the SSR, a Community Engagement Plan was developed using the ‘Engage Me’ framework. The community engagement process was branded ‘Your Place, Your Say, Your Future’ and was designed to inform and connect with the community. A summary of the various methods used is set out in the table below:

‘Engage Me’ spectrum	Description	Engagement modes
Inform	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	• Fact sheets • Paid advertising-Radio and print media • Mayor’s column • Emails to community groups and associations • 1300 postcards handed out at railway stations, libraries, child care centres and events. • 50 posters at community facilities and Council • Council’s web-site and social media • Council staff word of mouth
Connect	To obtain public feedback on analysis, alternatives and/or decisions.	• Reputation survey 2010, 500 participants • Omnibus surveys 2010, 153 participants • Omnibus surveys 2012, 415 participants • Online survey 2012, 112 participants
Connect	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	• 3 community workshops, 37 participants • 1 staff who are residents workshop, 35 participants

The analysis was also informed through the significant amount of community consultation Council has carried out in recent years. Examples include Quality of Life Survey, telephone and online customer satisfaction and reputation surveys, workshops, forums, world cafes and other activities for the Youth Engagement Strategy, Community Plan, Learning Communities Strategy, Community Facilities Review and On-Road Bicycle and Shared Pathways Strategy. In preparing its Community Strategic Plan in 2009, Council undertook extensive and in-depth community consultations in 2007 and 2008, where more than 3500 residents participated in various forms of consultation for a number of different Council strategic programs.

Tenix/Twyfords analysed all the available data using a recognised methodology and produced a report on the results of the consultation. Some of the highlights from the Stage 1 consultation were:

- Shire residents overwhelmingly love their Shire and feel it is a good place to live
- Strong preference for Council to be financially sustainable
- General preference among residents for maintaining and protecting the bushland, coastline, lakes and the estuary within the Shire
- Strong support for cycle-ways, sports and recreation facilities
- Strong preference for sustainability

- Preference for libraries and community centres, facilities that help promote community spirit.
- Consistently strong preference for high quality roads and drainage
- Strongly favour generation of local employment opportunities and development of tourism
- Low to medium satisfaction with the overall levels of service provided

Using this information, Council's Service Unit Managers have compared the community's required levels of service against the current level of service being provided to identify gaps in required service levels. The next stage of the process is to identify the cost of future service levels and the options to fund them.

Based on the results of Stage 1, staff have developed a number of funding options (scenarios) to meet the community's required service levels in future years. During October 2012, Tenix/Twyfords facilitated discussions on these scenarios with a Deliberative Working Group (DWG) of 14 community members to test the scenarios and seek a preference for the most suitable one. The DWG members were sourced from Council's Resident e-Panel and involved a mix of gender and age groups. They attended two x three hour sessions with Council staff, facilitated by Tenix/Twyfords. There was no payment to members of the DWG for their involvement.

A Deliberative Working Group is not a decision-making body. Its role is to provide thoughtful and informed input to Council on each of the draft proposed funding options, to help Council finalise the funding options to take out to the broader community. The group considered issues such as:

- likely impact on the community of the various options
- advantages and disadvantages of each
- areas needing further consideration by Council (for example, how to minimise impacts)
- things Council may have missed, ways to improve the options
- the validity of assumptions underlying each of the funding options.

The DWG also provided input as to the draft option they prefer, using criteria that were developed during the sessions.

Having received this input and worked with the DWG, Council is in a position to finalise the funding options with confidence.

THE PROPOSAL

It is proposed that Council use the 3 scenarios for Council's financial future as a basis for extensive community engagement during November/December 2012. This will provide an indication of the community's willingness to pay for each of the scenarios and service levels. It will also provide valuable service planning information and assist in meeting the

Independent Pricing and Regulatory Tribunal's (IPART) requirements should Council decide to submit an application for a Special Rate Variation.

The next step is to use the scenarios for detailed and extensive community consultation during November/December 2012. As two of the three scenarios require additional income to fund them, this round of consultation must address the community's willingness to pay for increased levels of service. If Council were to decide to proceed with an SRV application to IPART, proof of extensive community consultation and the community's willingness to pay is required to meet IPART guidelines.

Many Council services rely on the various assets that Council owns. If these assets are not maintained in good condition and renewed in a timely manner, they become expensive to operate and maintain, more costly to replace and do not provide the required level of service to the community. We are not replacing them at the same rate as they are wearing out, which has a major impact on future service level planning and Council's financial sustainability.

Council's asset management systems have identified a significant shortfall in the amount of money being spent each year to renew assets so they remain in fit for purpose condition. This gap in asset renewal spending is detailed in Council's annual financial statements and was $142m for the General Fund at the end of the 2010/11 financial year. The need to address the issue has been re-enforced following a recent review by NSW Treasury Corp, which raised concerns about Council's ability to fund the proposed level of future spending to bring current assets up to the required standard. The T-Corp Report stated:

- "Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its **cash and investment levels are forecast to be exhausted by 2016**.

- This is a **serious liquidity issue** which Council needs to consider, develop options and remodel. Should Council consider **adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense,** then additional borrowing could be considered"

Increased spending on new assets instead of renewing existing assets means increasing maintenance, operating and depreciation costs, all of which directly affect the annual financial operating result. Delayed renewal of existing assets leads to increased operating and maintenance costs, which also impact the annual financial operating result.

Not surprisingly, the asset areas where there is the most significant gap in renewal spending also correspond to those services which the community has shown the highest priority for improved service levels. In other words, we are not spending enough to renew and maintain the assets that can help improve desired service levels to the community.

By using the information from the community and combining it with the asset management information that has been developed over a number of years, the high priority asset areas have been identified for additional renewal funding. Staff have analysed the various options to provide the income to support the level of asset renewal expenditure that is set out in Council's Long Term Financial Plan. A number of funding options (Scenarios) have been prepared and three Scenarios were presented to the Deliberative Working Group (DWG) for discussion and testing. While the size of the group was relatively small, the quality of input provided by the group members was very high and added value to the process.

It was made clear to the DWG members that their role was to provide valuable comment to assist Council's decision-making on whether to proceed with further detailed community consultation and that there were several steps before Council would make a decision on which Scenario to pursue. Further, should Council decide to lodge an application with the Independent Pricing and Regulatory Tribunal (IPART) for a Special Rate Variation, the IPART review of Council's application would be very stringent and there would be no guarantee of approval. There would also be time for the community to make comments on Council's application directly to IPART.

Many key issues were raised and discussed during the sessions. These have provided valuable guidance for the next round of consultation. The criteria developed and used by the DWG in testing the Scenarios were:

1. Cost and affordability	How affordable is the proposed cost increase to the community?
2. Level of benefit to the community	What benefits will the community receive? Are there spin-off benefits such as employment generation, community capacity building?
3. Cost-effective use of the funds	Will this allow for best use of the funds? Will results be financially sustainable?
4. Meeting community needs.	Does this meet demonstrated community needs?
5. Achievable	Can Council achieve the proposed program?
6. Level of dis-benefit to the community	What is lost/not achieved through this option?
7. Fairness and Equity	Are the costs and benefits spread fairly across the community and across current and future generations?
8. Effectiveness	Does it fix the problem in a timely manner?

One of the key messages delivered to the DWG was that while Council has improved its financial position in recent years and will continue to look for internal savings, this will not be sufficient to provide the funding necessary to close the asset gap. This discussion focussed on the cost savings and productivity improvements that staff have implemented in recent years, together with the commitment to keep pursuing future savings through better business planning. While a number of options have been considered, the reality is that additional general rate income is needed or cuts to services will be necessary. The current level of rate increase allowed each year (the Rate Peg) is usually around 3% and is not keeping pace with the increases in Council's cost base.

Scenario 1 - No additional rate income above the Rate Peg
In this scenario, rate increases are maintained at the annual amount approved by IPART, usually around 3%. This means that the level of proposed spending on asset renewals set out in the Long Term Financial Plan is not affordable and there would have to be cuts to the proposed capital expenditure and/or cuts to services.

The asset gap would not close and would actually get worse, asset maintenance costs will increase and future generations will have to meet the increased asset renewal cost. There would be no capacity to fund work on natural assets and no significant new asset works.

Scenario 2 - Real increased income of 6.5% above Rate Peg each year over 7 years
In this Scenario, there is an increase of 9.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. This increase would remain permanently in Council's rate base

and after 7 years the increases would revert to the normal rate peg amount. This Scenario is based on properly funding the Long Term Financial Plan, so the 7 year time frame is consistent with that plan. 7 years is also the maximum period for a Special Rate Variation approved by IPART, thereby minimising the annual cost increase. Asset conditions will improve significantly in this time and there would then be a substantial saving in annual asset maintenance costs of approximately $3m per annum. There is limited scope for spending on new assets.

Scenario 3 - Real increased income of 9.5% above Rate Peg each year over 7 years
This Scenario provides for an increase of 12.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. It is similar to Scenario 2 in closing the asset gap over 7 years, but allows an additional $5m per year that could be spent on new assets.

DWG Results
After lengthy discussion about each Scenario, the DWG members assessed each one against the criteria that they had developed during the workshops. Based on the criteria and their understanding of the information presented, they were asked to identify their preferred Scenario and why.

- 12 of the 14 DWG members identified Scenario 2 as the preferred option; citing reasons such as fairness and equity, affordability, outcomes are predictable, smallest cost for maximum benefit to most, best outlook for Shire without too much pain, greatest cost/benefit.
- 2 of the 14 DWG members identified Scenario 3 as the preferred option; citing reasons such as most forward thinking, positive entrepreneurial.
- There was no support for Scenario 1 as the preferred option.
- 10 of the 14 members identified Scenario 1 as the least preferred option; citing reasons such as no benefit to community if asset gap widens, additional future costs, unsustainable in the long term, thinking small, negative attitude to progress, doesn't meet community needs.
- The remaining 4 members identified Scenario 3 as the least preferred option.

Overall, Scenario 2 was seen as the best option for the community. Because of the small size of the group, this cannot be used as a basis for any decision on future funding options, particularly a Special Rate Variation. However, the level of review and testing of the 3 Scenarios provides confidence that no significant issues have been missed and that Council could use these Scenarios for further detailed community consultation.

Council should now consider moving to the next step in the "best practice" approach. That step is about further discussion with the broader community through a variety of means such as phone surveys, on-line surveys, community meetings and workshops, media publicity and mail-outs to residents/ratepayers. Significant community engagement is required at that stage to gather further information about the community's preferences for the Scenarios. A comprehensive engagement plan will be implemented to ensure community input is as wide as possible and addresses issues such as broad representation of ages, gender and other demographics. Various options will be in place to ensure community members are aware of the process, have ease of access to information and ability to have input.

Information provided through Stage 2 of engagement is focussed on the financial and service impacts of the Scenarios and explores the community's willingness to pay for additional services and/or accept reductions in some services. Funding options such as increases in fees and charges, use of loans and grants, identifying new revenue sources and applying to

IPART for a Special Rate Variation will be clearly communicated and discussed during these consultations. This step will also be facilitated by Tenix/Twyfords as part of their current engagement with Council.

The results of this round of consultation will then be used to prepare a report to Council in December 2012. This report will seek Council direction on a range of issues that will affect preparation of the 2013/17 Strategic Plan. Any proposed changes to service levels and the subsequent financial impacts will need to be clearly identified as part of the Strategic Plan process and built into the annual budget and Long term Financial Strategy. If Council needs to seek a Special Rate Variation (SRV) from IPART for 2013/14, IPART deadlines normally require formal notification of Council's intent to apply before mid- December 2012. If Council does not proceed with an SRV application, the information gained from this consultation is necessary for sound business planning.

It is possible that the IPART deadlines and Councillor availability during December 2012 could create difficulties in scheduling a Council meeting to consider the results of the November/December community consultation and a possible application to IPART. It is proposed that the General Manager be given delegated authority to comply with IPART deadlines for notification of intent to submit an SRV application, subject to the results of the community consultation supporting this approach. Any such action would have to be endorsed by Council at its first meeting in 2013 and would still allow Council to cease the SRV application process before a final application is prepared and submitted.

OPTIONS

Option 1

Council could modify Stage 2 by not proceeding with the detailed community consultation during November. This would mean that should Council consider submitting an application to IPART for a Special Rate Variation, it would not be achieved for the 2013/14 financial year. This is not recommended. Adopting a less thorough approach, or doing no more than what has been currently done, will not provide the level of information needed for sound long-term planning and decision-making on service levels. In turn, that will limit Council's ability to reach its financial sustainability targets and place pressure on future service levels in any case.

Option 2

The recommended approach as detailed in this report is considered "best practice". It will provide valuable service level planning information and will comply with IPART guidelines should Council wish to proceed with an SRV application.

STRATEGIC LINKS

Wyong Shire Council Strategic/ Annual Plan

The proposal assists compliance with Council's Integrated Planning Framework through using community consultation to inform the Strategic Planning process.

Contribution of Proposal to the Principal Activity

The proposal affects all Principal Activities and Services as it is a review of all service levels across the organisation.

Long term Financial Strategy

The proposal will provide information which will inform the Long Term Financial Strategy. Decisions arising will have impact on future expenditure and funding sources.

Asset Management Strategy

Assets are used to provide services. As this proposal will affect service levels, so it will affect the assets used to provide them.

Workforce Management Strategy

Staff resources are used to provide services so it will impact the Workforce Management Strategy.

Link to Community Strategic Plan (2030)

The proposal will impact on the services Council provides towards achieving the CSP objectives. They will be considered during the consultation and decision-making process.

Budget Impact

A request for funding has been submitted as part of the Quarterly Budget Review process.

CONSULTATION

As set out in the report, the broader community has already been consulted during Stage 1. The proposal will build on that consultation and provide more detailed information to as many community members as possible. It will seek community input to guide significant Council decisions on future levels of service provided to the community and Council's financial sustainability.

GOVERNANCE AND POLICY IMPLICATIONS

The proposal complies with Council's Engagement Strategy. It also complies with the Department of Local Government Integrated Planning and Reporting Framework requirements as the information gathered will be used in Council's Strategic Planning process.

MATERIAL RISKS AND ISSUES

If we don't thoroughly engage the community, there is no chance of a successful SRV application to IPART, should Council decide to adopt that option.
This will lead to a financial situation where Council cuts to services and capital expenditure is a reality.

CONCLUSION

The information to be gained through the proposed engagement process is crucial to securing Council's financial future while also addressing community service priorities. It is an important element of good business planning and will help in delivering best value service to the community. It also provides support for an SRV application to IPART should Council decide to do so.

ATTACHMENTS

Nil.

ADDITIONAL ITEM

12 December 2012 Director's Report

To the Ordinary Council Meeting GM's Unit

7.14 Service Standards Review - Results of Stage 2 Community Consultation

TRIM REFERENCE: F2012/00388 - D03209209

MANAGER: Maxine Kenyon; Director Community and Recreation Services

AUTHOR: Darryl Rayner; Manager Workplace Change

SUMMARY

In November 2011 Council resolved to commence consultation with the community on service levels and community priorities in order to provide additional information to assist Council's Strategic Planning process.

Council's adopted Long Term Financial Strategy identifies the investigation of a Special Rate Variation (SRV) in 2013-2014 to fund essential infrastructure, subject to the assessment of service levels and community needs. Part of the investigation process requires Council to adequately consult with the community on willingness to pay increased rates.

The first phase of consultation was completed in May 2012 and the results were used to identify priorities for asset improvement spending in line with community service priorities. Council subsequently resolved in October 2012 to carry out further detailed community consultation during November/December 2012 on the community's willingness to pay for increased spending on asset improvements.

The second phase of detailed community consultation has been completed and this report contains details of the methods used and the response received. This stage of consultation gathered 1850 responses; stage 1 consultation gathered a further 184 responses in addition to over 3500 responses through the Community Strategic Plan process, resulting in over 5,300 responses guiding Council's decision-making process.

The report recommends a way forward for Council to ensure the financial sustainability to reduce the backlog of asset maintenance and being able to provide our community with the best level of service and facilities that we can.

RECOMMENDATION

1 *That Council <u>note</u> the report on the Stage 2 community consultation.*

2 *That Council <u>direct</u> the General Manager to:*

a *Notify the Independent Pricing and Regulatory Tribunal by 14 December 2012 that Council intends to submit an application for a Special Rate Variation increase of 9.5% to ordinary general rates each year for 7 years from 2013/14 under S508A of the Local Government Act. Noting that there is no prejudice to Council's ability to stop any subsequent action on a Special Rate Variation application.*

b *Commence preparation of the Special Rate Variation application as set* *out in Recommendation 2 a).*

c *Undertake further community consultation during January and February on the specific effects on the community of Options 1 and 2.*

d *Report the results of the further community consultation during January/February 2013 to Council by 28 February 2013, at which time Council will need to determine if Council will be making Special Rate Variation application to Independent Pricing and Regulatory Tribunal.*

3 *That Council <u>not proceed</u> with consideration of Option 3 (12.5% increase per year for 7 years).*

ORDINARY MEETING HELD ON 12 DECEMBER 2012

RESOLVED on the motion of Councillor EATON and seconded by Councillor NAYNA:

1 That Council note the report on the Service Standards Review Stage 2 community consultation.

2 That Council not proceed with consideration of Option 3 (12.5% increase per year for 7 years).

3 That Council delegate to the General Manager the authority to take necessary action to comply with Independent Pricing and Regulatory Tribunal deadlines and guidelines to apply for a Special Rate Variation application in 2013/14. Noting that the application will be up to 9.5% (including the capped rate increase approved by the NSW government which is 3.4% in 2013/14, which means up to a maximum of 6.1% in 2013/14) to ordinary general rates each year for 7 years from 2013/14 under S508A of the Local Government Act.

4 That Council direct the General Manager to undertake further community consultation during January and February 2013. This will focus on the specific impacts on the community of Options 1 and 2, to clarify and identify community preference for services to be enhanced or reduced if the full rate increase is not progressed, and to assess the community's ability to pay.

5 That Council direct the General Manager to report the results of the community consultation during January and February 2013 to Council by

FOR: COUNCILLORS EATON, GRAHAM, GREENWALD, NAYNA, TAYLOR, TROY AND WEBSTER

AGAINST: COUNCILLOR MATTHEWS AND VINCENT

The Financial Dilemma

Council had recorded operating deficits for several years and decided in 2010 to put in place a strategy to reach a break even operating result by 2014/15, which was documented in the Long Term Financial Strategy. Over the past two years, Council has put significant effort into reducing its deficit, creating efficiencies and productivity improvements, implementing cost savings and increasing income to continue delivering a range of services to the community. This has reduced the deficit from $30m to $12m in two years, with further reduction to break-even in 2014/15.

Some of these efficiencies have included, but are not limited to, the following:

- **Technology savings in staff time, reduced staff numbers and ability to deliver improved service levels.** For example, increasing the use of infield technology for operational staff; revised tree assessment process; introduction of software for Council reports.

- **Energy and materials reduced costs** . For example: new lights in Council buildings ($1.2m over 10 yrs); road pavement efficiencies and savings (09/10 patching was $118m2 reduced to $21m2 in 11/12); joint tendering with Gosford City Council; Workers Compensation management ($250K savings).

- **Purchasing and internal services** savings. For example: creation of Legal counsel position ($300K p/a); reduced use of body hire for project management ($250k p/a); reduced consultancy costs through better use of staff expertise and staff availability due to other productivity gains.

- **Plant and equipment savings and efficiencies.** For example: downsized all vehicles to 4 cylinder; purchase different machinery to deliver faster service; changes to replacement time on vehicles (Nett one off saving for light vehicles was $2.1M)

- **Staff numbers and efficiency.** For example: in 10/11 full time equivalent staff budget was 1150, in 13/14 it will be 1050 (9.5% reduction), in one year this resulted in actual savings of $1.109m.

- **Increases in income**. For example, fees and charges increased by $200K in 11/12; partnerships have been developed with sporting clubs / groups to co-fund capital works; grant funding continually applied for.

These savings have been realised despite significant pressure from increasing costs. Costs of energy and raw materials have increased well above Consumer Price Index (CPI) in recent years driven by factors such as the carbon tax, general electricity price increases and increases in the Environmental Protection Authority levy. In addition, Council is subject to the rate capping system in NSW which limits any increases. Generally the amount determined by the Independent Pricing and Regulatory Tribunal (IPART) is less than CPI. In Council's current Strategic Plan $23million is also identified as a shift in costs from State to Local Government, for example: pensioner rebates; fire services; and flood mitigation.

Council has over $2.5billion of ageing assets. Council's asset management systems have identified a significant shortfall in the amount of money being spent each year to renew assets so they remain in fit for purpose condition. This gap in asset renewal spending is detailed in Council's annual financial statements and was $121m for the General Fund at the end of the 2011/12 financial year (eg: roads, drainage, parks, community buildings etc). For Council to bring these assets to a satisfactory standard requires $121million. This includes only recorded asset classes and excludes natural assets which also represent a significant liability for Council in current and future years. Combining this with providing the services the community have become accustomed to, Council can not afford to do both.

Many Council services rely on the various assets that Council owns. If these assets are not maintained in good condition and renewed in a timely manner, they become expensive to operate and maintain, more costly to replace and do not provide the required level of service to the community. Currently, we are not replacing them at the same rate as they are wearing out, which has a major impact on future service level planning and Council's financial sustainability.

Increased spending on new assets instead of renewing existing assets means increasing maintenance, operating and depreciation costs, all of which directly affect the annual financial operating result. Delayed renewal of existing assets leads to increased operating and maintenance costs, which also impact the annual financial operating result.

The effort to find savings within the organisation will continue but there is limited scope for further significant savings at the level required. Council must now look at additional sources of income, otherwise asset condition will continue to deteriorate at an increasing rate, causing further long-term financial and service level problems for the community. Council's income base is limited due to existing IPART requirements for our Waste, and Water and Sewerage business. The only options to increase our income is through rates, fees and charges or grant funding which there is no guarantee that funding will be provided.

Due to the limited scope for further significant internal savings to meet this asset gap, in early 2012 Council commenced a process to identify how further financial sustainability could be achieved. Significant community consultation has occurred to identify values and priorities.

This information has been used to guide Council staff in planning future service levels and reviewing our Long Term Financial Plan. This work identified three scenarios for Council's financial future, which are outlined later in this report.

The need to address the financial dilemma issue has been re-enforced following a recent review by NSW Treasury Corporation, which raised concerns about Council's ability to fund the proposed level of future spending to bring current assets up to the required standard. The T-Corp Report stated:

- "Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its **cash and investment levels are forecast to be exhausted by 2016**.

- This is a **serious liquidity issue** which Council needs to consider, develop options and remodel. Should Council consider **adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense,** then additional borrowing could be considered"

In addition, Council also received a letter from Division of Local Government in January 2012 highlighting their concerns with Council's financial position as at 30 June 2011 after they undertook a review of Council's financial position. Their particular focus was on our deficit, low infrastructure renewal, shortfall in maintenance of assets and condition of our assets.

The Possible Solution

Council resolved in November 2011 to commence consultation with the community on service levels and community priorities in order to provide additional information to assist Council's Strategic Planning process. This was a follow on to the significant amount of community consultation Council has carried out in recent years. Examples include Quality of Life Survey, telephone and online customer satisfaction and reputation surveys, workshops, forums, world cafes and other activities for the Youth Engagement Strategy, Community Plan, Learning Communities Strategy, Community Facilities Review and On-Road Bicycle and Shared Pathways Strategy.

In preparing the Community Strategic Plan in 2009, Council undertook extensive and in-depth community consultations in 2007 and 2008, where more than 3,500 residents participated in various forms of consultation to identify the vision for the Shire and what were important for our community.

Following Council's decision in November 2011, the first stage of consultation was undertaken in May 2012 with 184 responses received via community workshops and an on-line survey. Stage 1 results also described the problems Council is facing in funding the $121million in spending required as at 30 June 2012 to bring existing roads, drainage, community buildings, sport, leisure and recreation facilities, town centres, open space and the natural environment to a satisfactory standard.

The report to Council's Ordinary meeting of 24 October 2012 detailed the level of consultation that was carried out in Stage 1 of the Service Standards Review and highlighted the community overwhelmingly love their Shire and feel it is a good place to live and have a strong preference for Council to be financially sustainable.

Following on from this stage, significant work was undertaken with Service Unit Managers to understand what we know about community needs and our services and incorporate that with the information in Council's Asset Management system. This information along with the values identified by the community helped identify the high level priority areas for increased spending to bring assets up to a satisfactory standard in line with community expectations, quality asset management and public safety standards.

STAGE 2 ENGAGEMENT

The Options

The Stage 2 community consultation occurred in November and December this year and was designed to promote community involvement and provide information about the financial and asset funding issues including:

- Council's previous financial performance and forecast future performance
- Council's efforts to find substantial savings from within the organisation and maintain service levels
- The amount of funding needed to restore important assets to a satisfactory condition
- The three funding options developed to address the asset gap
- The effect of each funding option on the asset gap and Council's financial sustainability
- The additional cost of each funding option to ratepayers.

The three final options used in the Stage 2 community consultation included the following:

<u>Option 1 - No additional rate income above the Rate Peg</u>
In this scenario, rate increases are maintained at the annual amount approved by IPART, usually around 3%. This means that the level of proposed spending on asset renewals set out in the Long Term Financial Plan is not affordable and there would have to be cuts to the proposed capital expenditure and/or cuts to services.

The asset gap would not close and would actually get worse, asset maintenance costs will increase and future generations will have to meet the increased asset renewal cost. There would be no capacity to fund work on natural assets and no significant new asset works.

<u>Option 2 - Real increased income of 6.5% above Rate Peg each year over 7 years</u>
In this Scenario, there is an increase of 9.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. This increase would remain permanently in Council's rate base and after 7 years the increases would revert to the normal rate peg amount.

This Scenario is based on properly funding the Long Term Financial Plan, so the 7 year time frame is consistent with that plan. 7 years is also the maximum period for a Special Rate Variation approved by IPART, thereby minimising the annual cost increase. Asset conditions will improve significantly in this time and there would then be a substantial saving in annual asset maintenance costs of approximately $3 million per annum. There is limited scope for spending on new assets.

Option 3 - Real increased income of 9.5% above Rate Peg each year over 7 years
This Scenario provides for an increase of 12.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. It is similar to Scenario 2 in closing the asset gap over 7 years, but allows an additional $5 million per year that could be spent on new assets.

Some important factors to note in relation to these options:

- They only relate to the Ordinary Rates portion of the rates, estimated to be an average of $868 per house. These options do not relate to water and sewer or waste charges.
- If successful, option 2 and 3 would commence in July 2013.
- Seven year time frame was the longest time permissible under the IPART guidelines, allowed the asset gap to be addressed in an optimal time and minimised the impact on rate payers

The Engagement Plan

Stage 2 consultation was developed in accordance with Council's Engage Me policy and framework and used a variety of methods to engage the community at the three different levels of inform, connect and engage.

The engagement process started on 14 November 2012 and was scheduled to cease on 2 December 2012. Due to the increased level of response in the last week and to allow extra time for postal replies to be received, the closing date for responses was extended to 4 December 2012. Approximately 40 voting forms have been received after the extended closing date and it was not possible to include them in the current analysis. However, they will be included in the final analysis along with any others received in the interim.

The condensed timing of this consultation phase was to deliver the message quickly to ensure it remained in people's mind, to focus attention on the proposed funding options and to meet IPART timeframes should Council decide to submit an application for a Special Rate Variation. Community consultation on this issue was not appropriate while the previous Council was in caretaker mode prior to the 2012 Council elections. The diversity of options to have a say were provided to enable the majority of people to have access to provide a response in a form that suited their situation.

'Engage Me' spectrum	Description	Engagement modes
Inform	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	Local Radio and Newspapers • 3 articles in Shire-Wide News • 5 media releases in local papers and radio stations • 6 paid advertisements in Central Coast Express/Advocate, Wyong Regional Chronicle and Central Coast Grandstand - over 300,000 exposures of these ads to local residents • 4 page supplement in the Express/Advocate on 16/11/12 – 58,000 circulation • 303 paid radio advertising spots on 2GO, SeaFM, StarFM • 20 community service announcements on 2GO • 10 x 15 second live reads just before news on SeaFM • 18 radio news items and 1 television news story on NBN • News articles in Express Advocate, Wyong Regional Chronicle and Lakes Mail. Online presence • Council's web-site uploaded with relevant information - 2,684 hits on council's web site • Council's on-line survey via web site engagement hub • Use of social media, Facebook and Twitter - 1,013 Facebook posts, 10 Twitter posts • Advertising on Business Insider web site, linking to Council's online survey. During the campaign the ads were delivered 4,776 times and the web site had 2,148 visits. Face to face • Information booklet produced, 2,900 hard copies distributed via libraries, child care centres, other Council facilities, Councillors, Council staff, local residents, shopping centre displays and commuters at railway stations • Manned displays at shopping centres – 18 hours total, 96 contacts • Customer Contact and Library staff actively promoted the process during each contact with the public. Direct mail • Electronic copy of the information booklet sent to all members of the Library Services database and Child Care data base - 3,200 contacts • Electronic copy of the information booklet sent to all ratepayers with an email address - 4,800 contacts • Electronic copies of the information booklet sent to Councillors, resident e-panel members, Precinct Committees, local community groups and committees for distribution to network contacts • Copy of information booklet posted to 12,700 non-resident ratepayers. Passive notification • Posters in Council facilities and outlying areas.

‘Engage Me’ spectrum	Description	Engagement modes
Connect	To obtain public feedback on analysis, alternatives and/or decisions.	• Direct discussions with staff • A random telephone survey of 400 residents conducted by an external independent provider • An online survey • Reply paid hard copy voting form (or drop off at a Council centre).
Engage	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	• 3 community workshops, 23 participants • 1 precinct committee workshop, 26 participants • 1 staff workshop, 12 participants • (Note: voting in workshops was via hand held devices).

As can be seen above there was significant investment to inform, connect and engage with the community about the process and the opportunity to have their say.

The Engagement Results

The response rate as at 4 December 2012 was as follows:

Response Rate	Engagement Strategy
61*	1 staff workshop, 3 community workshops and 1 Precinct Committee workshop
876	On-line survey
469**	Return mail
400	Random telephone survey
44***	Letters and submissions from community members and associations
1850	**Total response rate for stage 2**
184	Total response rate for stage 1
2034	**TOTAL RESPONSE RATE FOR SERVICE STANDARDS REVIEW PROJECT**
1770	Voting responses from Stage 2

* 19 attendees chose to not vote at the workshops – not included in the voting responses below
**17 respondents did not choose an option – not included in the voting responses below
***44 were attachments to voting forms or separate letters – not included in the voting responses below

The total number of voting responses was 1,770 as set out in the table below.

	Option 1	**Option 2**	**Option 3**
Workshops	17% (7)	64% (27)	19% (8)
Phone Survey*	51% (206)	41% (164)	8% (30)
Online Survey	66% (580)	21% (187)	13% (109)
Return Mail Survey	68% (307)	23% (106)	9% (39)

- This rate of response is high for a Council engagement process and the random telephone survey adds validity to the response.
- Preference for Option 2 in workshops
- Telephone survey - support for a rate increase
- Online and mail in - preference for Option 1
- Gender composition balanced for mail-ins; otherwise skewed towards males (workshops, online) or females (telephone)
- Suburbs generally well-represented in all modes
- Age groups skewed towards 45+ age groups in all modes.

Workshops
The workshops showed a high level of support (83%) for a rate increase. This is directly related to the opportunity for attendees at the workshops to discuss issues with staff and gain a better understanding of the options before making a decision. At the start of each workshop there were attendees who clearly stated that they would not support a rate increase above the rate peg and subsequently supported Option 2 when they better understood the issues. This provides confidence that Council's case for additional rate income is sound.

Telephone Survey.
Option 1 is the most preferred scenario (51%), but there is a significant proportion of the population (49%) that would accept a rate variation in order to maintain or improve assets.

During the phone survey, respondents were asked an additional question:
" If Council was to determine that it should make an application to IPART for a special rate variation, on a scale of 1 to 5 (where 1 means not at all supportive and 5 means very supportive), how supportive would you be for Council to seek the following options? " In answer to this question, 54% of respondents were 'somewhat supportive' of Wyong Shire Council seeking a special rate variation in order to maintain assets, as outlined in Option 2.

The telephone survey is a key element that IPART will consider, so the fact that 54% of respondents in the phone survey would support a rate increase if Council was to proceed is significant.

In addition to stage 2 results, previous random phone surveys have also asked questions about willingness to pay for improved service delivery, as highlighted below:

2010 Omnibus Survey

Survey question	Weekly amt $1- $2	Weekly amt $50c - $1	Weekly amt $25c - $50c	Weekly amt Nothing at all	Total
Willingness to pay for: Public works program	27%	25%	18%	30%	100%
Willingness to pay for: Environmental works program	23%	24%	23%	30%	100%
Willingness to pay for: Community Development program	19%	24%	27%	31%	100%

2012 Omnibus Survey

Survey question	Mean Rating	Weekly amt $1- $2	Weekly amt $50c - $1	Weekly amt $25c - $50c	Nothing at all	Don't know / Refused	Total (Weekly amt)
Community willingness to pay for:							
- Public works	2.6	27.4%	18.4%	9.1%	39.0%	6.1%	100%
- Environmental works	2.9	20.1%	17.4%	10.9%	44.8%	6.8%	100%
- Community Development	2.9	15.5%	19.0%	15.4%	42.2%	8.0%	100%

While the options presented in these surveys were not exactly the same as the current options, it supports the view that an informed community is more likely to support Council's decision to increase rates, especially where the proposed increases are seen to be a reasonable weekly amount. The priorities arising from these previous phone surveys are consistent with the community priorities used in the recent consultation.

Online and Mail in Survey
The high level of support for Option 1 from the online (66%) and mail in survey (68%) is significantly different to that of the workshops and telephone survey. It is reasonable to conclude that that the negative response to Options 2 and 3 is largely due to the lack of understanding of the asset gap and the funding options, together with the fact that in these types of situations the highest level of response is generally against significant change.

Although a presentation was provided on line and booklets outlining the issues were provided, it is difficult to confirm if the respondent did read the information.

Other submissions
The 44 separate submissions from community members and organisations were generally in support of no rate increase, although three did support Option 2. Many of the online and hard copy voting responses also contained comments on the proposed options and other issues. The overall level of response was significant and builds on the work that Council has done to develop and implement the Community strategic Plan.

Some of the feedback through the process can be broadly summarised as:

- Uncertainty about where the money will be spent
- Uncertainty about which services are at risk if Option 1 is adopted
- The size and affordability of the proposed increases
- Understanding Council's efficiency and financial management
- Perception of current lack of services
- Lack of adequate notification to all ratepayers and residents
- The short time frame for the consultation.

Overall, the results from the community workshops and telephone survey give the best indication of how the community will respond when properly informed. The issues listed above are also a direct result of the level of understanding which needs to be addressed so the community is better informed.

However, it is recommended that further consultation with those directly impacted through rate variations is deemed necessary to assist them to understand the potential impacts of either option. Details of a plan to address this are included in the section below.

PROPOSAL

Based on the feedback from stage 2, it is recommended that an additional consultation stage be developed as outlined below.

Additional Engagement Program

Recognising that Council wasn't in a place to identify specific impacts on services for either option at the time of the Stage 2 workshops, high level themes were provided based on what the community had already told us and information found in Council's Asset Management and Long Term Financial Plans.

Council staff are currently refining this information through the planning for 2013-17 Strategic Plan and recommend that a further community consultation process occur based on option 1 and 2 in January 2013. This stage of consultation will focus on the following:

- More detail on the savings and efficiency gains Council has made
- What services would be affected under option 1
- What assets would be improved under option 2
- Council has heard your concerns and is providing more information and another chance to have your say
- The response will focus on which option is supported
- Explanation of Council's December decision and acknowledge the major areas of concern raised during the current consultation.
- Gaining a higher response rate from the under 45 age groups.

It is recommended that Option 3 not have any further consideration due to the minimal level of support received.

Engagement strategies for the additional community consultation in January 2013 will include the following:

1. Media campaign to alert residents
   - Information will be placed on Council's website, facebook and twitter accounts
   - Utilise local media through media releases, Shirewide advertising, existing networks, e-panel and known respondents.

2. Further direct letter and supplement to all ratepayers in January rates instalment mail-out.
   - This will reach 51,000 instalment ratepayers.
   - The remaining 9,000 ratepayers who don't pay by instalments will be sent the same information at the same time. Noting that there are 4,700 of these 60,000 who can be contacted via email.

3. Online survey
   - This will contain the same questions as the supplement survey and will allow residents to provide their input.

4. Follow-up phone survey to previous respondents
   - This will allow for more information to be provided to those previous respondents and to seek their views on what services should be reduced if Option 1 is implemented.
   - It is likely that some of the original 400 previous respondents will not be contactable or will not respond, but this will be a valuable source of further information.

5. Precinct Committees
   - Work with the Precinct Committees to provide information and source feedback from the members in the time frames required.

6. Consideration of one workshop for community members.

   The costs of this additional engagement program will be met through existing budgets and / or require a quarter review request. The result of this engagement phase will be reported to Council on 28 February 2013. At this time Council will need to make a final determination if a Special Rate Variation will be submitted to IPART by the closing date of 11 March 2013. If Council decides to move forward with a SRV, the results of this consultation will then be included in the application and in the 2013/17 IP&R documentation.

IPART Application

The purpose of this stage of the consultation was to inform the community of the asset funding issue and gain an indication of their willingness to pay increased rates to deliver improvements to existing assets and service levels. This is a necessary step in the process of deciding whether to apply to IPART for a Special Rate Variation.

Over the last two years, 25% of the councils in NSW have submitted applications to IPART for rate increases above the annual rate peg amount. The success of councils has varied, including changes to years, percentage increases or no increases approved in some cases.

The IPART guidelines for Special Rate Variations set out six criteria that must be satisfied to achieve a successful application. They are:

1. The need for and purpose of a different revenue path (as requested through the special variation) is clearly articulated and identified through the council's Integrated Planning and Reporting (IP&R) documents, including its Delivery Program and Long Term Financial Plan. Evidence for this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives and the Council's financial sustainability conducted by the NSW Treasury Corporation.

Status - Council has a high level of information about the community's desired levels of service, gathered over several years. This has been linked to information from our asset management systems to arrive at the priorities for increased asset spending.

As outlined previously a recent report from NSW Treasury Corporation clearly outlines their concerns about Council's financial sustainability, stating in part: "Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its cash and investment levels are forecast to be exhausted by 2016. This is a serious liquidity issue which Council needs to consider, develop options and remodel. Should Council consider adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense, then additional borrowing could be considered." The DLG has also expressed concerns about Council's financial positon.

2. Evidence that the community is aware of the need for and extent of a rate rise. This should be clearly spelt out in IP&R documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&R documentation should canvas alternatives to a rate rise, the impact of any rises upon the community and the council's consideration of the community's capacity and willingness to pay rates.

Status - A wide range of engagement methods were used during the consultation process as set out in this report. The number of responses indicates that the community had a suitable level of awareness about the issue. In previous and the current IP&R documentation Council has highlighted the need for a special rate variation to address our financial and asset situation to take us forward into the future. The alternatives for a rate rise will be clearly set out in the draft 2013/17 IP&R documentation that will be on public exhibition in April 2013, prior to adoption by Council.

3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. Council's IP&R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.

Status – In the inform strategies, clear documentation was provided to community members about the purpose of the variation in relation to addressing the asset gap, expected costs to the ratepayer and Council's overall financial position. There is further research to be done on the community's capacity to pay for a proposed increase. That will occur if Council decides to proceed with an SRV application and will also be included in the draft 2013/17 IP&R documentation that will be on public exhibition in April 2013, prior to adoption by Council.

Council's general rates are consistently below the average for Group 7 councils and the NSW average. This has kept the overall cost to ratepayers as low as possible for many years. Council's Hardship Policy will also assist those ratepayers who have difficulty in meeting their commitments.

4. The proposed Delivery Program and Long Term Financial Plan must show evidence of realistic assumptions.

Status - The current Delivery Program and Long Term Financial Plan both include realistic assumptions which are supported by detailed information from Council's Asset Management systems.

5. An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Status - Council has reduced its operating deficit from $30M to $12M over the last 2 years and has a large amount of data to include in an SRV application to support this. Examples of some recent productivity improvements are outlined in the Background section of this report.

6. IPART's assessment of the matters set out below, against criteria 1-5 above.

- size of the council
- resources of a council
- size (both actual $ and %) of increase requested
- current rate levels and previous rate rises
- purpose of the special variation
- any other matter considered relevant in the assessment of a special variation application.

Status - Council has had no previous Special Rate Variations. Current general rates are below both the average for Group 7 councils and the NSW average.

When Council commenced the Service Standards Review in May 2012, the process was based on full compliance with the IPART guidelines at that time. Prior consultation with the community has also been based on compliance with the IPART guidelines. IPART administers the SRV process on behalf of the Division of Local Government (DLG). In November 2012, the DLG issued amended guidelines as set out above. It was not until Council had commenced its Stage 2 engagement process that IPART was able to advise councils how the new guidelines would be implemented and the subsequent effect that has on councils considering an SRV.

The main focus of the new guidelines is to ensure councils have fully met their Integrated Planning and Reporting (IP&R) obligations and that the case for an SRV is fully documented in the 4 Year Delivery Program, Long Term Financial Plan and other associated documents. Consultation with the community must be carried out in conjunction with the development and adoption of these documents. Council has been working towards that objective. Some information is already in the current adopted IP&R documentation, the remainder can only be included after the current round of consultation and will be included in the 2013/17 IP&R documentation.

Advice from IPART is that to fully meet criteria 2 and 3, a council must have all documentation in its adopted 4 year Delivery Program before the SRV application closing date of 11/03/13. Council staff have challenged this interpretation of the guidelines and have raised concerns about the retrospective “changing of the goal posts” by DLG/IPART. Representations to both DLG and IPART are continuing with a view to quick resolution. The issue should not be a barrier to Council deciding to proceed with an SRV application.

There are 2 special variation options under the Local Government Act:

1. A single year increase under section 508(2). This can be a one-off (single year) percentage increase that remains permanently in the rate base or a one-off (single year) percentage increase that remains in the rate base for a fixed number of years. At the end of the fixed period the rate base is adjusted to match the rate peg path

2. A multi-year increase (of between 2 and 7 years) under section 508A. Successive annual percentage increases (for between 2 and 7 years), which remain permanently in the rate base.

The two SRV options discussed with the community (Options 2 and 3) both involve an application under S508A for increases over the maximum 7 year period. Anything less than this will not provide the necessary amount of funding over the optimum time frame for Council to carry out the asset improvement work, which if not completed will impact on the services and the ongoing maintenance costs of these assets.

In considering submitting an SRV application to IPART the following must be considered:

- Notification of intent submit to IPART is required by 14 December 2012. If this is made it does not prejudice the Council’s ability to stop any subsequent action on a Special Rate Variation application
- The submission to IPART is due on 11 March 2013
- The submission is a significant amount of work and will take staff months to develop the submission, this must commence December / January.
- Once submitted to IPART, IPART calls for public submissions on any applications received which provides residents and stakeholders an opportunity to provide comment directly to IPART. In addition, details will be included in Council’s draft 2013/17 Strategic Plan which will be on public exhibition during April 2013, Council will consider any submissions made at that time.
- IPART can decide to not approve an application, to amend the number of years or the level of increase.
- If IPART approve a SRV, Council can decide to not apply the full rate, this may happen if we’re tracking better than expected, if assets are rationalised or alternate sources of income are found
- If successful there will be requirements to report to the community on the status.

Since 2010 Council has been on the path to break even by 2014/15 which required a special rate variation to deliver the income required. Over the past year significant community consultation has occurred to identify the community’s values and desires and their willingness to pay for a special rate variation. The alternative is to reduce our level of service.

Council has undertaken productivity efficiencies which have produced an annual saving of $18million, while still maintaining the broad level of service and increasing funds towards asset management. It is recognised that we can not provide services or assets at best practice level and we have over the years worked towards delivering services at a level which provides best value for our community. We can not continue to provide the level of services we currently do without further income or a reduction in services.

OPTIONS

Option 1 – Notify IPART of our intent (in December) to submit a Special Rate Variation and undertake a further engagement process focused on Option 1 and 2.

- This option is recommended as it does not preclude Council from not submitting an application by the due date of 11 March 2013. If it does not occur, there is no option to make an application for 2013/14.
- This option also provides more clarity to the community on option 1 and 2 and the specifics of what it will mean.
- A further report to Council will provide the results of this additional engagement process and will require a final decision from Council in February if a special rate variation application will be made.

Option 2 – Notify IPART of our intent and submit a Special Rate Variation for 2013/14

- This is not recommended at this stage. The community have highlighted their need for further information, which will assist them in making an informed decision. The additional engagement program will enable this to occur.

Option 3 – Delay IPART SRV application to beyond 2013/14

- This option is not recommended as it does not address the asset gap and our assets will continue to deteriorate leading to increased maintenance costs and possible rationalisation.
- There will need to be reduced levels of service to the community identified for 2013/14.
- There may be a requirement to recommence or undertake further engagement at a later date.

Option 4 – Do not submit a Special Rate Variation

- That would mean the asset gap would not be closed unless $20M in service cuts, staff cuts and / or asset closures were implemented during 2013/14.
- This would require further community consultation to identify the services to be cut at such a large level.

STRATEGIC LINKS

Wyong Shire Council Strategic / Annual Plan

The proposal assists compliance with Council’s Integrated Planning Framework through using community consultation to inform the Strategic Planning process.

Contribution of Proposal to the Principal Activity

The proposal affects all Principal Activities and Services as it is a review of all service levels across the organisation.

Long Term Financial Strategy

The proposal will provide information which will inform the Long Term Financial Strategy. Final decisions on a special rate variation will have impact on future expenditure and funding sources.

Asset Management Strategy

Assets are used to provide services. As this proposal will affect service levels, so it will affect the assets used to provide them.

Workforce Management Strategy

Staff resources are used to provide services so it will impact the Workforce Management Strategy.

Link to Community Strategic Plan (2030)

The proposal will impact on the services Council provides towards achieving the Community Strategic Plan objectives. They will be considered during the consultation and decision-making process.

Budget Impact

If required, a request for funding for the additional consultation in January/February 2013 will be submitted as part of the Quarterly Budget Review process.

CONSULTATION

Consultation undertaken in Stage 1 and 2 is outlined in the body of the report. In addition, extensive community consultation was undertaken with the community to develop the Community Strategic Plan and other strategic documents to guide the work of Council.

GOVERNANCE AND POLICY IMPLICATIONS

The proposal complies with Council's Engagement Strategy. It also complies with the Department of Local Government Integrated Planning and Reporting Framework requirements as the information gathered will be used in Council's Strategic Planning process.

MATERIAL RISKS AND ISSUES

If we don't thoroughly engage the community, there is no chance of a successful SRV application to IPART, should Council decide to adopt that option. This will lead to a financial situation where Council cuts to services and capital expenditure is a reality.

The proposed further consultation will support Council's chances of a successful SRV application and provide the community that had difficulty in choosing Option 1 or Option 2 with further information on what Council has done to improve the business and cut costs, where the money will be spent and what services would be impacted.

CONCLUSION

Council is facing a difficult decision, managing more than $2.5 billion in ageing assets as well as continuing to provide the services the community has become accustomed to. With a shortfall in $121 million to bring our assets up to a satisfactory condition and the increasing population coming into the area, the current status quo can not remain, services will need to be reduced or further income will be required. This will be dependent on the option adopted by Council.

Since 2010 Council has identified a clear path to be financially sustainable by 2014/15 which was reliant on productivity and efficiency savings as well as a Special Rate Variation. Without this approach, council's financial sustainability is at risk.

Independent reports from NSW Treasury Corporation and the Division of Local Government highlighted concerns with Council's financial sustainability and asset management. Council has worked toward addressing these concerns through the productivity improvements already underway and our approach to continuous improvement. Council's changes in its financial situation and the Service Standards Review program are evidence of the commitment to maintain best value services to the community.

Over the last five years Council has undertaken significant engagement with the community to identify their values and desires. This has been supplemented over the last year with Stage 1 and 2 of the Service Standards Review consultation. These stages have gathered over 2000 responses, in addition to the more than 3500 thousand responses received through the development of the Community Strategic Plan. While the response to date provides confidence that Council's case for additional rate income is sound, based on feedback from Stage 2 it is recommended that an additional engagement process be undertaken in January / February on option 1 and 2 only to assist Council to make a determination if a Special Rate Variation will be submitted to IPART.

ATTACHMENTS

1	Attachment 1 - Council report and resolution - Initiation of SSR - 23 Nov 2011	D03213298
2	Attachment 2 - Council report and resolution - Results of Stage 1 - 24 October 2012	D03213299
3	Attachment 3 - DLG Annual Financial Review - 27 January 2012	D03213300
4	Attachment 4 - WSC Response to DLG Annual Financial Review - 24 February 2012	D03213302
5	Attachment 5 - NSW Treasury Corporation Financial Assessment of WSC	D03213411
6	Attachment 6 - Presentation to Stage 1 Workshops - 2012	D03213318
7	Attachment 7 - DWG Workshops 1 and 2 - October 2012	D03213325
8	Attachment 8 - Stage 2 Workshops - November 2012	D03213333

9	Attachment 9 - SSR Brochure	D03213344
10	Attachment 10 - SSR Factsheet	D03213355

WYONG SHIRE COUNCIL

SPECIAL SCHEDULE 7 - CONDITION OF PUBLIC WORKS (excluding Water & Sewer)

Reconciliation to 2013/14 Upgrade Capital Expenditure Requests for the next 10 years

($'000)

Asset class	Asset category	Asset Condition	Total Upgrade Capex over next 7 Years
Public Buildings	Administration	1.8	**1,042**
	Bush Fire	2.2	**400**
	Child Care	2.1	**172**
	Community Buildings	2.2	**2,111**
	Depot Buildings	2.1	
	Holiday Parks		**700**
	Library	2.0	**188**
	Life Guard Towers	2.0	
	Miscellaneous	2.3	
	Pools	2.9	**280**
	Public Toilets	3.1	**391**
Public Buildings	**Total**		**5,284**
Public Roads	Sealed Road Surface	3.2	**95,134**
	Sealed Road Structure	3.2	
	Unsealed Roads	2.5	
	Kerb and Gutter	3.5	
	Bridges	3.9	
	Footpaths	3.4	
Public Roads	**Total**		**95,134**
Other Structures	**Total**		**0**
Drainage Works	GPTs / wetlands	3.0	**2,000**
Drainage Works	**Total**		**2,000**
All SS7 Public Works Assets	**Total**		**102,418**
Public Works Assets not in SS7			
Natural Assets	Asset Protection Zones and Fire Trails		**4,280**
Open Space	Tennis Courts, Skate Parks		**3,180**
Leisure and Tourist Facilities	Boat Ramps and Jetties		**3,385**
Community & Cultural	Cemetries		**125**
Public Works Assets not in SS7	**Total**		**10,970**
Public Works Assets	**Total**		**113,388**
Non-Public Works Assets not in SS7			
Council Productivity	Building Certification & Health		**10**
	Communications		**120**
	Integrated Planning & Reporting		**1,270**
	Customer Contact		**37**
	Finance		**1,350**
	Information Management		**3,609**
Council Productivity	**Total**		**6,395**
Town Centre Improvements	B/Bay, Budgewoi, Lakehaven, Long Jetty, Toukley		**10,364**
Non-Public Works Assets	**Total**		**16,759**
Upgrade Projects	**Total**		**130,146**

Wyong Regional FREE CHRONICLE

February 28, 2013 *Your independent community newspaper - Ph: 4325 7369* Issue 15

Over 70mm rain causes major council clean up

Damage of a Yarramalong Road

Flooded road in Yarramalong Valley

Wyong Council is cleaning up Yarramalong and Dooralong Valleys, following damage to roads from heavy rains and fallen trees on the weekend of Saturday, February 23.

"We had crews out over the weekend putting out water over road signs in many locations throughout Yarramalong and Dooralong Valleys and closing roads in those locations as well as at Warnervale," said a Wyong Council spokesperson.

"We also had crews working to clear fallen trees from road reserves in both valleys, but mainly the Yarramalong Valley, as it seemed to cop the brunt of the poor weather.

"We have an extra Rural Grading crew working to repair the gravel roads in both Valleys from flood damage to the pavement and also table drains.

"We will have a better understanding of the amount of work still required by the end of the week when we can collect more information following thorough inspections."

The bad weather coincided with an urgent warning issued by NSW Police and Emergency Services asking motorists in particular to not defy closed road instructions.

Deputy State Emergency operations controller Assistant Commissioner Alan Clarke said if roads were closed it's for a very good reason; they are flooded and dangerous.

"We are again appealing for motorists, and members of the public to never enter floodwaters or cross flooded causeways.

NSW Police and emergency service personnel said they were frustrated that time and resources were being wasted to rescue motorists who were ignoring signs that roads were closed.

"It is dangerous for them and for those who have to rescue them."

Motorists driving through Tuggerah on the Saturday were diverted through the Woodbury Park housing estate to return to Wyong Rd, following the closure of Anzac Rd.

Catchments in the Wyong region also received heavy rainfall, with Jilliby recording 68 millimetres, Wyong 72 millimetres, Ourimbah Creek 74 millimetres, Mardi Dam 83 millimetres and Toukley 81.

Email, 26 Feb 2013
Wyong Council Media
Media release, 23 Feb 2013
NSW Police Media

We ❤ The Central Coast

Comparative Data Analysis of NSW Councils

Wyong Shire Council:

Rates & Annual Charges

Quick Recap

- DLG compile comparative data on key performance indicators (KPIs) for 'peer' group Councils to help DLG monitor Council performance across a spectrum of activities

- WSC is in Group 7 along with: Blue Mountains, Campbelltown, Gosford, The Hills, Hornsby, Liverpool & Penrith

- KPIs are measured across 9 categories: (i) Financial; (ii) Rating & Annual Charges; (iii) Corporate; (iv) Environmental Management; (v) Recreation, Leisure & Cultural Services; (vi) Community Services; (vii) Public Order & Safety; (viii) Health; and (ix) Housing and Community

- The NSW **median** has been quoted for State-wide comparison purposes ie one half of all NSW councils have values lower and one half have values higher. This is to give a slightly more meaningful comparison as the differential between large urban and small rural councils across the State can lead to an unhelpful skewed distribution of values in many instances when taking the average.

Wyong Shire Council
CENTRAL COAST

Group 7 Rate Assessment

Residential, Farmland & Business

KPIs For Rating

- Average rate per assessment – residential
- Average rate per assessment – farmland
- Average rate per assessment – business

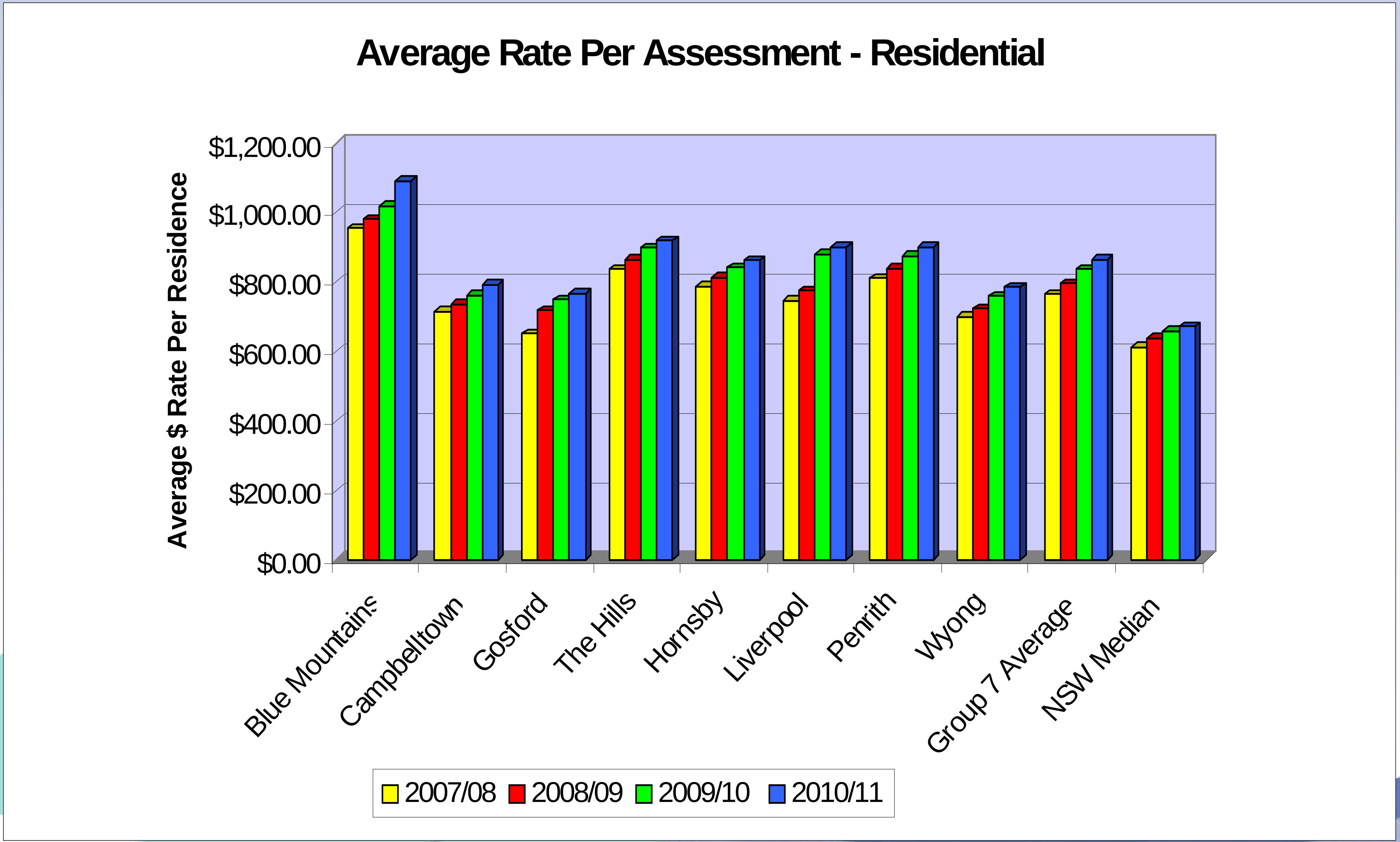
Wyong Shire Council
CENTRAL COAST

The Average Rate Per Assessment Measures

- Rates are a key source of income for Council
- The average rate assessments do not include water and sewerage rates or domestic waste management charges
- Factors affecting the rate assessment indicators include:
  - the mix of properties (residential, farmland, business) within the LGA
  - Council's rating structure and policy
  - the mix and level of reliance on other revenue sources
  - any special variations that have been granted
- **The average residential rate for urban councils in 2009/10 was $808.** The overall state average was $786.
- **The average residential rate for urban councils in 2010/11 was $834.** The overall state average was $812.
- The approved general rate increase was 2.6%.

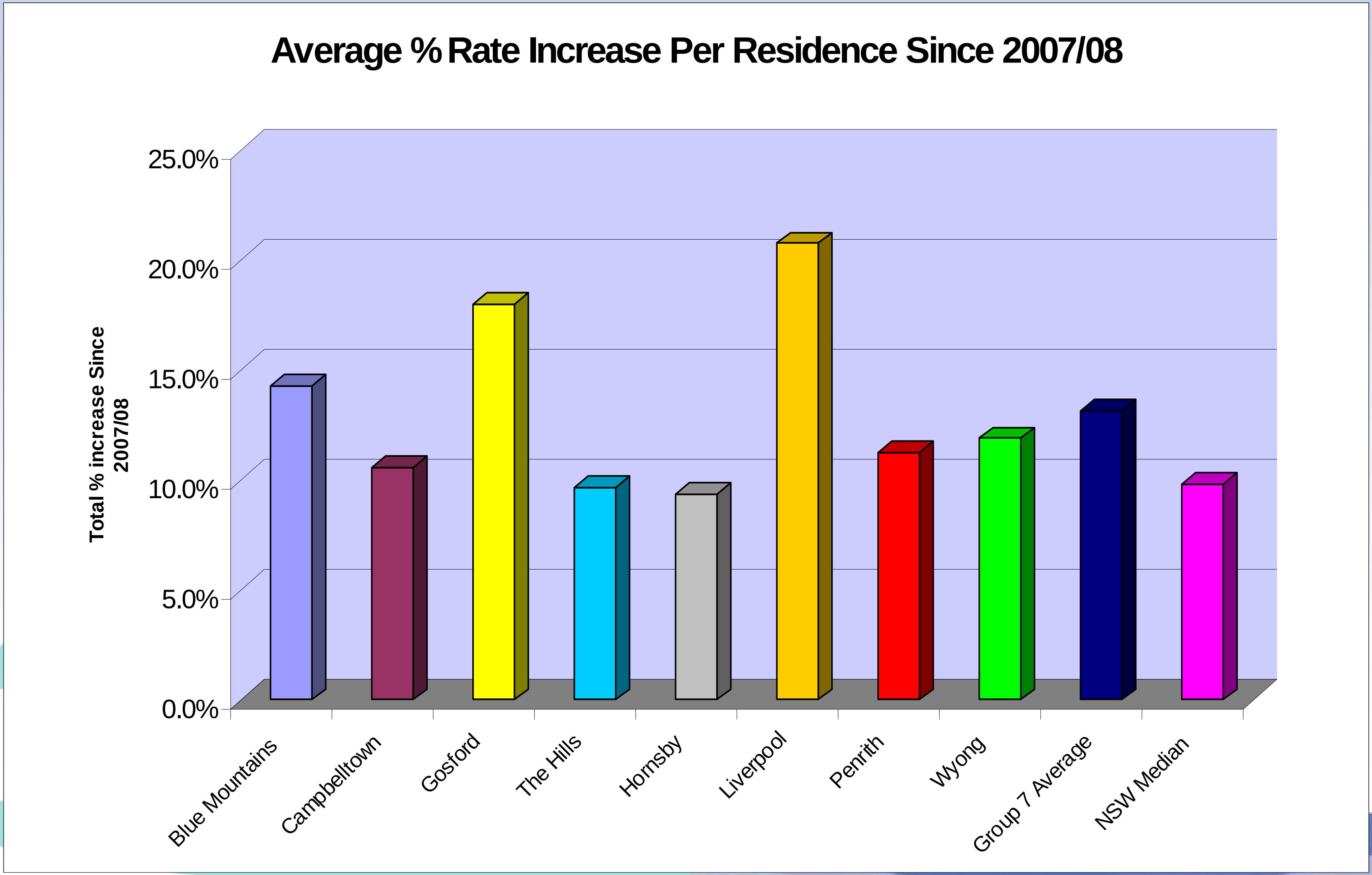
Wyong Shire Council
CENTRAL COAST

Average Rate Per Assessment – Residential



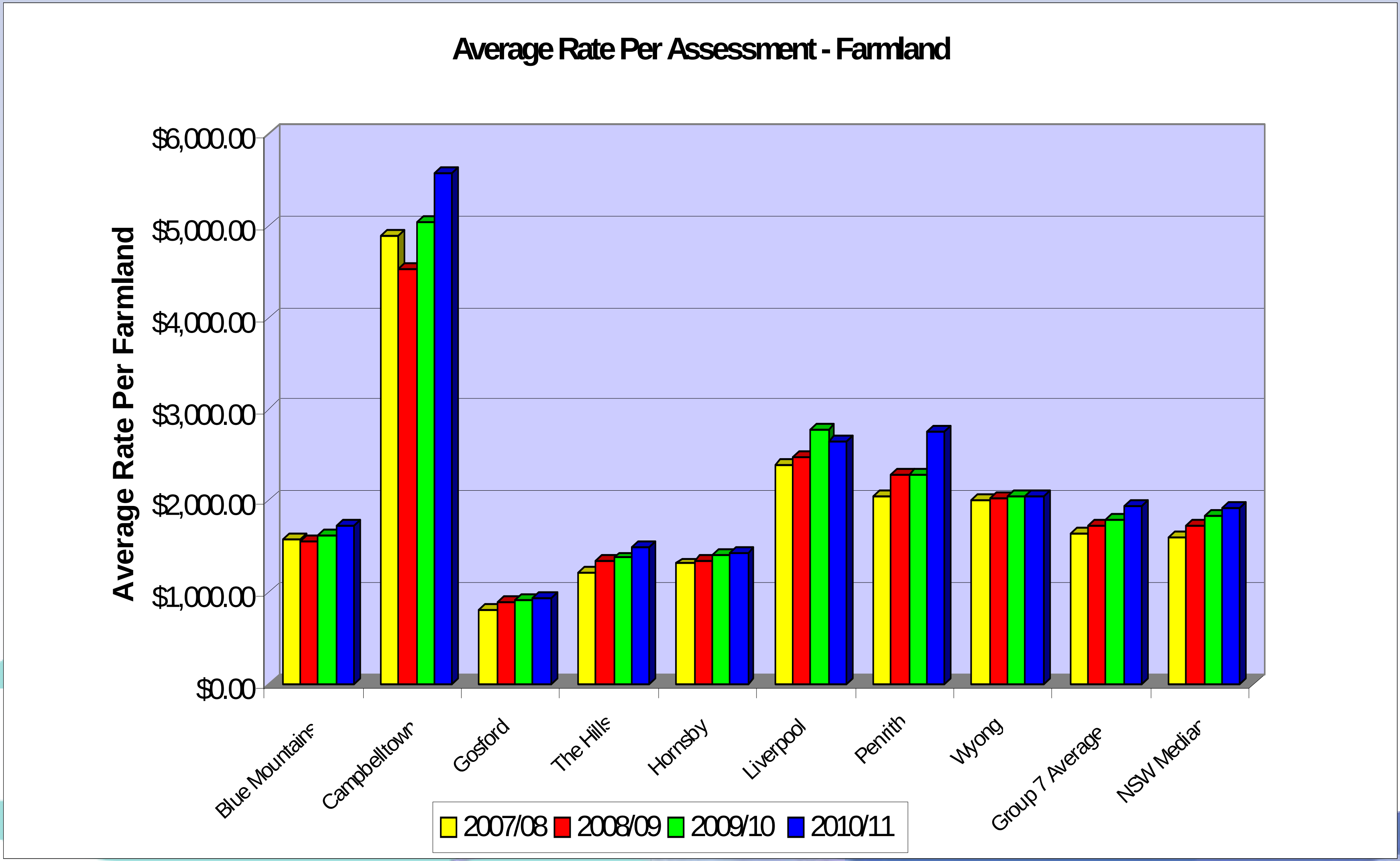
Wyong Shire Council
CENTRAL COAST

Average Overall Rate Increase Per Residence Since 2007/08



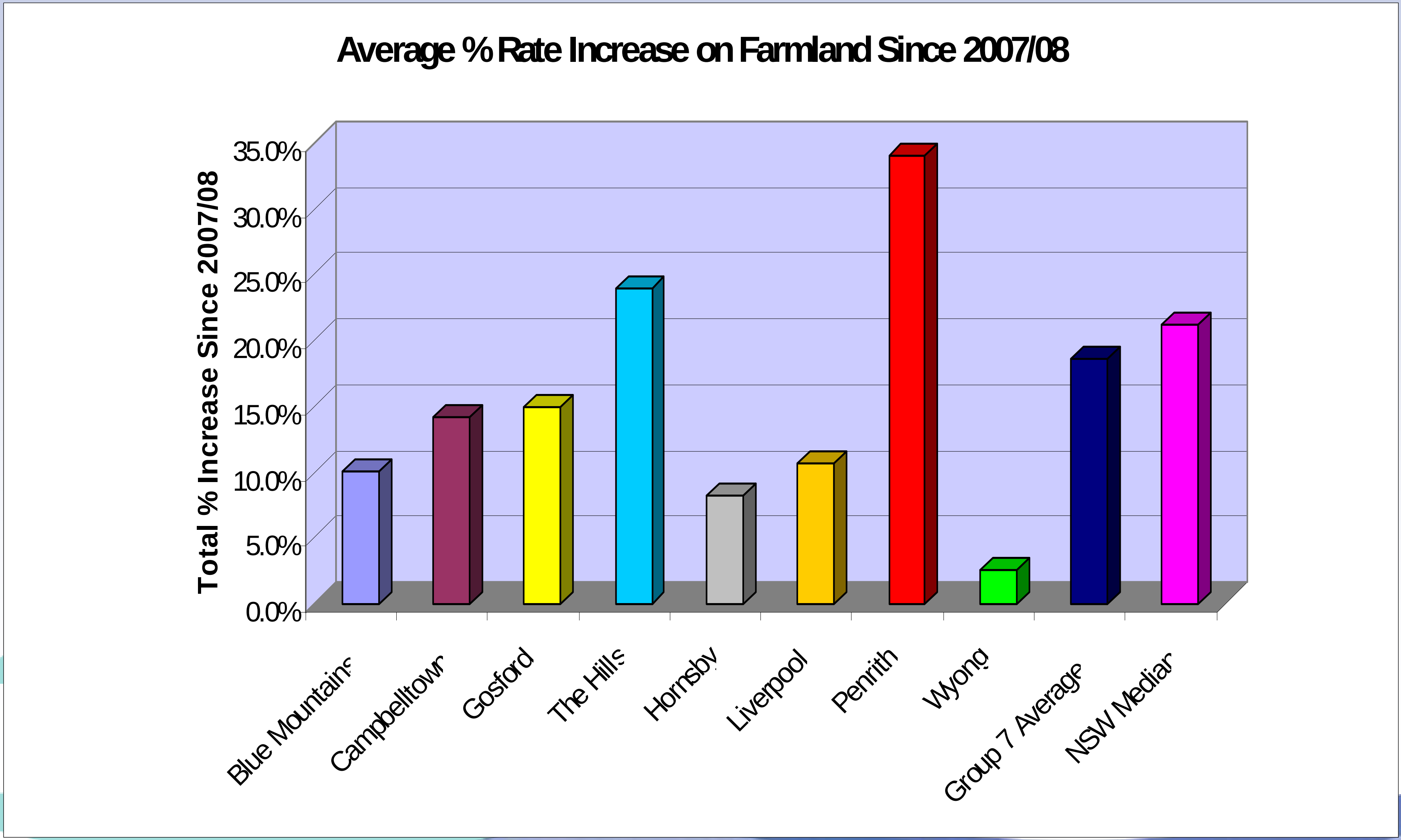
Wyong Shire Council
CENTRAL COAST

Average Rate Per Assessment – Farmland



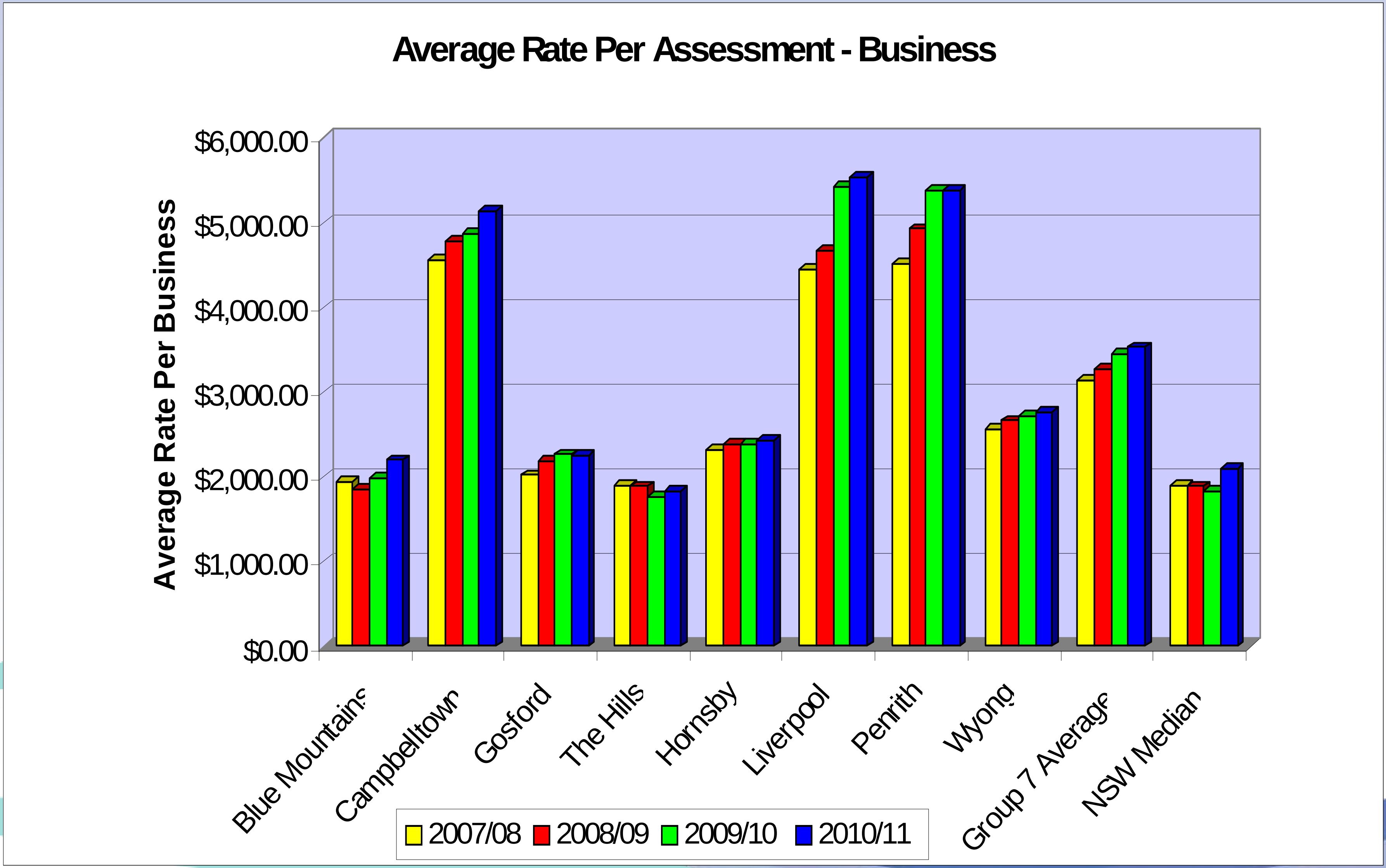
Wyong Shire Council
CENTRAL COAST

Average Rate Increase on Farmland Since 2007/08



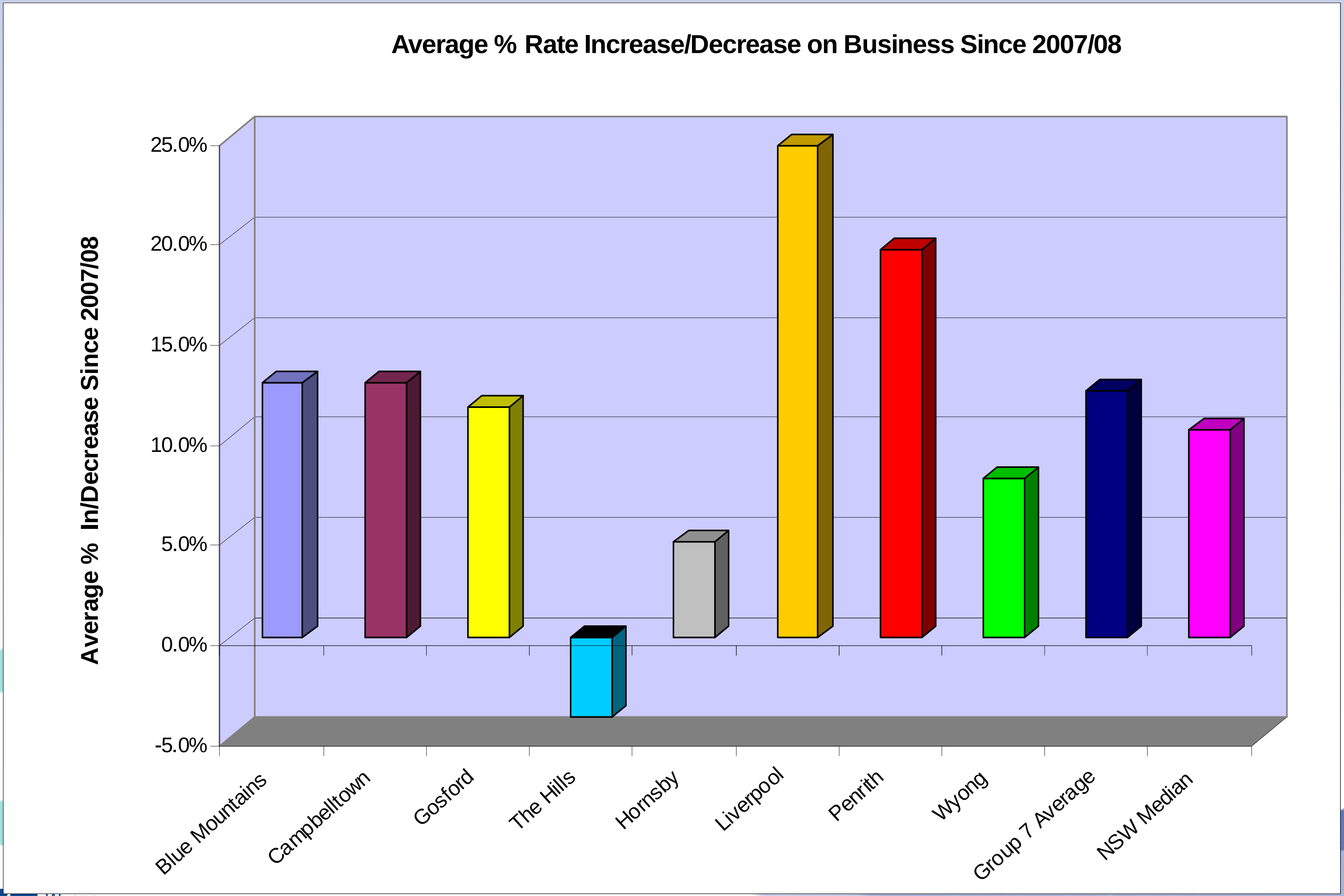
Wyong Shire Council
CENTRAL COAST

Average Rate Per Assessment – Business



Wyong Shire Council
CENTRAL COAST

Average Rate Increase/Decrease on Business Since 2007/08



Wyong Shire Council
CENTRAL COAST

Group 7 Annual Charges

Outstanding Rates & Annual Charges, User Charges & Fees Revenue

KPIs For Annual Charges

- Outstanding rates, charges & fees
- Percentage movement in rates & annual charges revenue from previous year
- Percentage movement in user charges & fees revenue from previous year

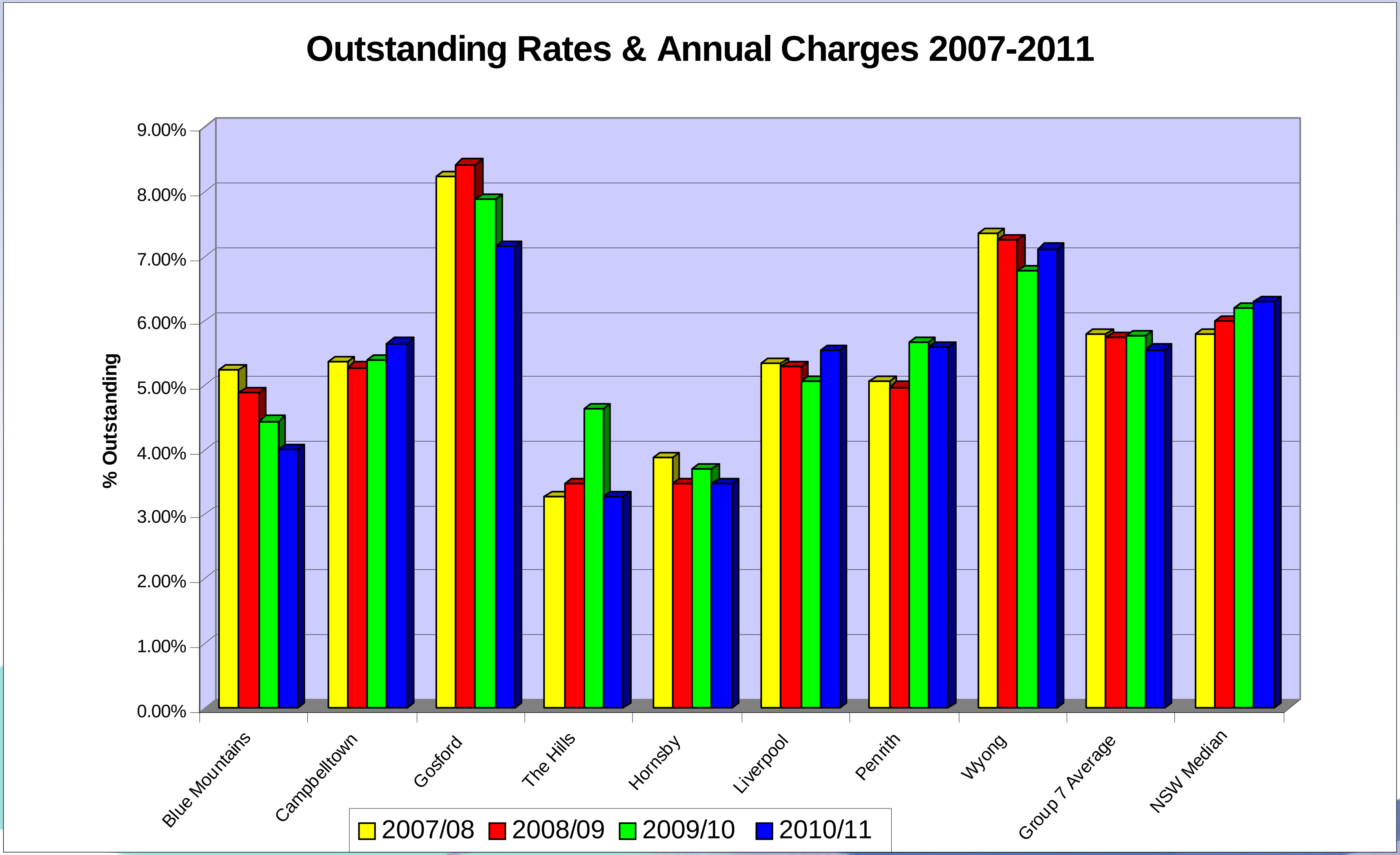
Wyong Shire Council
CENTRAL COAST

The Outstanding Rates & Annual Charges Measure

- This is an indicator that shows the effectiveness of Council's debt recovery processes
- Uncollected rates and charges impact on Council's liquidity
- Factors affecting this indicator include:
  - Council's rating structure and policy
  - the mix and level of reliance on other revenue sources
  - credit management policies and procedures
  - the socio-economic characteristics of the area
  - external factors (eg an extreme local weather event) which might affect the ability of ratepayers to meet their obligations on time at a particular time
- The DLG's accepted benchmark for outstanding rates is **<5%** for urban and coastal councils

Wyong Shire Council
CENTRAL COAST

Outstanding Rates & Annual Charges 2007-2011



Wyong Shire Council
CENTRAL COAST

The Percentage Movement In Rates & Annual Charges Revenue Measure

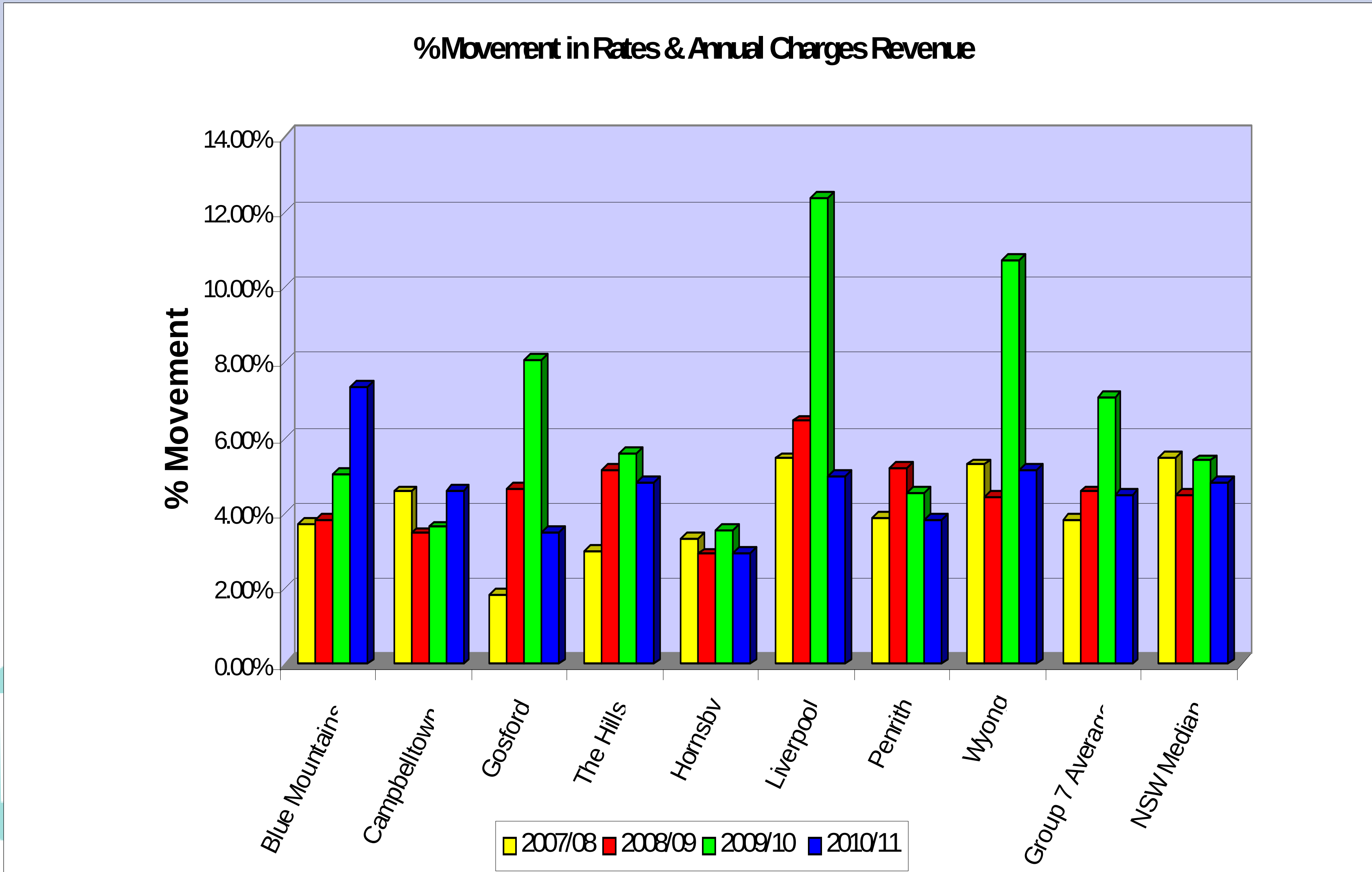
- This indicator shows the extent of Council's reliance on such revenue, the consistency with which Councils are managing the process to collect rates and annual charges revenue and the effectiveness of such revenue collection, year on year

- Council income from rates & charges (except water, sewer & domestic waste) is limited by rate-pegging unless Ministerial approval is granted for variation

- Factors affecting this indicator include:
  - the council's revenue raising policy
  - level of reliance on other revenue sources
  - level of cash reserves
  - cash management & timing of cash flows
  - changes in Council's rating and charging policy
  - effectiveness of debt recovery activity

Wyong Shire Council
CENTRAL COAST

% Movement in Rates & Annual Charges Revenue



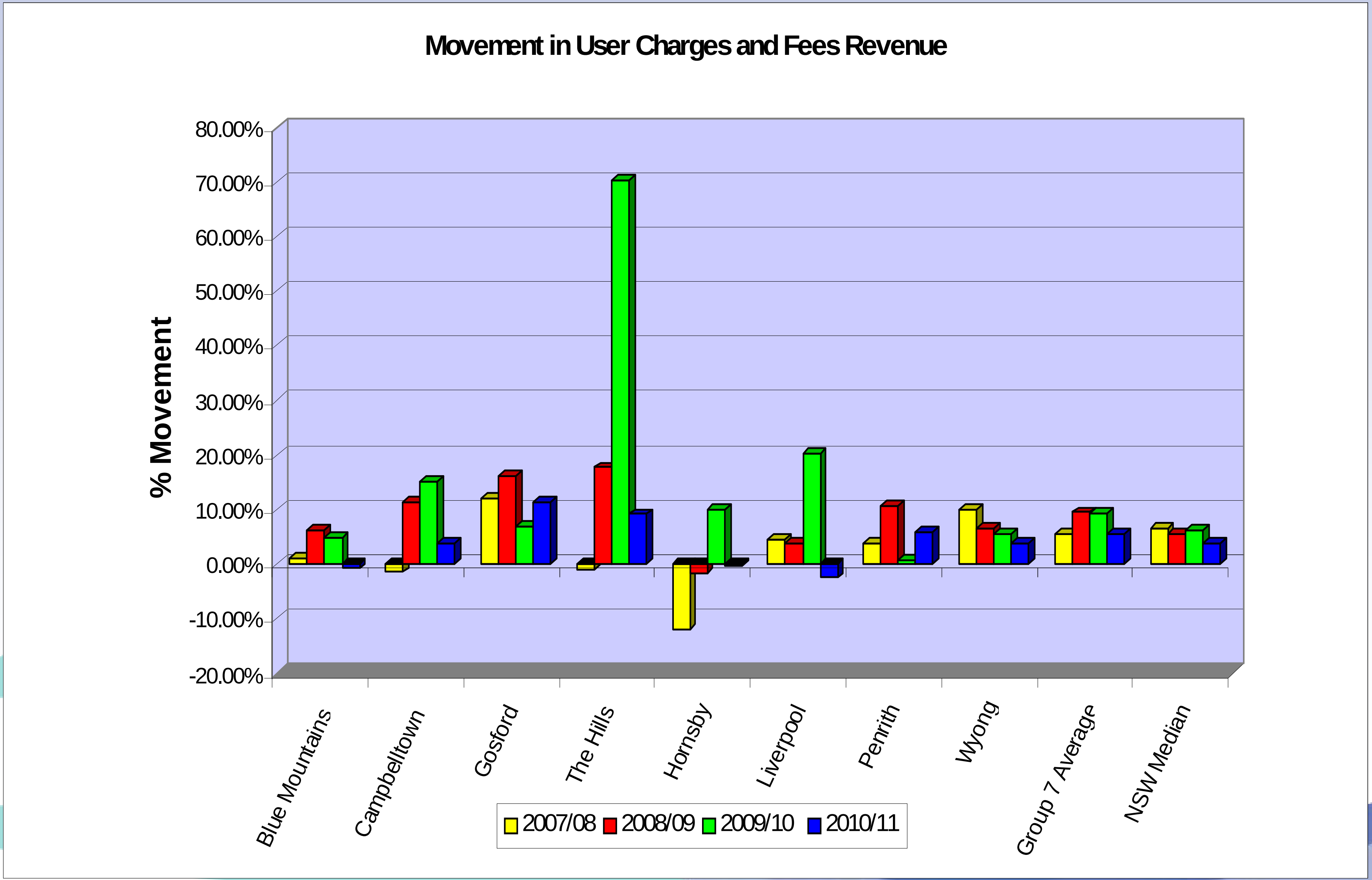
Wyong Shire Council
CENTRAL COAST

Percentage Movement In User Charges and Fees Revenue Measure

- This indicator shows where increased revenue has been obtained through discretionary charges and the extent of Council's reliance on such revenue, the consistency with which Councils are managing the process to collect user charges and fees and the effectiveness of such revenue collection, year on year
- User charges and fees are discretionary and not subject to rate pegging
- Examples of income from user charges and fees are: income from holiday parks and childcare centres, private work services and community buildings hire
- Some factors affecting this indicator are:
  - Council's revenue policy
  - Whether user charges are based on full or partial cost recovery
  - Level of reliance on other revenue sources
  - Level of user pays services provided by Council
  - Council's costings and charges applied for the provision of services
  - Number of discretionary type services operated by Council

Wyong Shire Council CENTRAL COAST

% Movement in User Charges & Fees Revenue



Wyong Shire Council
CENTRAL COAST

Key Messages From The 2010/11 Data

- Wyong, Gosford and Campbelltown have the **lowest residential rate charges** coming in **below $795** per dwelling. This is considerably lower than the rest of the group which are charging $862 per residence or higher and the State's urban council average of $834.

- This is particularly significant for Wyong which has the second smallest estimated resident population in the group spread over the third largest area in the group, but with the third highest population growth over a 5 year average.

- At **$2767** pa, Wyong has a **higher business rate** than Hornsby, The Hills, Gosford, The Blue Mtns and the State median. The Hills are driving hard to attract and retain businesses to their area and have a very low business rate of $1831 (the average for the group is $3532 and State average is $2099).

- At **$2057** pa, Wyong has a **higher farmland rate** than Hornsby, The Hills, Gosford & The Blue Mtns.

Wyong Shire Council
CENTRAL COAST

Key Messages From The 2010/11 Data

- Despite Gosford and Wyong charging the **lowest** residential rates in the group, Gosford and Wyong have the **highest outstanding** rates and annual charges in the group by some margin, and higher than the State median.

- For 2010/11 Campbelltown, Liverpool and Wyong Councils' outstanding debt rates/annual charges position all went up form the previous period.

- Both Gosford (at 7.15%) and Wyong (at 7.12%) exceed the DLG's accepted benchmark for outstanding rates, which is **<5%** for urban and coastal councils. Campbelltown, Liverpool and Penrith are *just* over 5% and Hornsby, The Hills and the Blue Mtns come in below 5% and therefore within the DLG's level of tolerance.

Wyong Shire Council
CENTRAL COAST

Key Messages From The 2010/11 Data

- Both Gosford (at 7.15%) and Wyong (at 7.12%) exceed the DLG's accepted benchmark for outstanding rates, which is **<5%** for urban and coastal councils. Campbelltown, Liverpool and Penrith are *just* over 5% and Hornsby, The Hills and the Blue Mtns come in below 5% and therefore within the DLG's level of tolerance.

- Beyond the DLG data, poverty rates amongst the local population by electoral division show Dobell (Wyong LGA) as having by far the greatest poverty levels in the group, and being equal **33rd** (where 1st is the wealthiest and 48th is the poorest) in the State.

- This equates to just under 14% of the Dobell population living in poverty (national average is around 11.7% and State average is 12.4%).

- Robertson (Gosford) fares better, being just below the State average at 12.2%, and ranking joint 19th in NSW.

- Recent reports also indicate an **increase in homelessness** in the region over the past 12 months.

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Wyong LGA

- The outstanding rates situation is symptomatic of the local population's poverty levels overall.

- So, *For the Want of A Nail* – need to focus on ways to avoid the vicious circle…

  low/no income ➲ high rates payment default and lessr use of discretionary services ➲ lower Council revenue ➲ reduction in public services ➲ deterioration in infrastructure ➲ increase in anti-social behaviour & petty crime (eg graffiti, garbage dumping) ➲ high to medium net worth individuals move away ➲ population becomes more transient ➲ communities break down ➲ increase in crime, increase in homelessness ➲ property values fall & properties remain boarded up/unoccupied for longer ➲ businesses fold ➲local employment levels fall ➲ average net worth of population drops ➲ reduced income for Council ➲ reduction in public services etc

  …and create a virtuous circle instead.

- If the fairly benign economic climate should take a downturn, even if minor, the Wyong LGA is likely to be hit hard because of its current vulnerability of higher than average unemployment and the decline in the compound annual growth rate for total employment across the Central Coast which has gone from from 2.1% (2002-07) to 1.3% (2007-12)

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Wyong LGA (cont)

- If business rates are not as competitive as other LGAs, particularly with those areas which have the geographic advantage of proximity to Sydney, regeneration in the region by attracting business start up and relocation will be sluggish.

- Neighbouring Councils in our group are employing different tactics to bring about greater financial stability, facilitate investment in infrastructure and services and to enable them to weather a storm of recession or economic downturn.

- Hornsby gained I-Part agreement to residential rate increases of 7.8% for 2011/12; 6% for 2012/13; and 4% for 2013/14. As the 2nd wealthiest region in the Group, this is likely to generate a reasonable yield without a significant increase in defaults. This revenue is being invested in major development projects and infrastructure upgrades and there is active lobbying of State Government to improve and increase fast and efficient transport links to Sydney to generate more opportunities for the region.

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Wyong LGA (cont)

- The Hills are chasing business investment and have actually reduced their business rates year on year between 2007 and 2010. They are heavily promoting the business investment and commercial development opportunities in the region and employ a wide range of business communication streams including: a dedicated official information portal (accessible via their Council website for businesses, business workshops, a business e-newsletter, easy access to demographic, property and land use data for the region, an online facility to book business meetings with the Economic Development team and a named officer with direct contact details on the Council web-site for further information.

- If the socio-economic situation in Wyong goes unchecked, then all of these factors are likely to influence the **type** of migration to the region in terms of the social, academic and prosperity profile of the individuals moving to the area as well as the type of development and business attracted to the region. **This could compound the current problems rather than help resolve them.**

Wyong Shire Council CENTRAL COAST

Risk Outlook: What This Might Mean for Council

- *We need to know our breaking points*. Our plans and work programs should be **stress tested** in the event of a major event, a string of events or continued socio-economic decline in the region eg increased rates/fees defaults of 2%, 5%, 8%, an unanticipated major financial event such as a large public liability award or an extreme weather event adversely affecting key infrastructure, public facilities or ability to pay etc.

- *Building resilience for a recession.* The organisation will have to be flexible, responsive and able to adapt quickly and efficiently in order to manage the community through an economic downturn. Managers will increasingly need to develop diverse, ongoing and numerous strategies for revenue raising, income protection, reducing costs, moving resources, optimising performance and reviewing service delivery. These should become an automatic part of business as usual. **Are managers undertaking the necessary training, networking, personal & professional development, local engagement activity, research, collaboration etc to deliver on this and are they being supported by internal service providers such as HR, Finance, IT etc?**

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Council

- *Balance the equation.* Do we focus our efforts on chasing the debt (easier as we know where the debt is, it is quantifiable and we have enforcement powers) or creating the wealth (longer timelines, less predictable returns, less certainty of an outcome)? **Both. Do our strategies and business plans align to these key objectives?**

- *Regularly visit the relatives.* Increasing need to visit and revisit policies and strategies that impact on the bottom line. Eg credit management, fees & user charges, rates, investment strategies, salaries and benefits etc.

- *May need to speculate to accumulate.* Eg look into viability of special business start up conditions such as proportional rate charges, low start up property rentals, creating hubs for satellite businesses etc. When making purchases are we buying when prices are falling or rising? **Are key staff tracking the markets and suppliers for their areas of expertise and responsibility?**

Risk Outlook: What This Might Mean for Council

- *Influence or respond.* Managers will increasingly need to be in touch with demographic shifts, changes in the community and even national and global developments to be able to make informed decisions, respond and/or influence change accordingly. Eg are we developing a park when we should be building a car park? Are we delivering childcare when we should be looking into aged care? Are we implementing a Youth Engagement Strategy when we should be navigating the aged workforce? If there is going to be increased migration (business and individuals) to the region, who are we looking to attract and how are we making that happen?

- *Innovate or emulate.* Local government is only local because there's one near you. It doesn't mean Councils have to operate in isolation. **Are managers operating in the right space?** Need to be watching and engaging with not just our neighbours but the high performers across the State and even nationally and globally to stimulate ideas, emulate success, spot j-v opportunities and avoid the pitfalls. Eg do our disaster recovery/ business continuity plans incorporate lessons learned from Liverpool City Council? Do we have reciprocal supply agreements for key service delivery in the event of disruption?

Conclusion of Comparative Data Analysis of NSW Councils

Rates & Annual Charges

Comparative Data Analysis of NSW Councils

Wyong Shire Council:

Overview & Basic Profile Comparisons

Background

- *Snapshot of NSW Local Government: Comparative Information on NSW Local Government Councils* – produced every year by Division of Local Government, Dept of Premier & Cabinet

- Contains comparative data on key performance indicators (KPIs) chosen by DLG to help monitor Council performance across a spectrum of activities

- Data is comparative across 'peer' group Councils and previous financial years

Wyong Shire Council
CENTRAL COAST

WSC's Peer Group Category

- WSC is in Group 7

- Group 7 = Urban, Fringe, Large or Very Large
  - Urban = population > 20,000 or population density > 30 persons per sqkm or 90% of LGA population is urban
  - Fringe = "a developing LGA on the margin of a developed or regional urban centre."
  - Large = population of 70,000-120,000
  - Very Large = population >120,001

Wyong Shire Council
CENTRAL COAST

WSC's Peer Group: Group 7

- Blue Mountains *(the only Council in the group where the estimated resident population falls into the 'large' category, rather than 'very large')*
- Campbelltown
- Gosford
- The Hills
- Hornsby
- Liverpool
- Penrith

Wyong Shire Council
CENTRAL COAST

KPIs – What's Measured?

- New measures introduced for 2010/11, though historical data still provided for comparative purposes where possible

- KPIs used to be measured across 6 categories:
  - Financial
  - Rating
  - Corporate
  - Environmental management & health services
  - Recreation & leisure services
  - Community services

- Now there are 9 categories

KPIs – New Measures

KPIs from 2010/11 onwards are:

- Financial (7 KPIs)
- Rating (4 KPIs)
- Corporate (1 KPI)
- Environmental management (1 KPI)
- Recreation, leisure & cultural services (1 KPI)
- Community services (1 KPI)
- Public order and safety (1 KPI)
- Health (1 KPI)
- Housing and community (1 KPI)

Wyong Shire Council
CENTRAL COAST

The KPIs Per Category

Financial:

1. sources of income from continuing operations: rates & annual charges, user charges & fees, interest, grants, contributions, other revenues, total income
2. total continuing operations income per capita
3. expenses from continuing operations: employee costs, materials & contracts, borrowing costs, depreciation, other expenses, total expenses
4. total expenses from continuing operation per capita
5. unrestricted current ratio
6. debt service ratio
7. building & infrastructure renewal ratio

Wyong Shire Council
CENTRAL COAST

The KPIs Per Category

Rating:

1. average rate per assessment: residential, farmland, business
2. outstanding rates and annual charges
3. movement in rates & annual charges revenue from previous year
4. movement in user charges & fees revenue from previous year

Corporate:

1. number of equivalent FTE

Environmental Management:

1. environmental management expenses per capita

Recreation, Leisure & Cultural Services:

1. net recreation, leisure and cultural expenses per capita

Wyong Shire Council CENTRAL COAST

The KPIs Per Category (cont)

Community Services:

1. community services expenses per capita

Public Order & Safety:

1. public order and safety expenses per capita

Health:

1. Health services expenses per capita

Housing and Community:

1. Housing and community amenities expenses per capita

Wyong Shire Council
CENTRAL COAST

Basic Profile Data For The Group

- Blue Mountains Council tends to be the outlier in the group because it has a much smaller population than the others in the group but a much larger km^2 area

- Basic profile stats comprise:
  - estimated resident population at 30/06/10
  - area in km^2 (which does not include harbours, rivers etc)
  - Population density at 30/06/10
  - 5 year average population growth
  - % of population who are Aboriginal/Torres Strain Islander (ATSI)
  - % of population who are overseas born people of non-English speaking background (NESB)

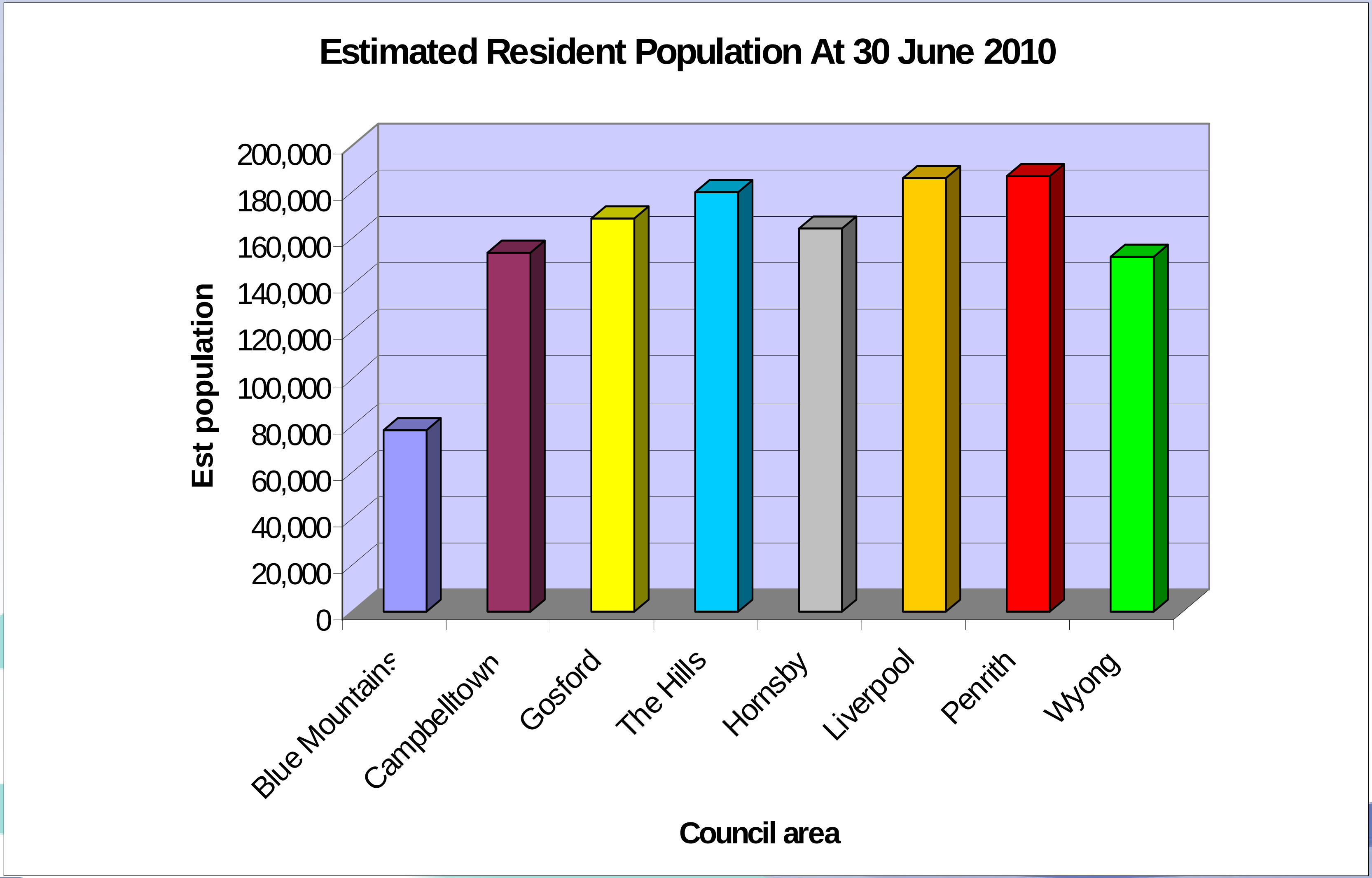
Wyong Shire Council
CENTRAL COAST

Why Bother?

- The data is very useful for:
  - showing how we are travelling compared to our peers and across the sector for the State generally
  - highlighting trends and understanding the impact of decisions on performance
  - helping to inform decisions on particular actions or strategies
  - generating discussion about whether we are happy with our performance and where we might want to improve, scale back our efforts, keep going as we are or take more risk
  - indicating where we are being out-performed by others in our peer group so we can hold constructive dialogue with them to identify ways we can improve and the pitfalls to avoid
  - feeding into corporate systems such as the risk register, audit programme, workplace change and integrated planning and influencing decisions and areas of focus accordingly

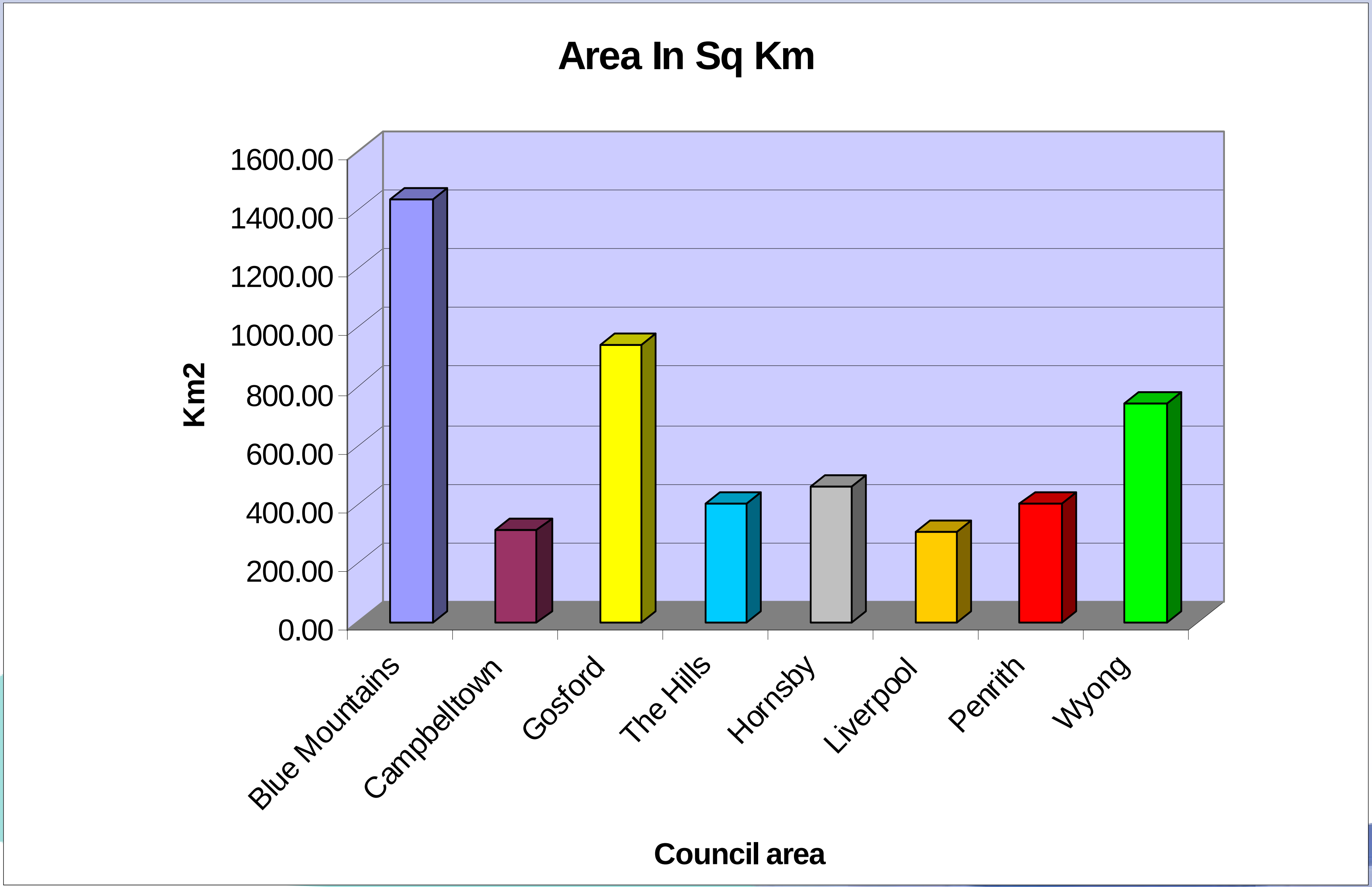
Wyong Shire Council
CENTRAL COAST

So how do we compare?
Estimated Resident Population As At 30 June 2010



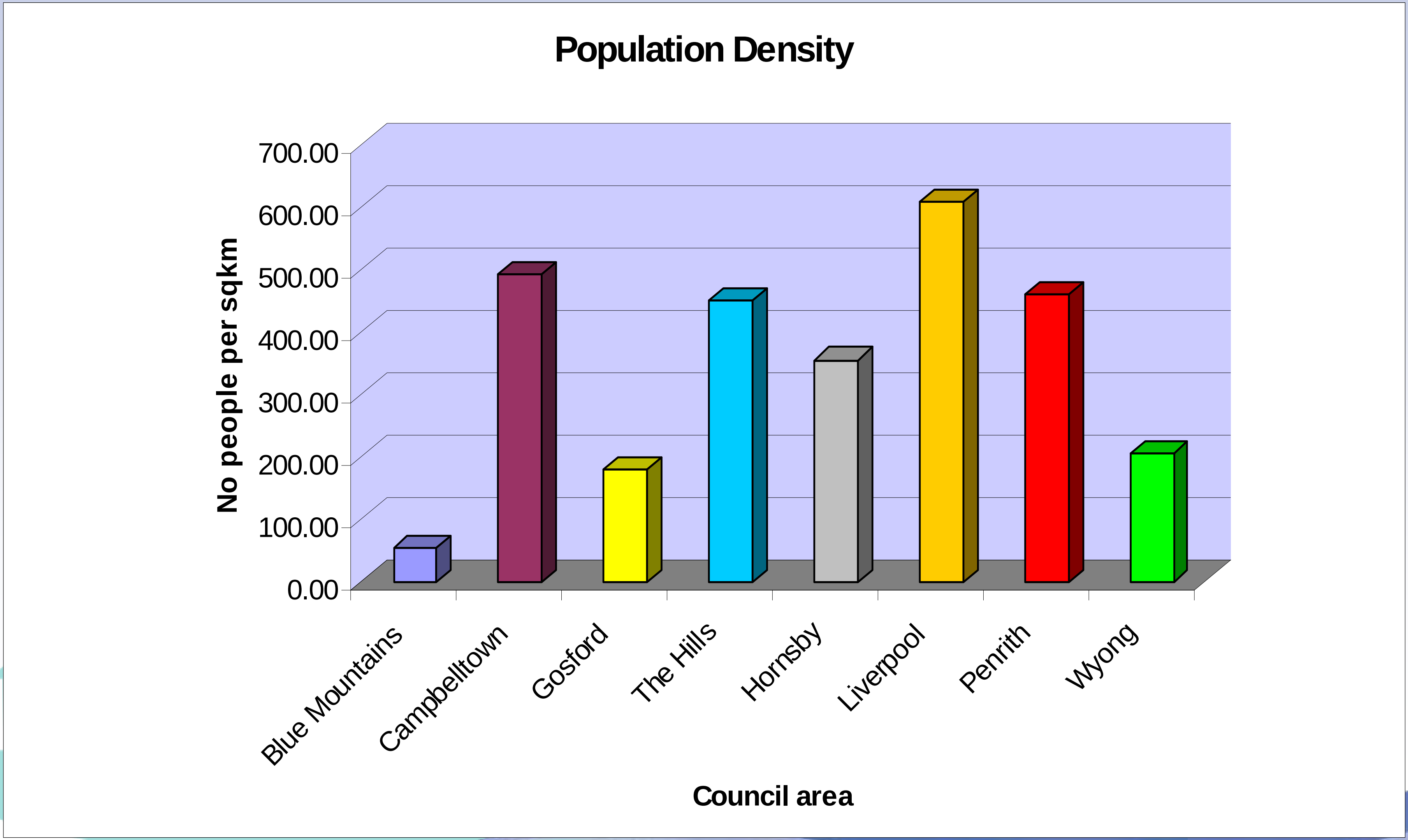
Wyong Shire Council
CENTRAL COAST

Area In km^2



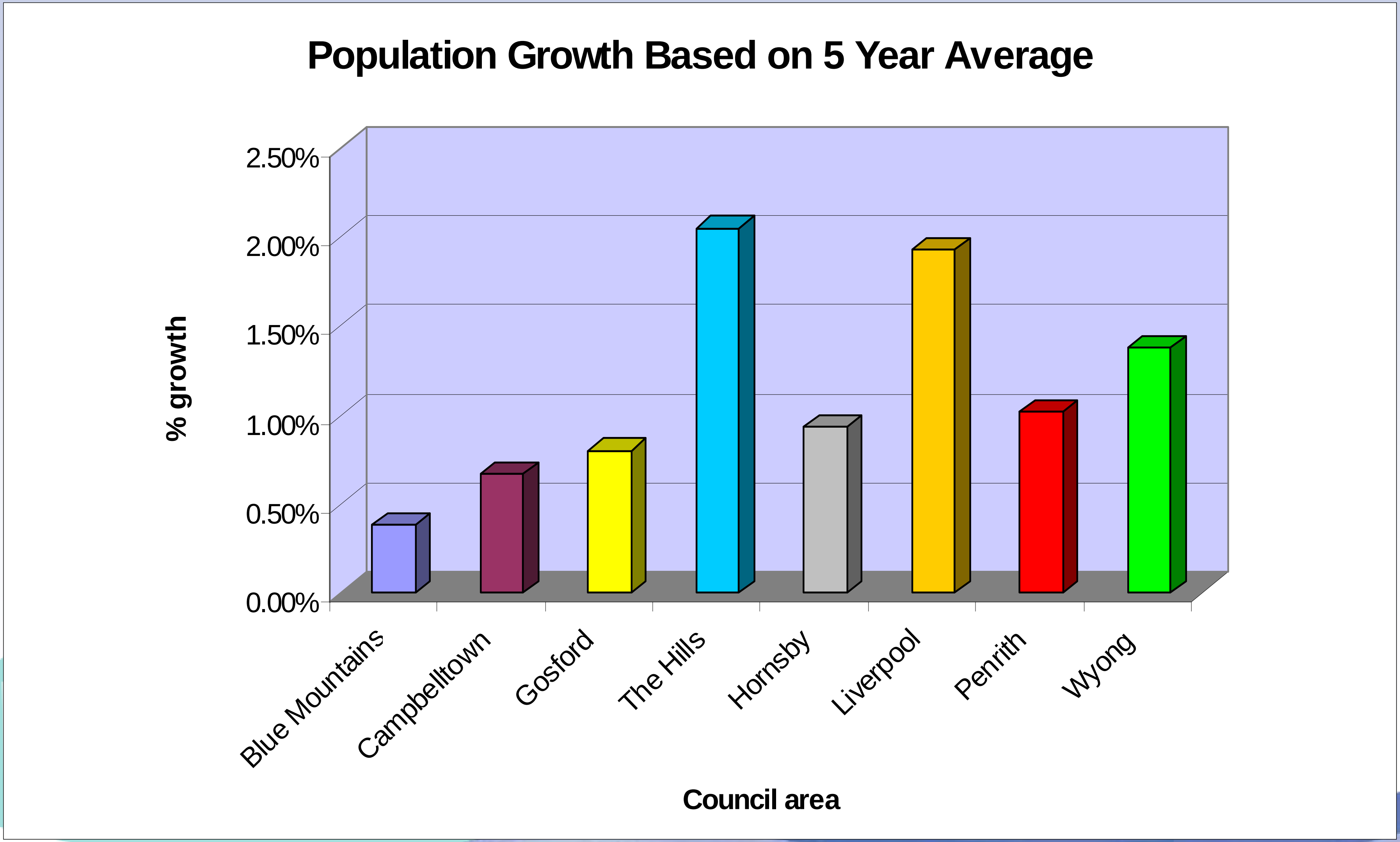
Wyong Shire Council
CENTRAL COAST

Population Density



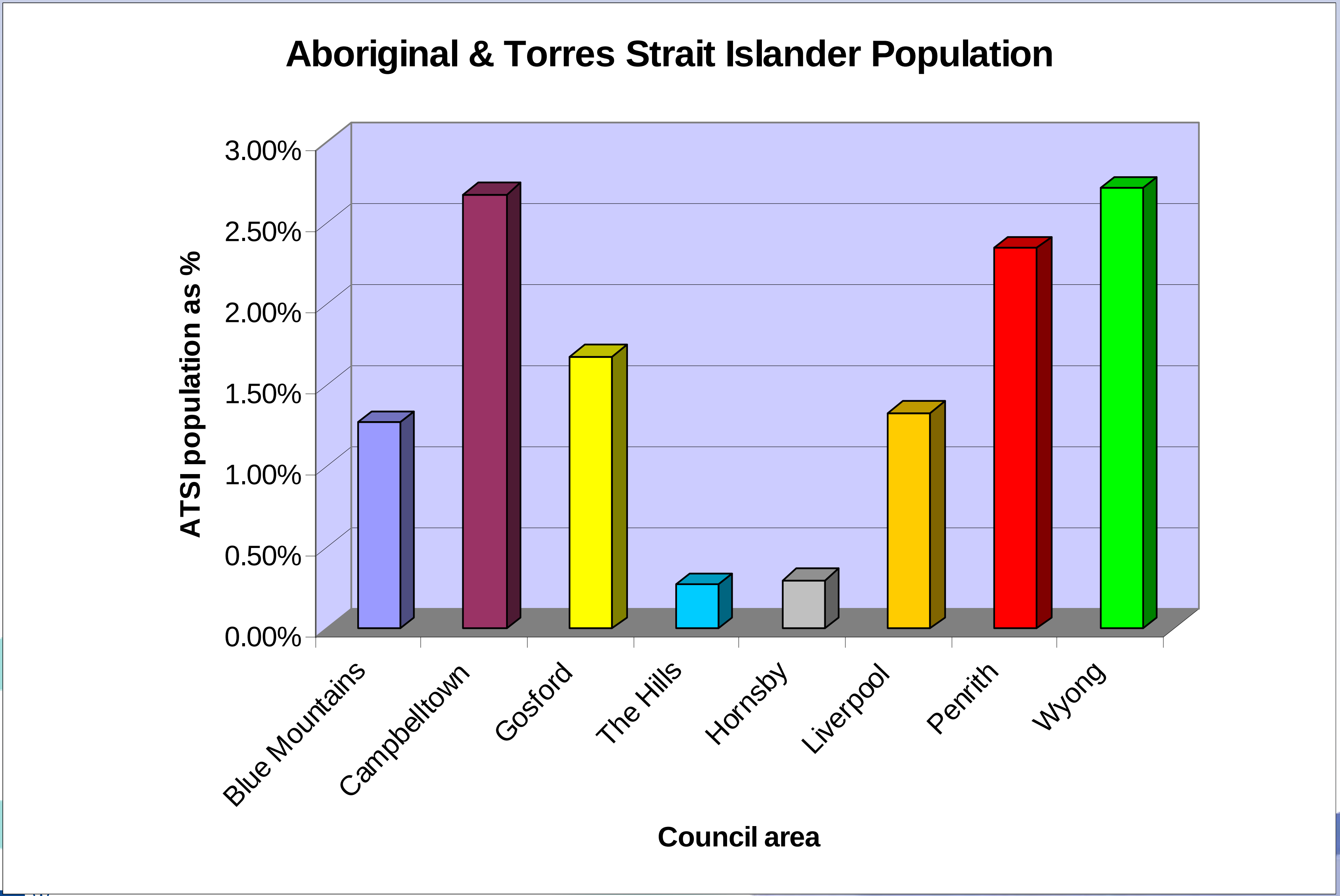
Wyong Shire Council
CENTRAL COAST

Population Growth Based on 5 Year Average



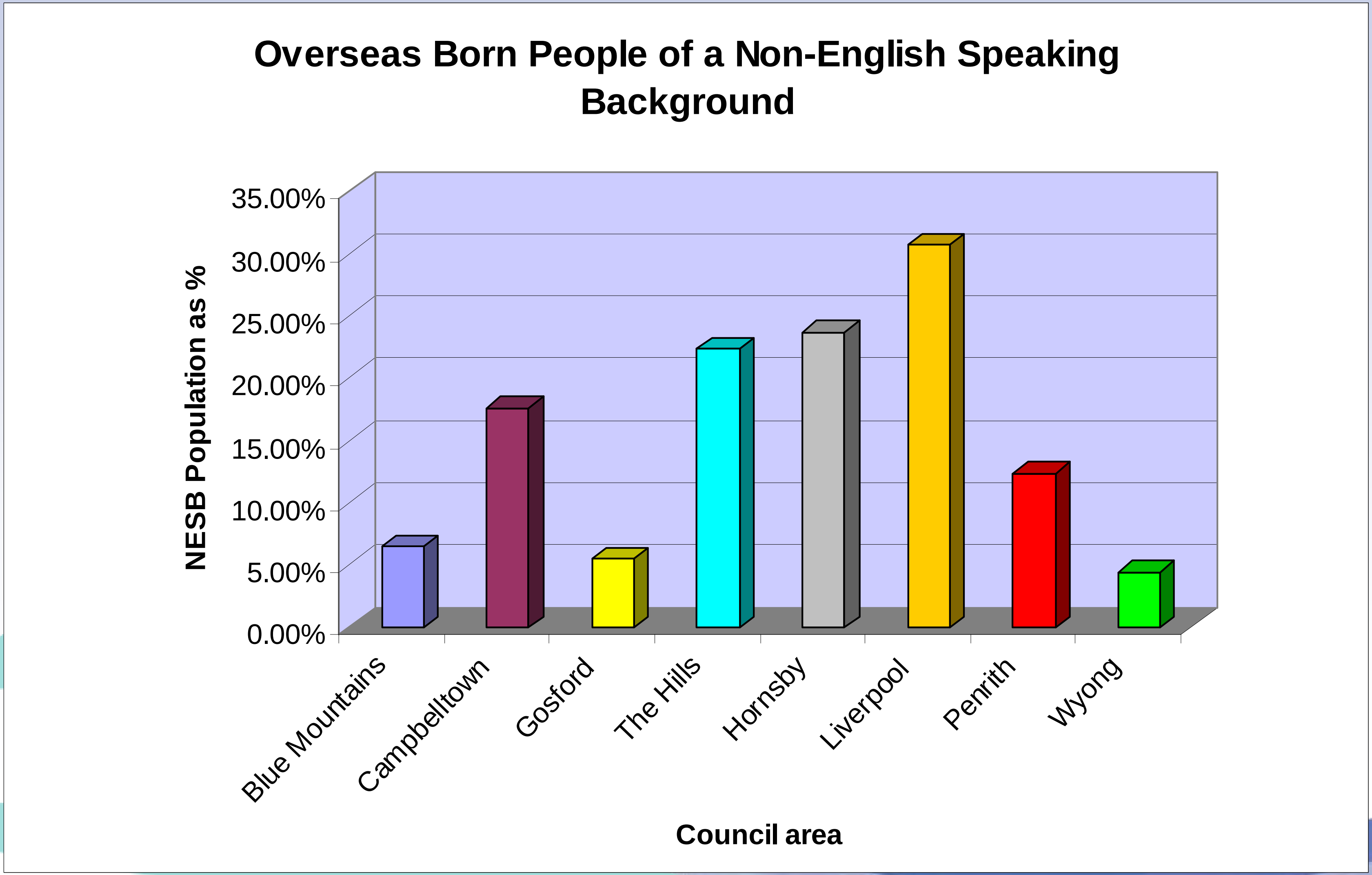
Wyong Shire Council
CENTRAL COAST

Aboriginal & Torres Strait Islander (ATSI) Population



Wyong Shire Council
CENTRAL COAST

Overseas Born People of a Non-English Speaking Background (NESB)



Wyong Shire Council
CENTRAL COAST

Interpretation of Some Key Stats

- Wyong has the second smallest (Blue Mtns first) estimated resident population in the group, but the third highest population growth over a 5 year average, behind Liverpool & The Hills, both of which currently have a far higher population density.

- There is a clear split in the group in terms of population density. Wyong, Gosford & the Blue Mtns have the lowest density (at 201 people per km^2 or less) with the rest coming in at over 350 people per km^2 or more.

- Wyong has the **highest ATSI population** in the group (at 2.72%) but the **lowest NESB population** (at 4%). Compare this to Liverpool & The Hills (the top two population growth areas ahead of Wyong) which both have NESB populations in excess of 22%.

Risk Outlook: What This Might Mean for Wyong LGA

Increasing northward migration to Wyong, Gosford and surrounding areas is likely in future, as the higher population density of LGAs such as The Hills and Hornsby create pressures on services and infrastructure in those areas, leading to 'overspill' into surrounding areas. Given the demographics of these LGAs, it follows that this migration is likely to include a percentage of people from a non-English speaking background which will push up the NESB population in the region. This likelihood of increased migration to the Central Coast is raised even further when the promise of regeneration and development in the region starts to be delivered, as that creates brighter prospects for lasting employment through the growing need for trades and services that such development brings, as well as the employment opportunities created because of the development itself.

Wyong Shire Council CENTRAL COAST

Risk Outlook: What This Might Mean for Council

- Housing pressures - increased need for rental properties and affordable housing leading to a more transient or 'floating' population which can be harder to engage with
- Increasing need for information/consultation to be available in languages other than English
- Pressure for a more diverse range of services/facilities to be available reflecting a more ethnically diverse local community
- Changes in the services that are currently offered, to be sensitive to the religious or cultural needs of particular elements of the community
- A different skills mix requirement for staff eg capability in the recognition and management of social diversity issues
- Ethnic convergence in particular areas leading to 'pockets of settlement' creating a segregated rather than integrated community
- Greater pressures on local services and infrastructure
- Increased rate revenue
- Likelihood of emergence of community special interest groups to represent and speak up for the different and specific needs of a community that is more diverse linguistically, culturally, religiously and socially.

Wyong Shire Council
CENTRAL COAST

Conclusion of Comparative Data Analysis of NSW Councils

Overview and Basic Profile

Comparative Data Analysis of NSW Councils

Wyong Shire Council:

Financial Indicators

Quick Recap

- DLG compile comparative data on key performance indicators (KPIs) for peer group Councils to help DLG monitor council performance across a spectrum of activities

- WSC is in group 7 along with: Blue Mountains, Campbelltown, Gosford, The Hills, Hornsby, Liverpool & Penrith

- KPIs are measured across nine categories: (i) financial; (ii) rating; (iii) corporate; (iv) environmental management; (v) recreation, leisure & cultural services; (vi) community services; (vii) public order and safety; (viii) health; and (ix) housing and community

- In these charts the values are expressed as percentages so the NSW ***average*** has been quoted for State-wide comparison purposes. The exception is the total income/expenses per capita comparisons which show the NSW median.

Wyong Shire Council
CENTRAL COAST

The Financial KPIs

- Sources of income from continuing operations:
  - rates & annual charges
  - user charges & fees
  - interest
  - grants
  - contributions
  - other revenues
  - total revenue
- Total continuing operations income per capita
- Expenses from continuing operations:
  - employee costs
  - materials & contracts
  - borrowing costs
  - depreciation
  - other expenses
  - total expenses
- Total expenses from continuing operations per capita
- unrestricted current ratio
- debt service ratio
- building & infrastructure renewal ratio

Wyong Shire Council
CENTRAL COAST

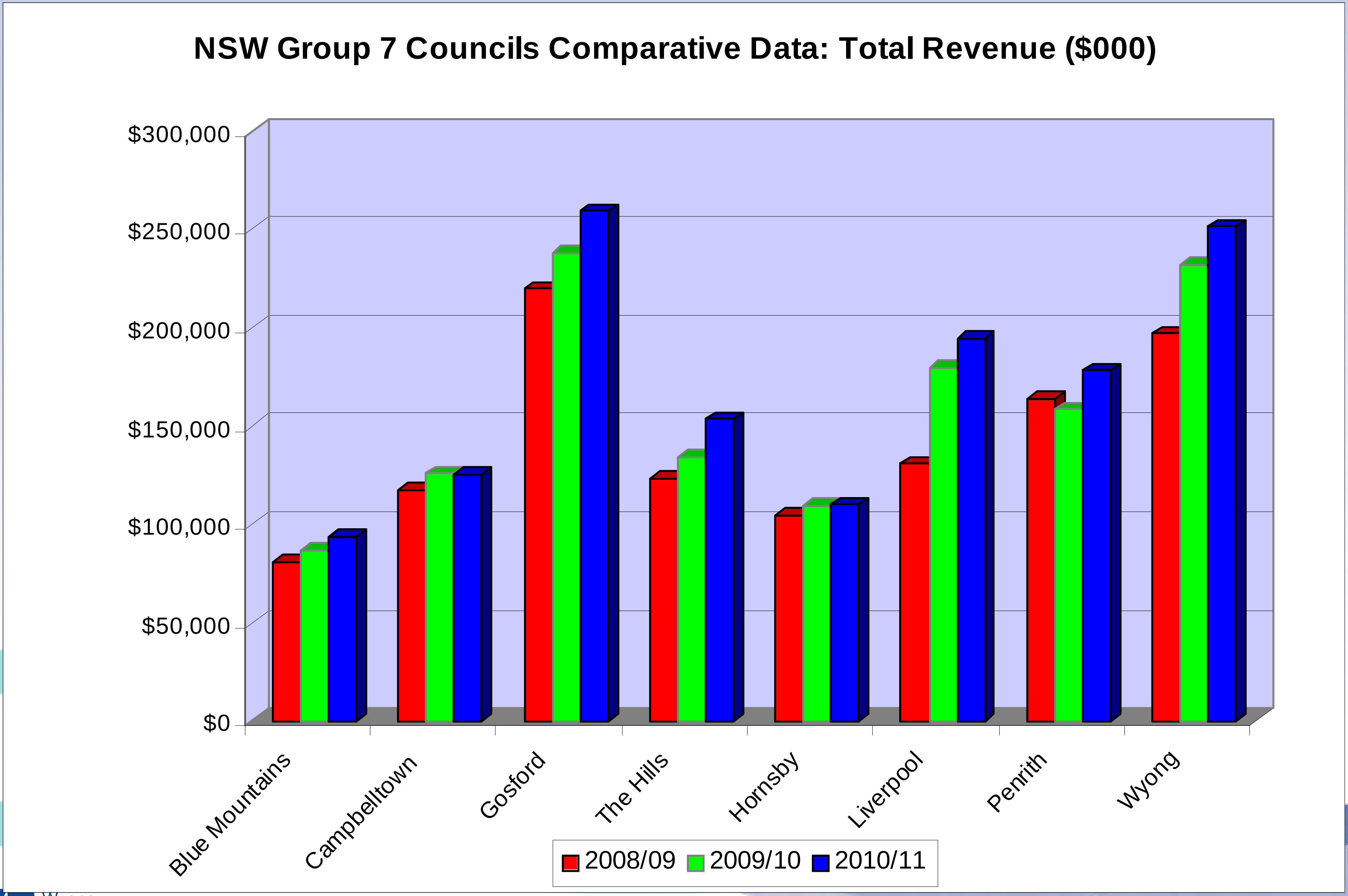
Group 7 Financial Indicators

Sources of Income From Continuing Operations

The Sources of Income Measures

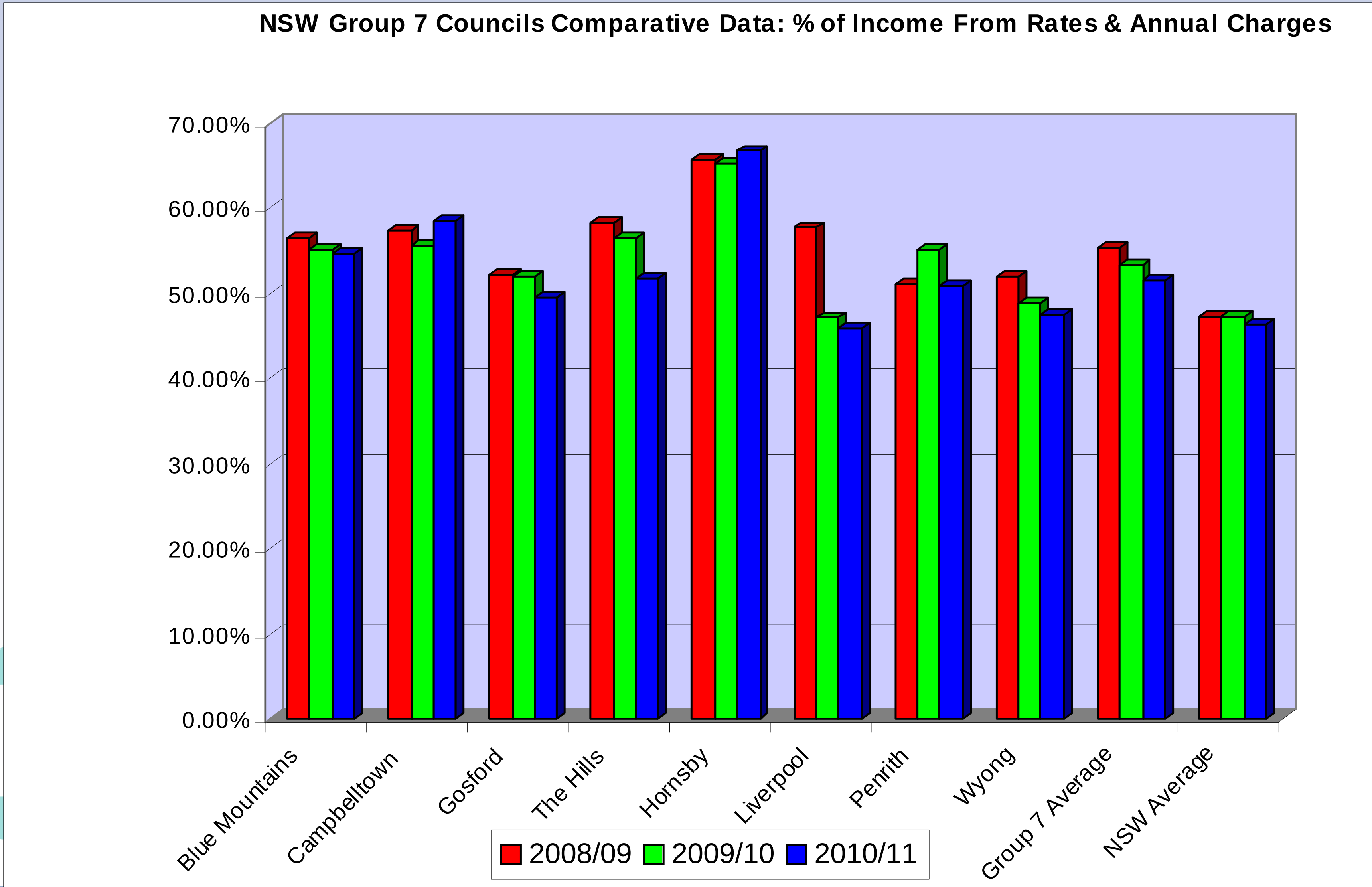
- The measure includes the key revenue streams of: rates and annual charges, user charges and fees, interest, grants and contributions and income from other sources such as fines and business activity.
- The biggest sources of income for councils are rates and annual charges usually followed by user charges and fees.
- Rates and annual charges are usually relatively stable from year to year which gives Councils a base from which to build up financial modelling, budgeting and forecasts.
- Charges are commonly levied on water usage, trade waste and domestic waste. Fees are generally charged for goods or services such as child care, building services information and building/room/sports field hire.
- Gains from the sale of assets or revenue through joint ventures are not included as a source of income in this measure.
- This measure indicates the mix, balance and degree of dependency on different sources of income.
- Factors affecting income sources include:
  - the mix of properties (residential, farmland, business) within the LGA and associated rating policies
  - Council's entrepreneurial and investment activity
  - the socio-economic make up of the area
  - Federal/State funding
  - The level of new development in the area

Total Revenue $000



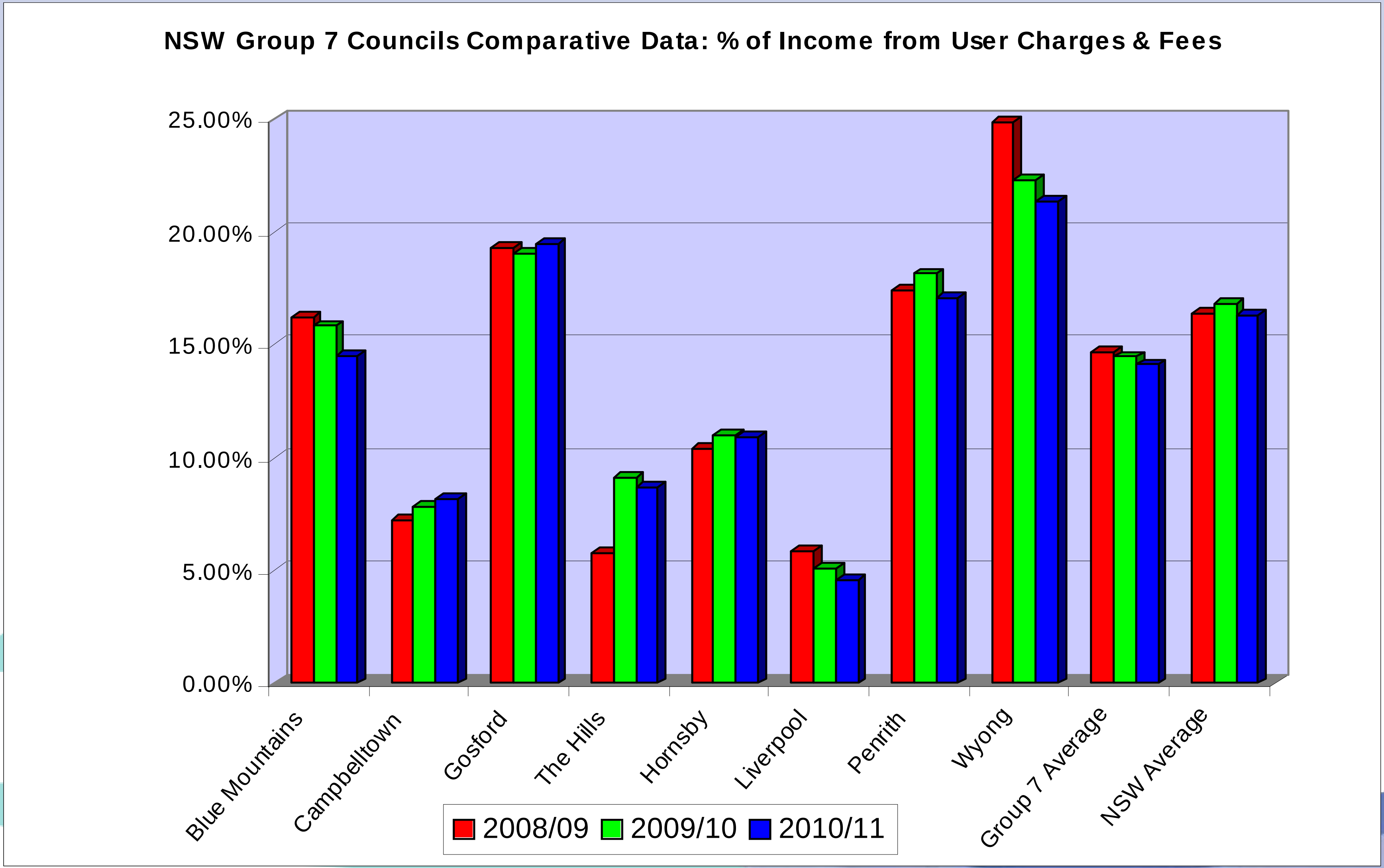
Wyong Shire Council
CENTRAL COAST

Sources of Income From Continuing Operations: Rates & Annual Charges



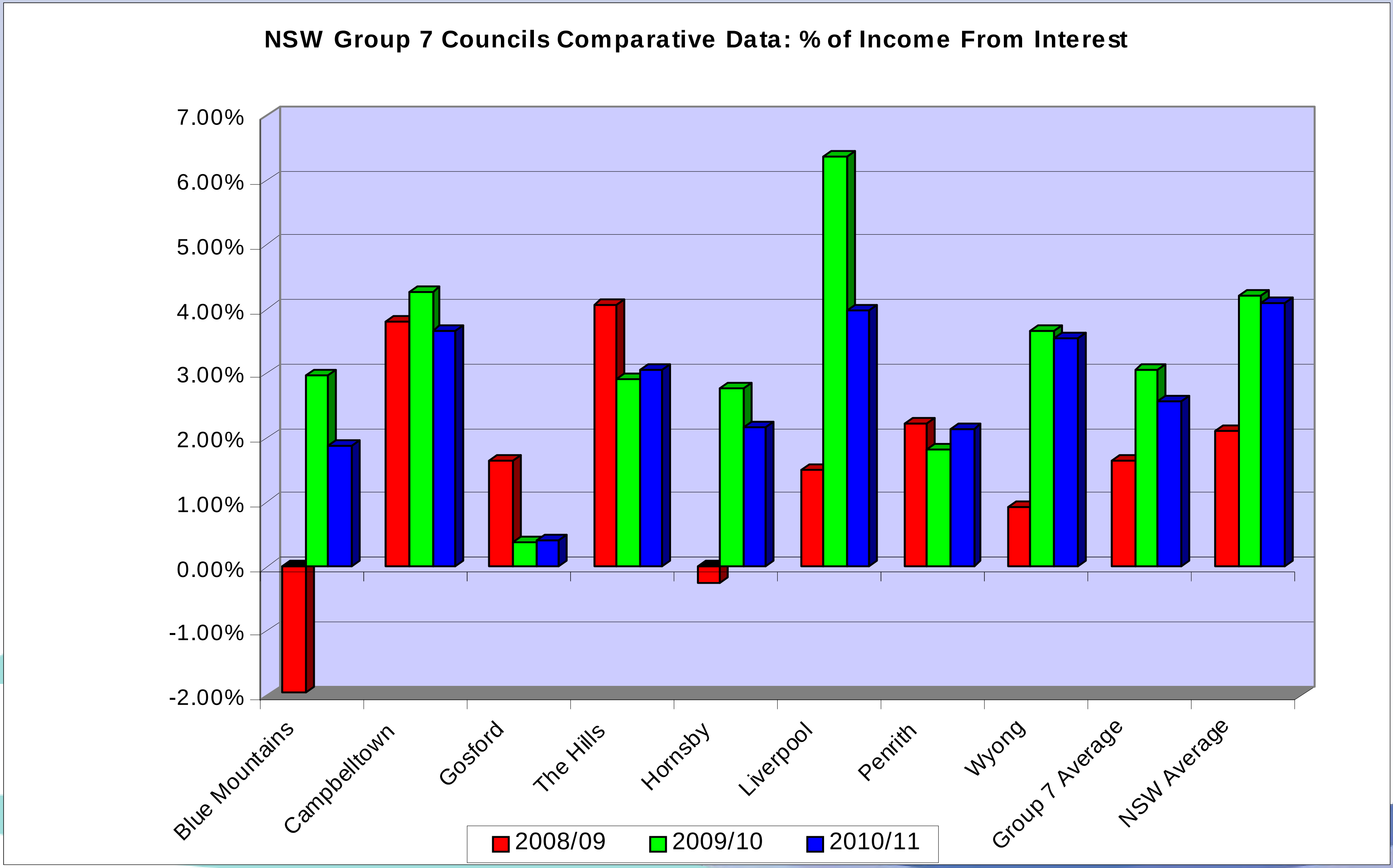
Wyong Shire Council CENTRAL COAST

Sources of Income From Continuing Operations: User Charges and Fees



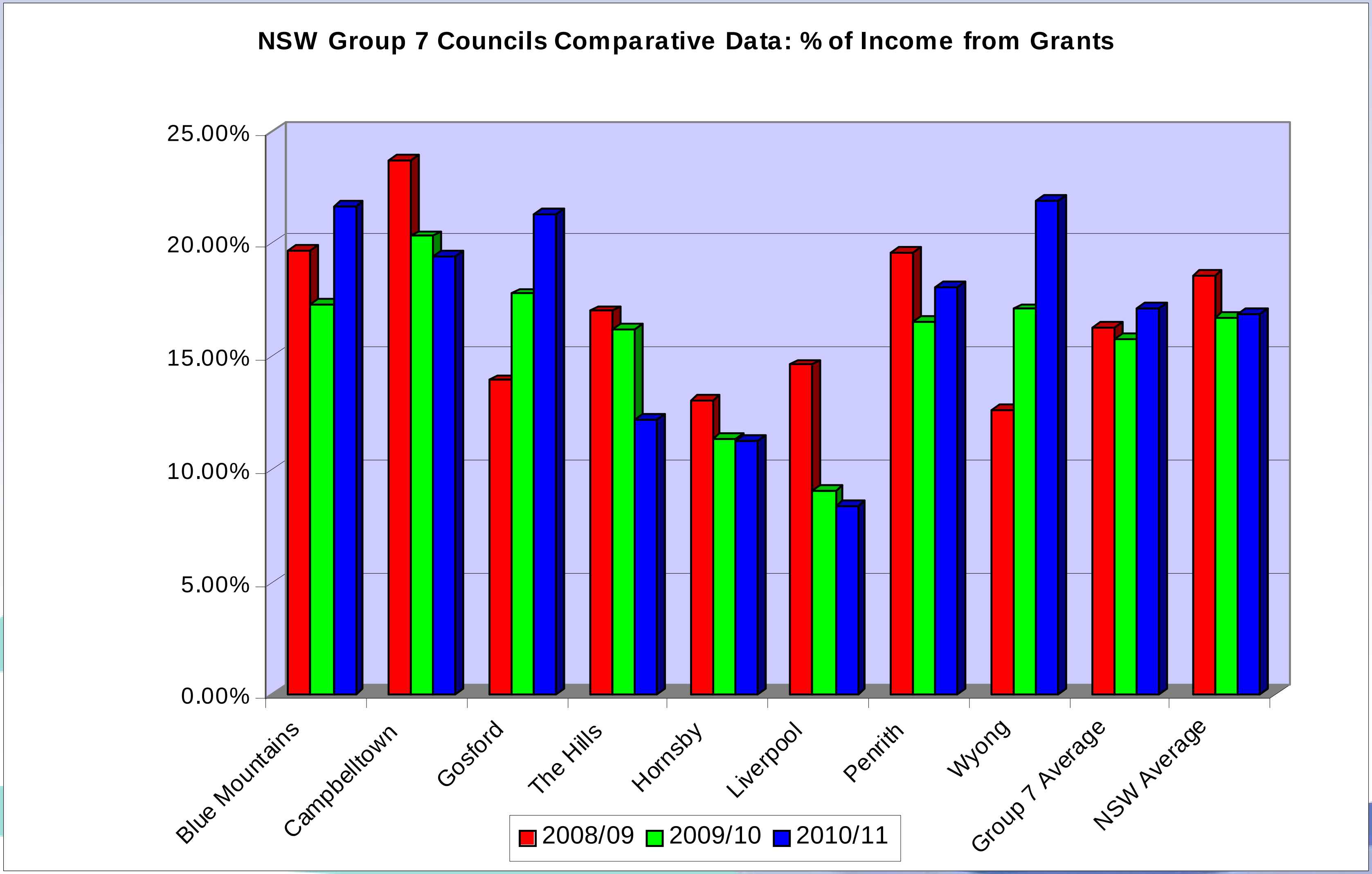
Wyong Shire Council
CENTRAL COAST

Sources of Income From Continuing Operations: Interest



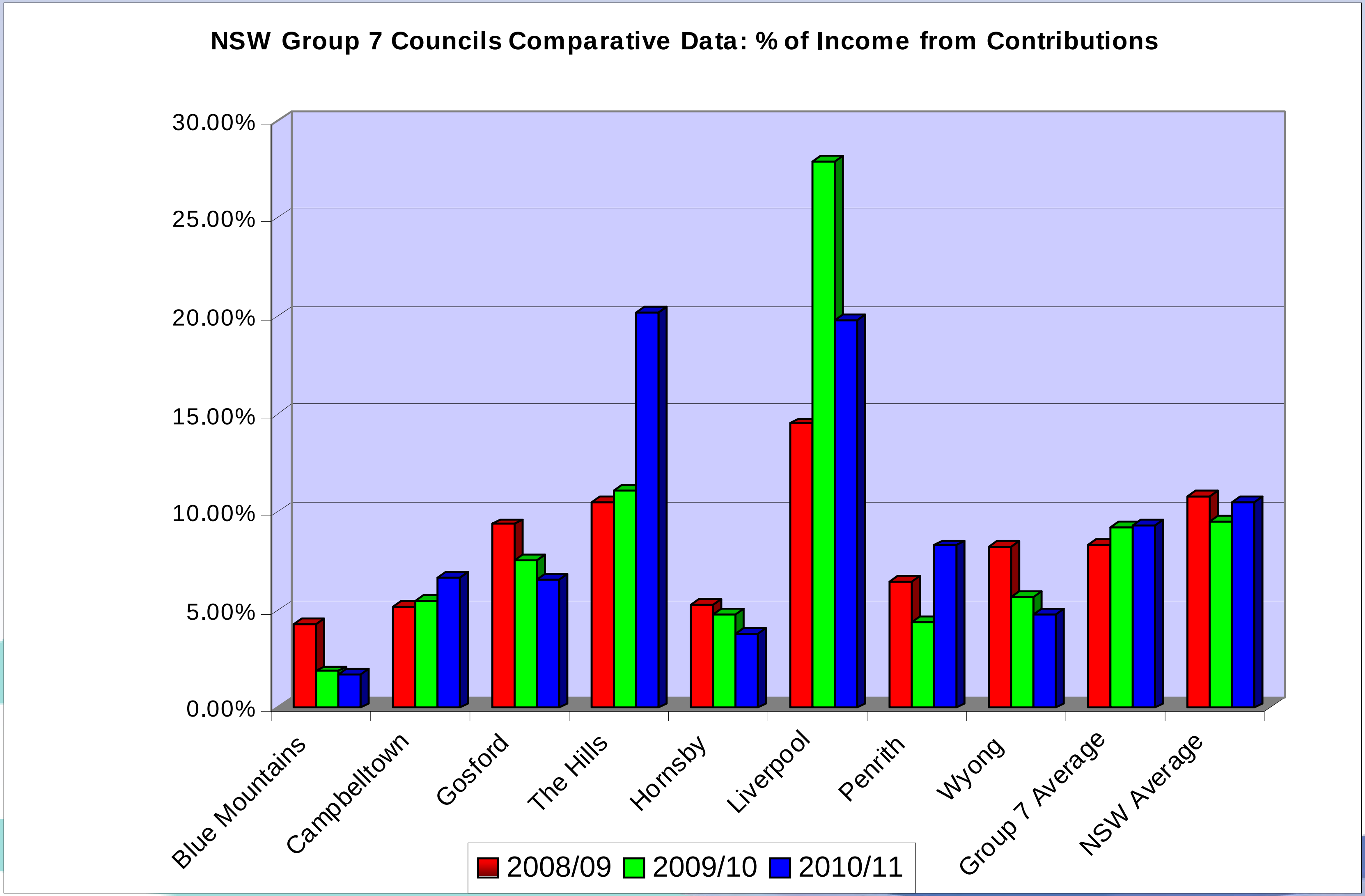
Wyong Shire Council
CENTRAL COAST

Sources of Income From Continuing Operations: Grants



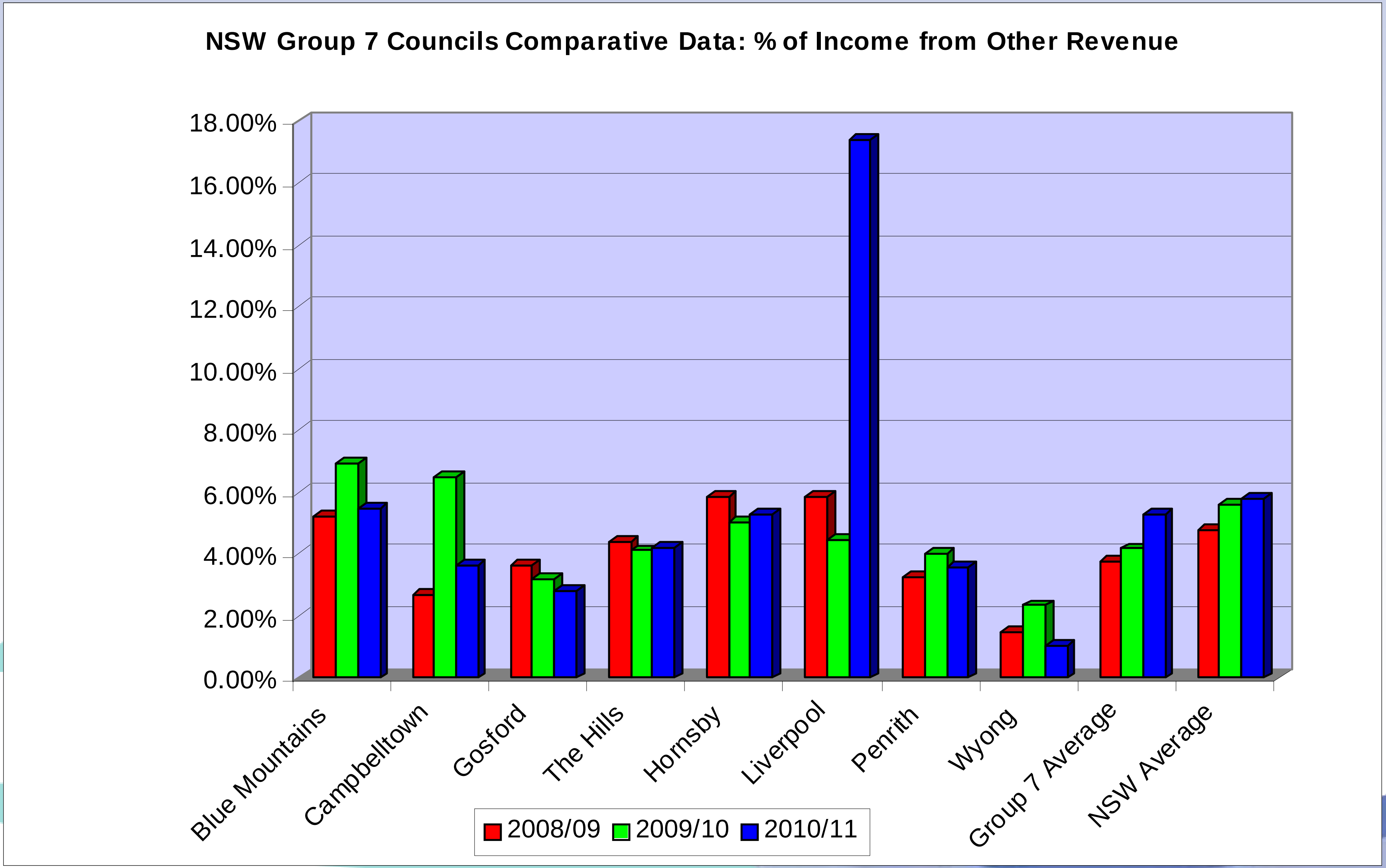
Wyong Shire Council
CENTRAL COAST

Sources of Income From Continuing Operations: Contributions



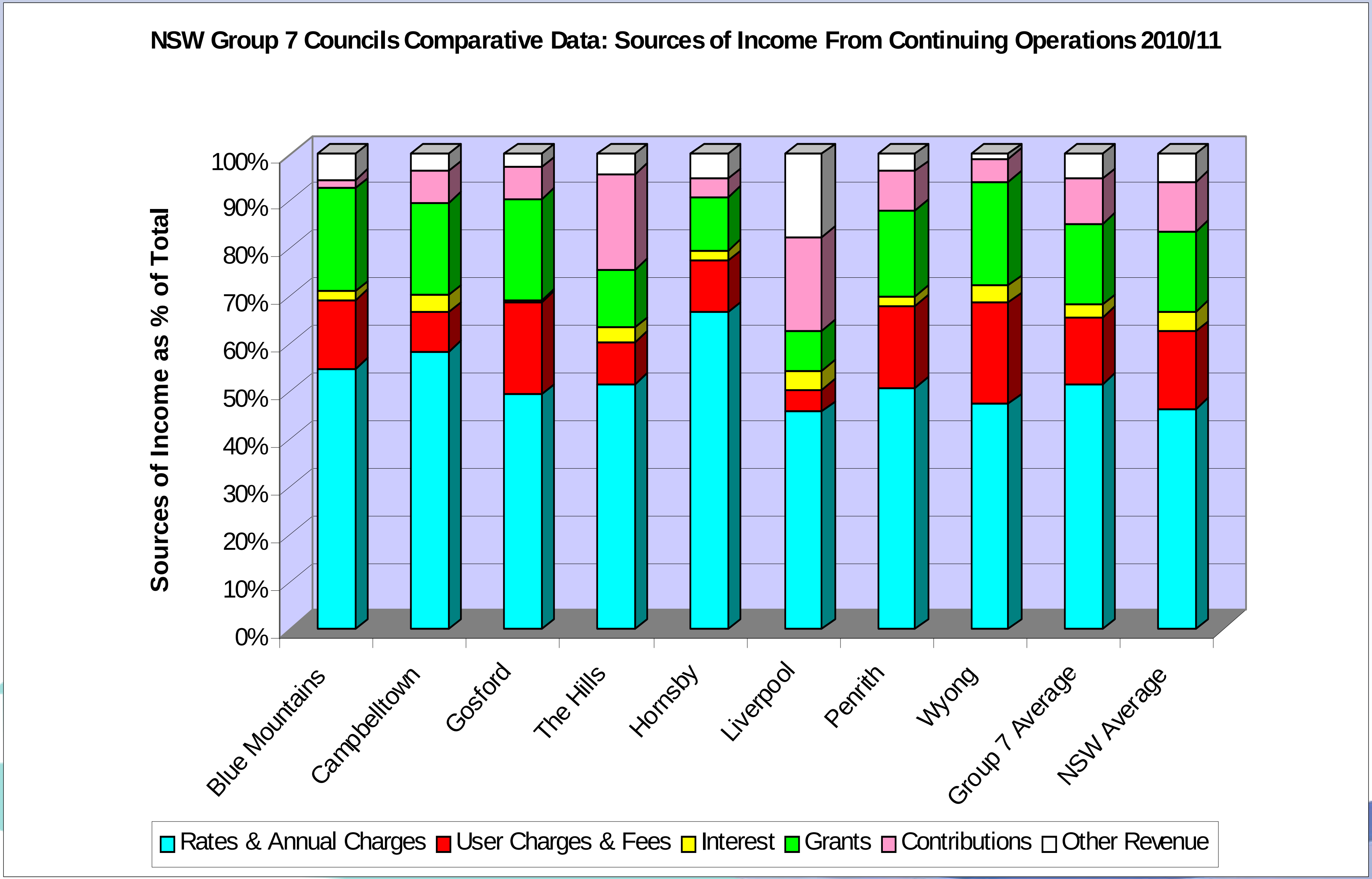
Wyong Shire Council
CENTRAL COAST

Sources of Income From Continuing Operations: Other Revenue



Wyong Shire Council
CENTRAL COAST

Sources of Income From Continuing Operations 2010/2011



Wyong Shire Council
CENTRAL COAST

Key Messages From The Income Data For 2010-11

- All councils in the group, with the exception of Campbelltown (down by $670k) showed increases in their total revenue from continuing operations for 2010/11

- In line with the State trend all councils in the group, with the exception of Gosford, showed a continuing increase in total income from continuing operations on a *per capita basis*

- Liverpool & Wyong are the only councils in the group that have relied on rates and annual charges **for less than 50%** of their total income since 2009/10. For 2010/11, Gosford has also dropped below 50%. The group average is 52%

- The group average for user charges and fees income is 14% of total income. Wyong has 21% of its income comprising fees and charges, the highest in the group, ahead of Gosford on 19.5% and Penrith on 17%

Wyong Shire Council
CENTRAL COAST

Key Messages From The Income Data (cont)

- Wyong has the third highest interest income at 3.5% (behind Liverpool and Campbelltown).
- 4 councils in the group have experienced a continuing drop in grants income. The other 4, Wyong included, experienced an increase. Wyong has shown a significant increase in grants funding since 2008/09, and has the highest grants income as a percentage of its total at 21.9% with Blue Mountains at 21.6% and Gosford at 21.3%.
- Liverpool and The Hills both had significant contributions income for 2010/11 hovering around the 20% of their total income. The rest of the Councils in the group fall below 9% for contributions income.

Wyong Shire Council
CENTRAL COAST

Key Messages From The Income Data (cont)

- Campbelltown, The Hills and Penrith all showed an increase in contributions income on the previous year, with the rest carrying a decrease, reflecting the level of development activity in each of these LGAs.

- Gosford and Wyong are the only councils in the group to have water authority responsibilities.

- Gosford ($259mn) and Wyong (251mn) are the only councils in the group to exceed total revenue of $200mn with which they service the 4th largest (Gosford) and the 7th largest (Wyong) populations in the group.

Wyong Shire Council
CENTRAL COAST

Group 7 Financial Indicators

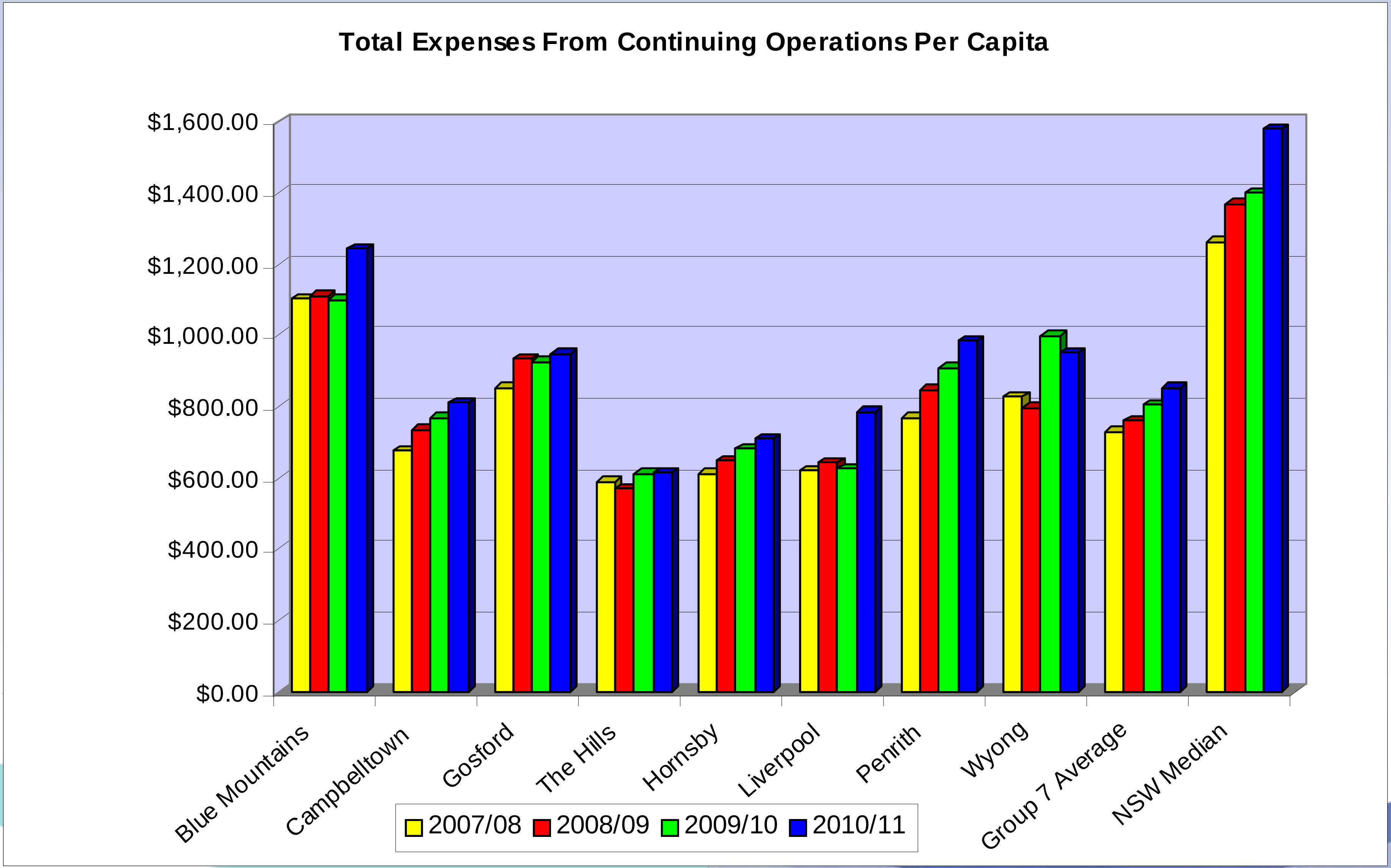
Expenses From Continuing Operations

The Expenses Measures

- The measure includes the key expenditure costs of: employee costs, materials & contracts, borrowing costs, depreciation and other expenses.
- Employee costs include salaries, fringe benefits, annual leave loading, long service leave, sick leave and post employment benefits apart from superannuation.
- Materials & contracts include anything from gravel for roads to printing, stationery, legal and audit fees.
- Depreciation is recognition of the costs of holding an asset that has a limited useful life.
- Other expenses include councillor and mayoral fees, bad and doubtful debts, revaluation decrements, electricity, telephone, donations and levies.
- This measure does not include losses from the sale of assets or losses through joint ventures.
- Factors affecting the level of expenses include:
  - Council's entrepreneurial activity
  - The number and type of Council services provided
  - the socio-economic make up of the area
  - The rate of new development in the area
  - Population growth or decline

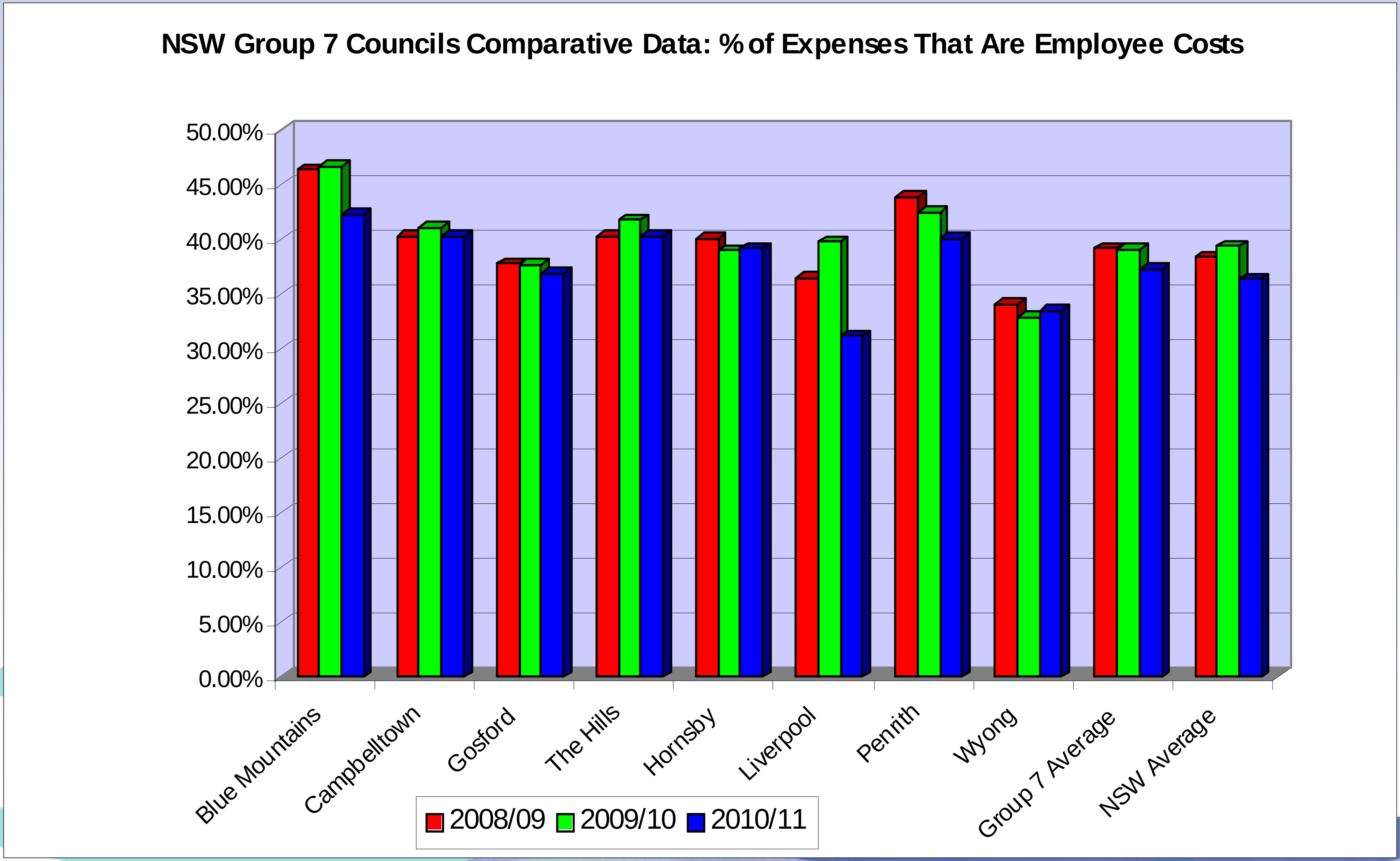
Wyong Shire Council
CENTRAL COAST

Total Expenditure $000



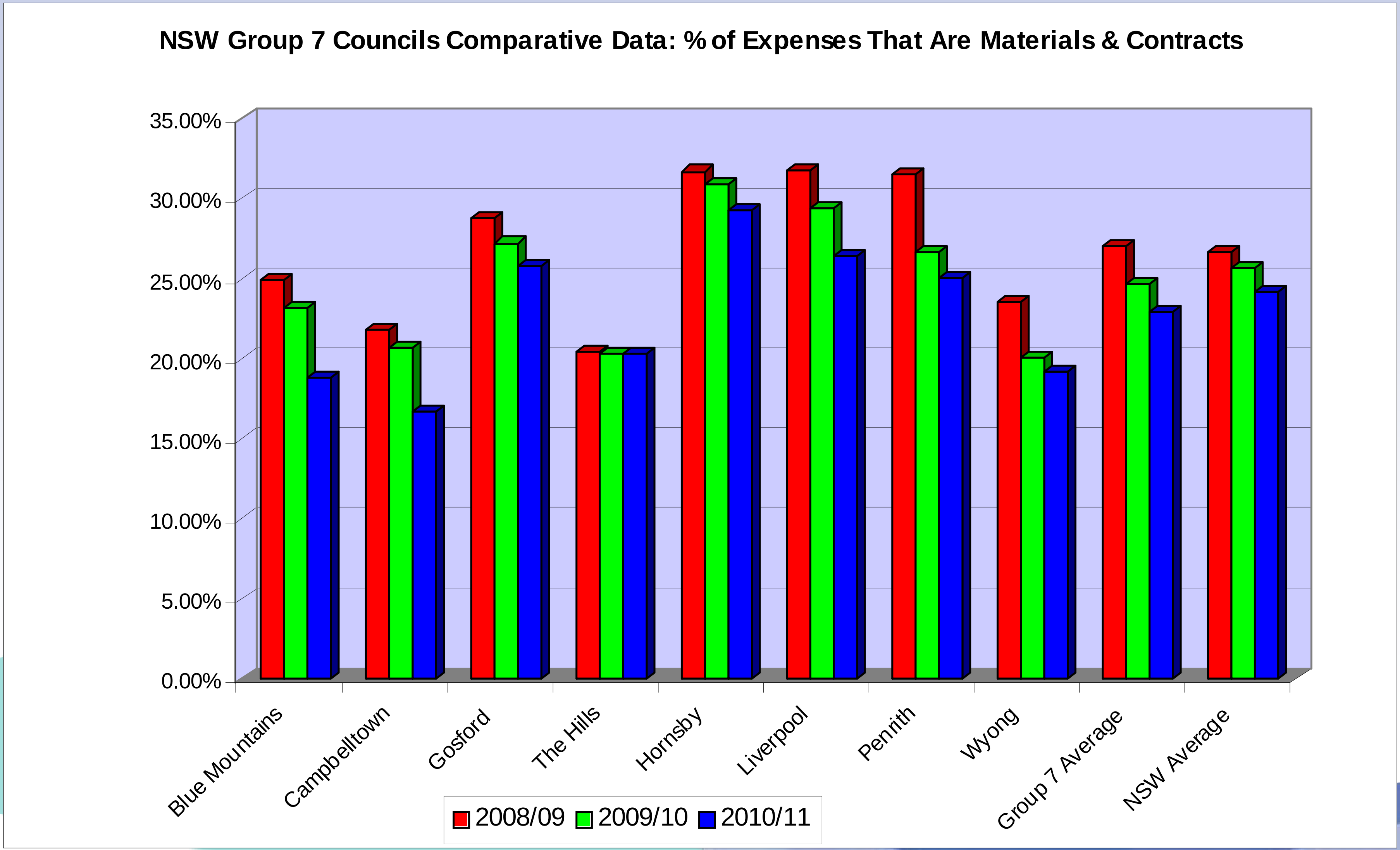
Wyong Shire Council
CENTRAL COAST

Expenses From Continuing Operations: Employee Costs



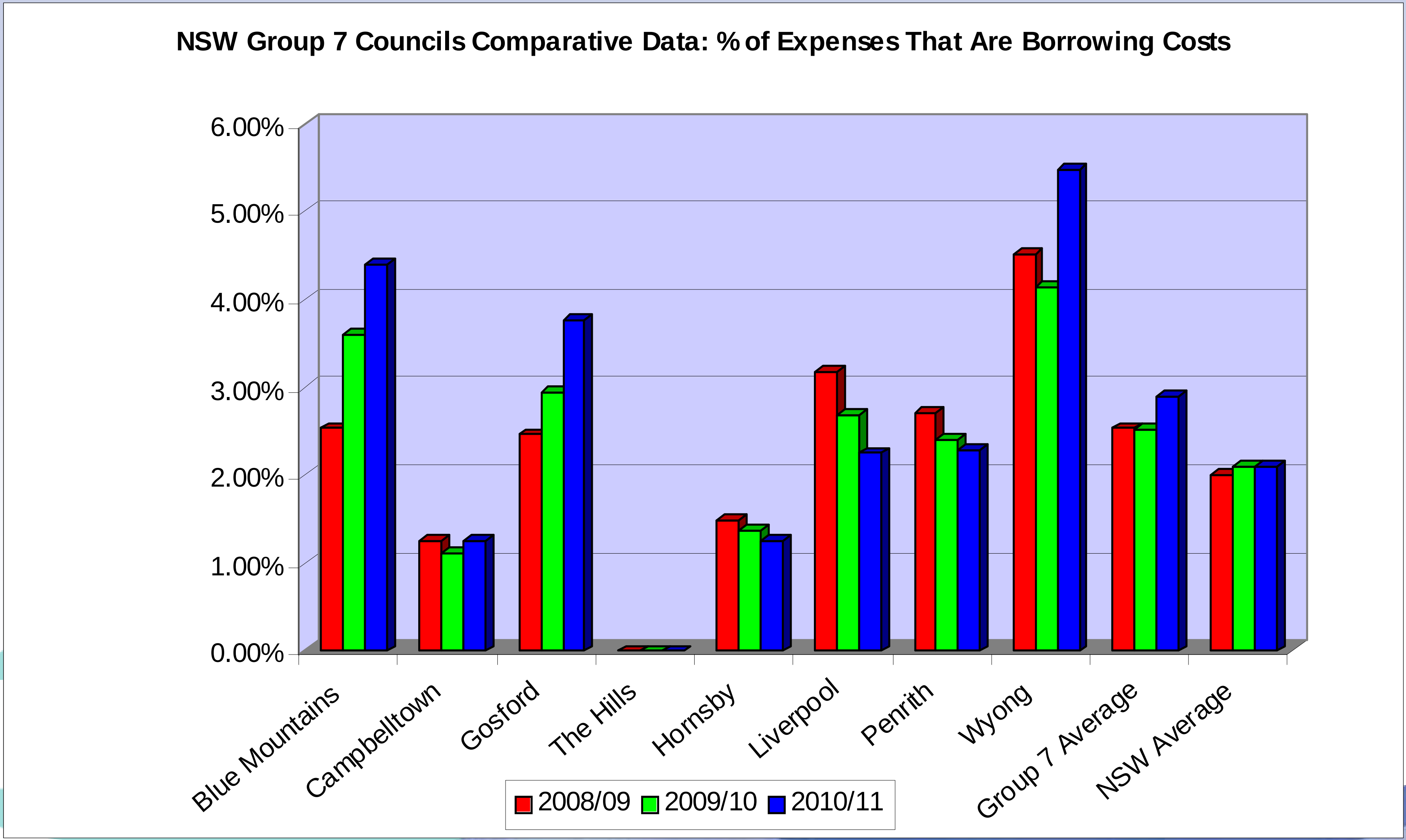
Wyong Shire Council
CENTRAL COAST

Expenses From Continuing Operations: Materials & Contracts



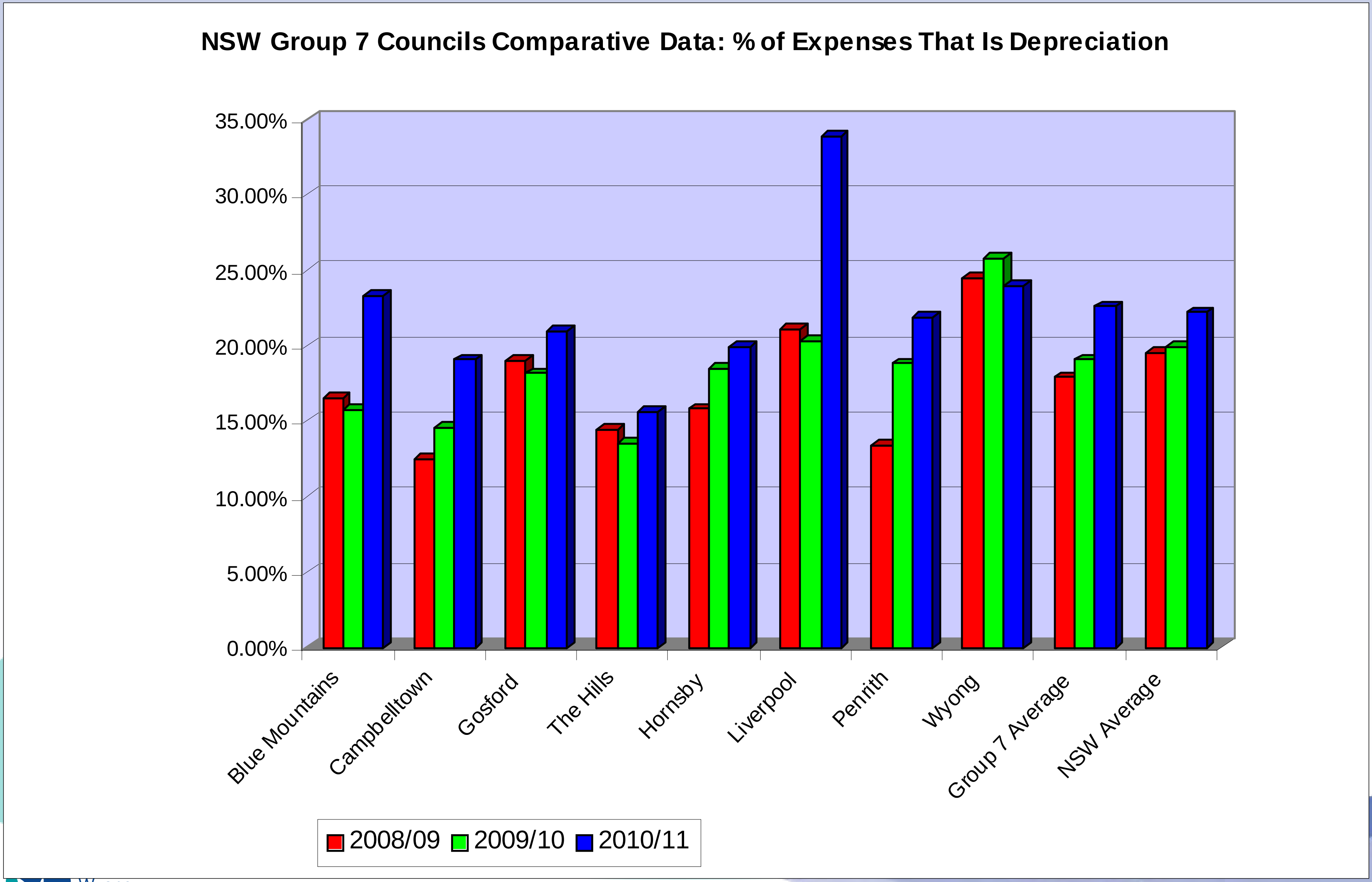
Wyong Shire Council
CENTRAL COAST

Expenses From Continuing Operations: Borrowing Costs



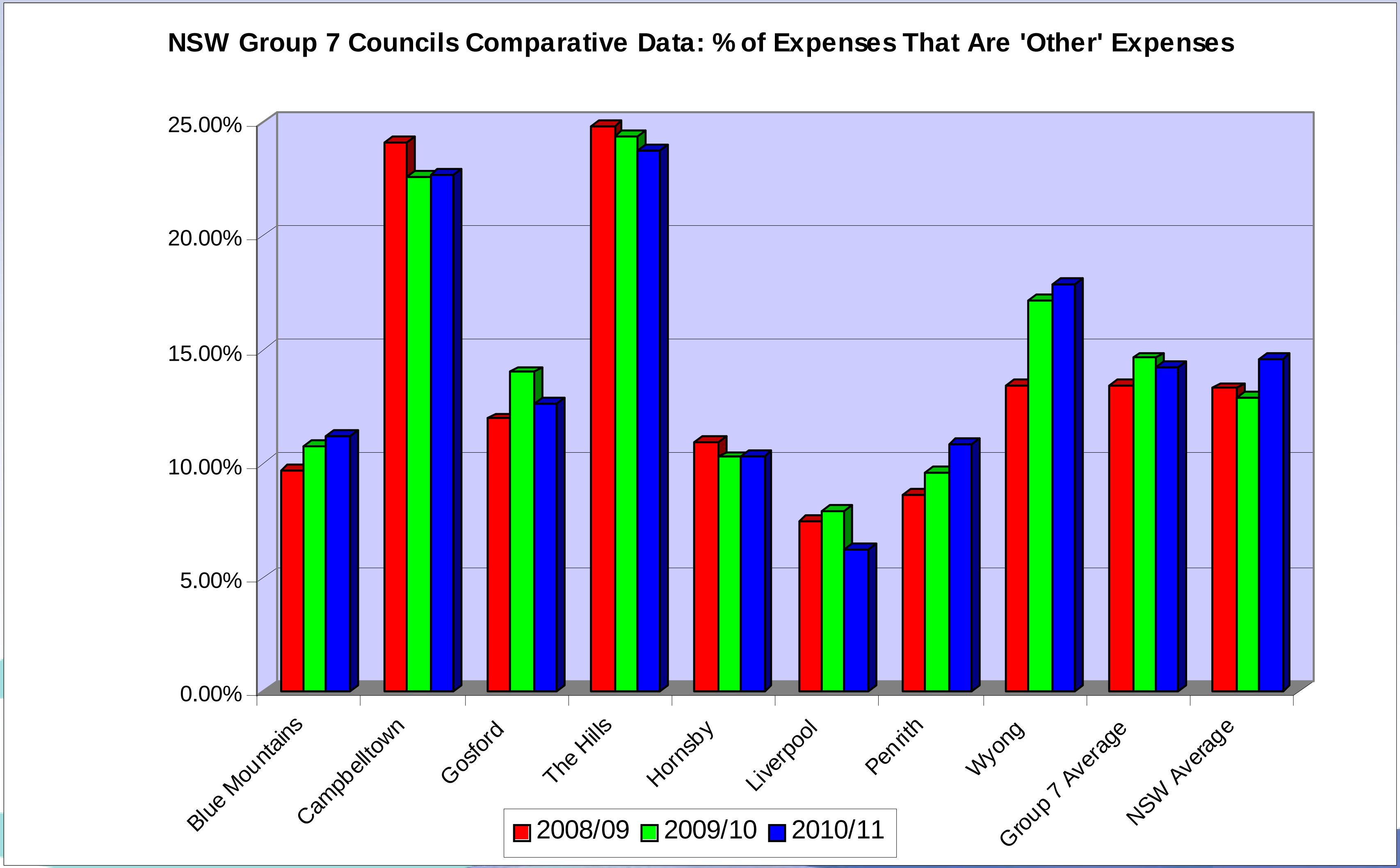
Wyong Shire Council
CENTRAL COAST

Expenses From Continuing Operations: Depreciation



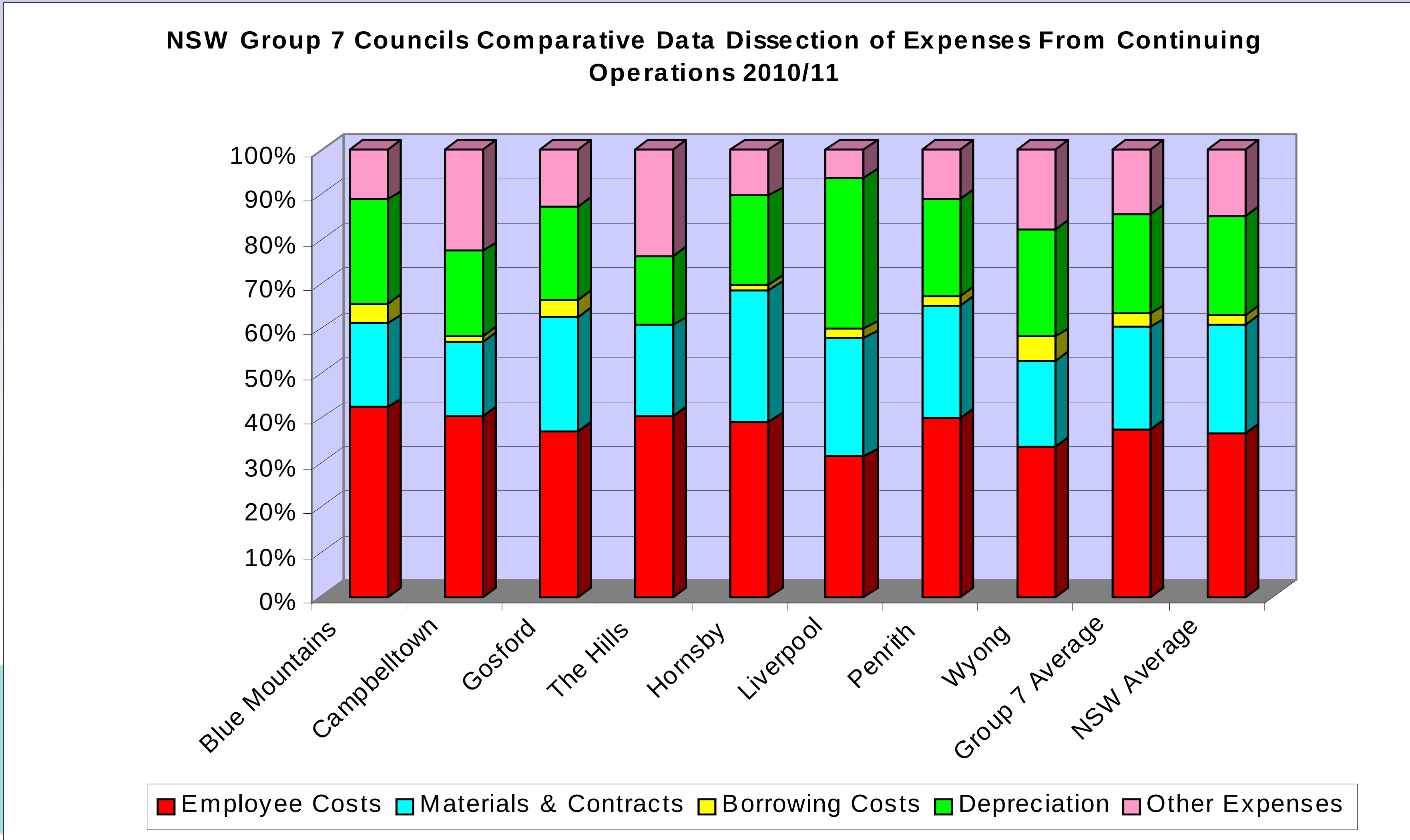
Wyong Shire Council
CENTRAL COAST

Expenses From Continuing Operations: Other Expenses



Wyong Shire Council
CENTRAL COAST

Dissection of Expenses From Continuing Operations 2010/2011 As % of Total



Wyong Shire Council
CENTRAL COAST

Key Messages From The Expenses Data

- Wyong is the only council in the group which has **reduced** total expenditure for 2010/11. This is also against the State trend.

- Wyong has the second **lowest** employee costs in the group at 33.5% and the second **highest** number of FTE in the group. Gosford has the third lowest employee costs in the group at 37% and has the highest FTE in the group.

- For 2010/11, Hornsby and Wyong were the only Councils in the group to show **increased employee costs** from the previous period.

Wyong Shire Council
CENTRAL COAST

Key Messages From The Expenses Data (cont)

- Wyong has the lowest expenses as a percentage of total for materials and contracts (at 19%) and Hornsby has the highest (29%).
- Wyong has significantly higher borrowing cost expenses as a percentage of total (at 5.5%) than the rest of the group. This is up from 4% in 2009/10.
- Apart from Wyong (5.5%), the Blue Mountains (4.4%) at Gosford (3.8%), the rest of the Councils in the group are spending less than 3% of total expenses on borrowing costs. The Hills has no borrowing costs at all.

Wyong Shire Council CENTRAL COAST

Key Messages From The Expenses Data (cont)

- Phased changes in the valuation of council assets has had an impact on depreciation charges, probably accounting for the more significant increases seen in the depreciation charge for 2010/11 for some of the Councils in the group. This is largely a timing issue as Wyong and Penrith took the brunt of the hit in 2009/10.

- Wyong has the second highest depreciation costs for the group at 24%. Liverpool has the highest at 34%. The rest come in at 23% or below.

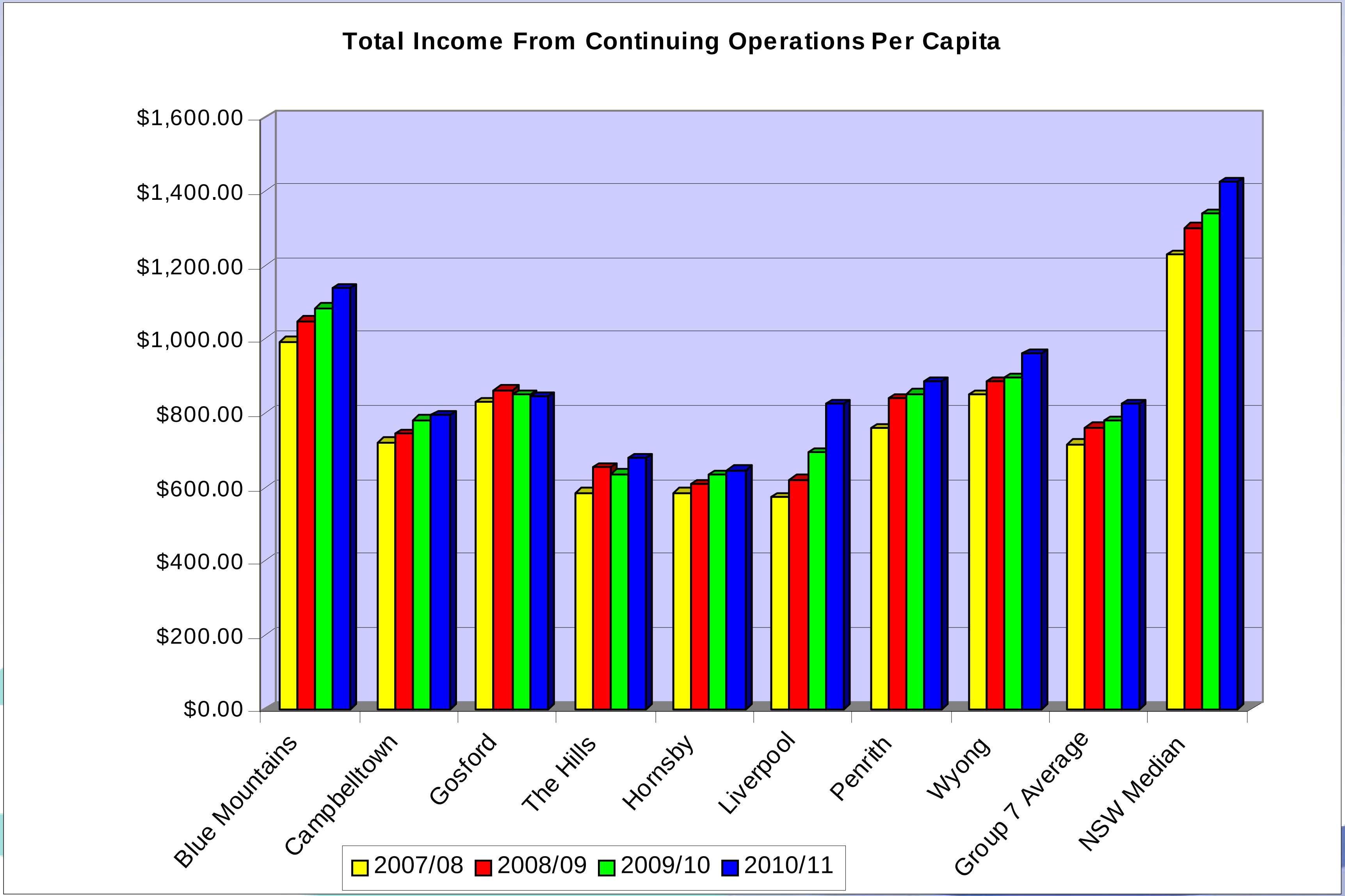
- Depreciation can be put into more context when considering the building and infrastructure ratio (see later slide), which assesses the rate at which capital assets are being renewed against the rate at which they are depreciating.

- *Other Expenses* comprise a fairly significant proportion of total expenses for a couple of councils in the group. For The Hills and Campbelltown this is almost a quarter of total expenses at 24% and 23% respectively. Wyong comes in at 18% with the rest below 12%.

Group 7 Financial Indicators

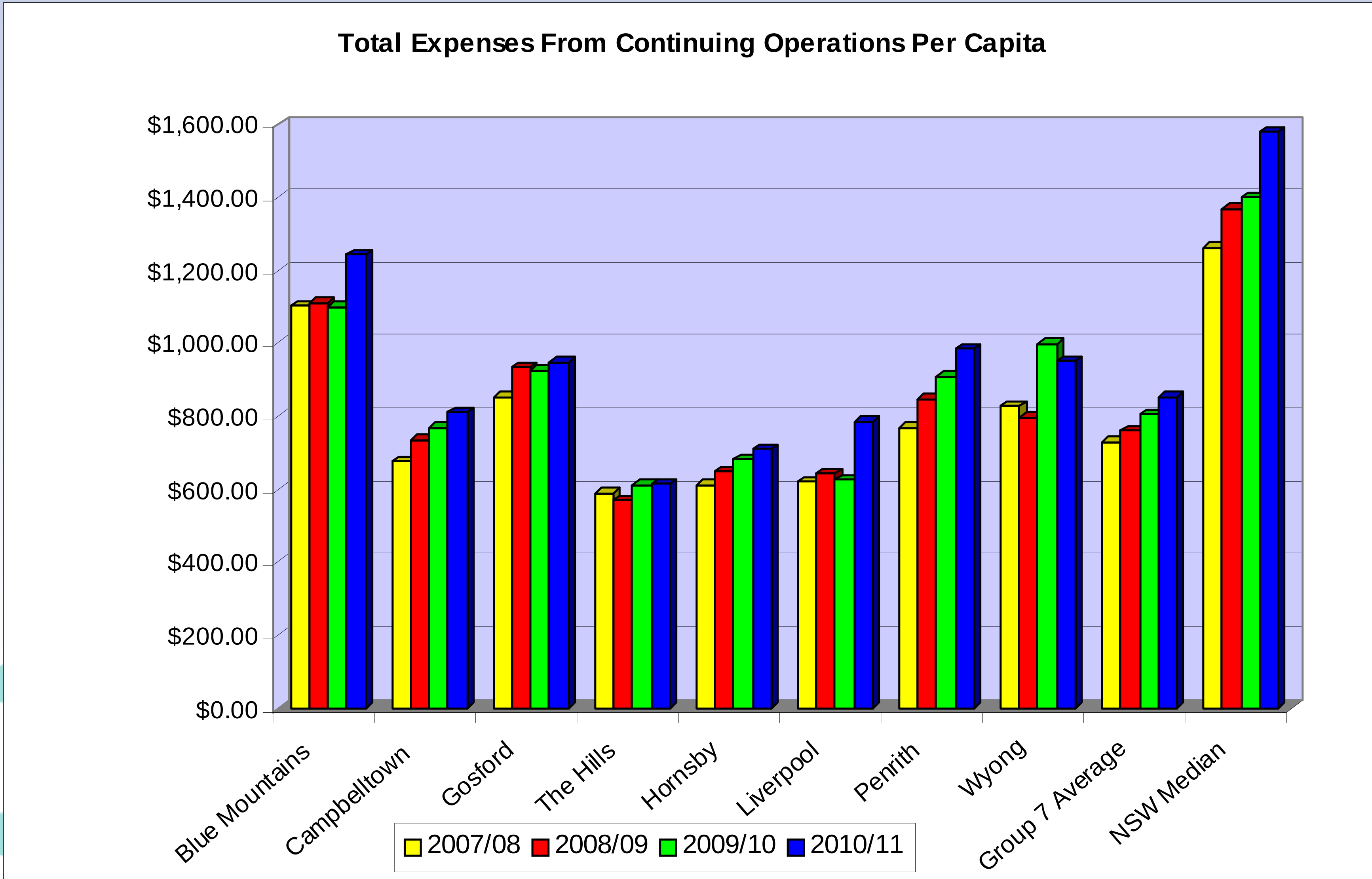
Income and Expenses From Continuing Operations Per Capita

Total Income From Continuing Operations Per Capita



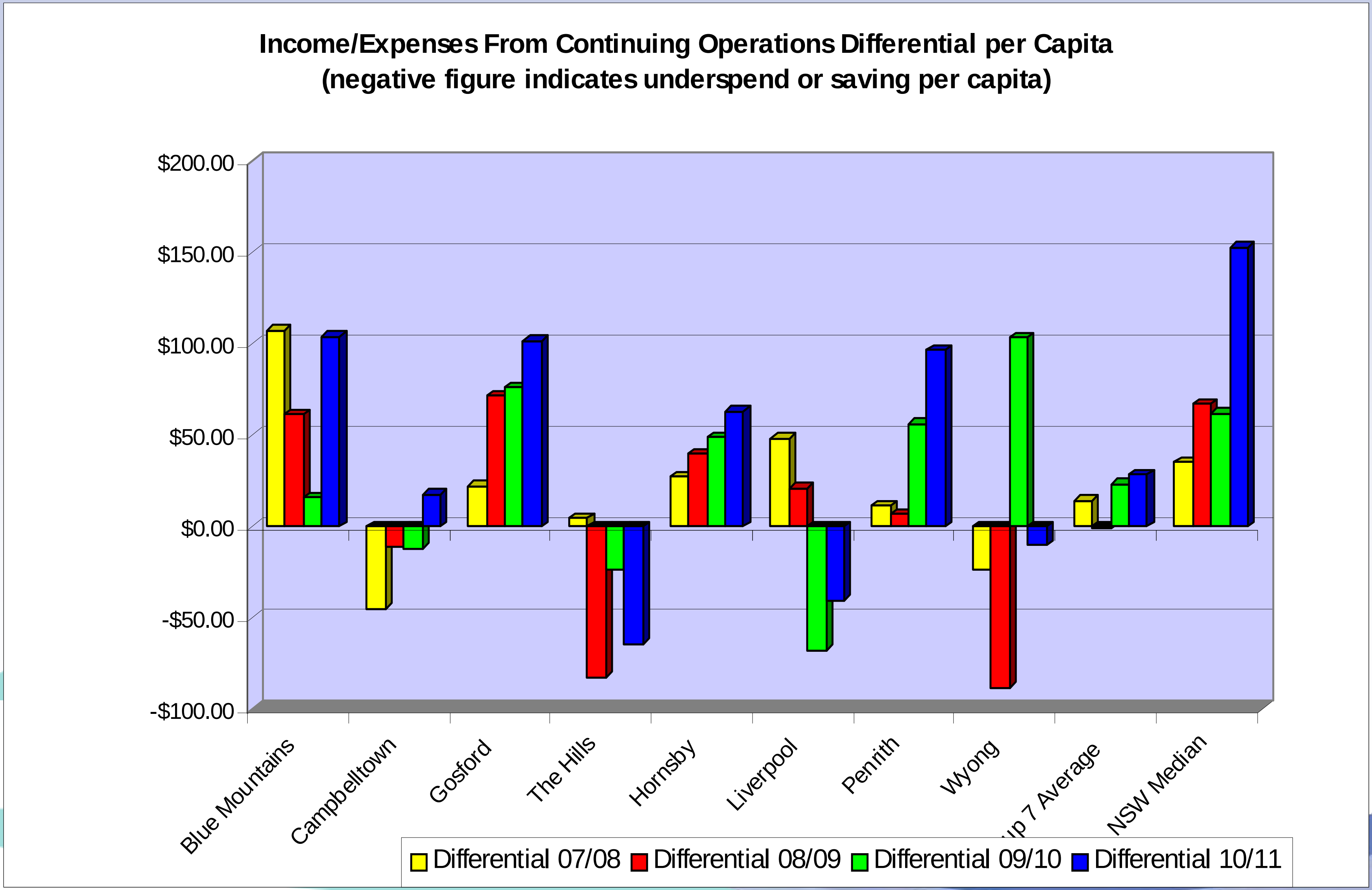
Wyong Shire Council CENTRAL COAST

Total Expenses From Continuing Operations Per Capita



Wyong Shire Council
CENTRAL COAST

Income & Expenses Year on Year Differential 2007-2011



Wyong Shire Council
CENTRAL COAST

Key Messages From The Income & Expenditure Data

- Wyong showed a very favourable turnaround in 2010/11, with income exceeding expenditure by $10 per capita. Compare this to 2009/10 when Wyong's expenditure exceeded income by $103 per capita.

- The Hills has continued to follow a prudent financial management policy, posting a significant "saving" again, with income exceeding expenditure in 2010/11 by $64 per capita.

- For 2010/11 Liverpool has also continued its favourable position where income has exceeded expenditure on a per capita basis. However, the "saving" for 2010/11 was not as favourable as 2008/09 and this drop could be attributable at least in part, to an 8% reduction in Contributions over the same period.

Wyong Shire Council
CENTRAL COAST

Key Messages From The Income Expenditure Data (cont)

- Blue Mountains, Penrith, Gosford and Hornsby have recurrently posted overspends per capita year on year.

- Gosford and Hornsby have continuously increased the margin between expenses over income.

- For 2010/11 Gosford and Blue Mountains were in the most precarious position with the gap between expenditure and income increasing to over $100 per capita for each Council ($104 – BM, $102 – Gosford).

Wyong Shire Council
CENTRAL COAST

Group 7 Financial Indicators

Ratios

The Ratios

- There are 3 key ratios that are measured:

  - Unrestricted current ratio
  - Debt service ratio
  - Building and infrastructure renewal ratio

The Unrestricted Current Asset Ratio

- The unrestricted current asset ratio is a measure of a council's ability to meet its short term financial obligations, such as paying for goods and services supplied. It assesses the level of a council's liquidity and ability to meet financial obligations as they fall due.
- Example: an unrestricted current asset ratio of 1.5:1 indicates that for every $1 in unrestricted current liabilities, the council has $1.50 in unrestricted current assets available to meet the liability.
- A ratio of less than 1.5:1 is considered unsatisfactory by DLG as a council may be unable to meet all its short term commitments if they fall due on or around the same time. A ratio of between 1.5:1 and 2:1 is satisfactory as a council should have sufficient liquid assets to meet short term liabilities. A ratio over 2:1 is considered most favourable.

Wyong Shire Council
CENTRAL COAST

The Unrestricted Current Asset Ratio *(cont)*

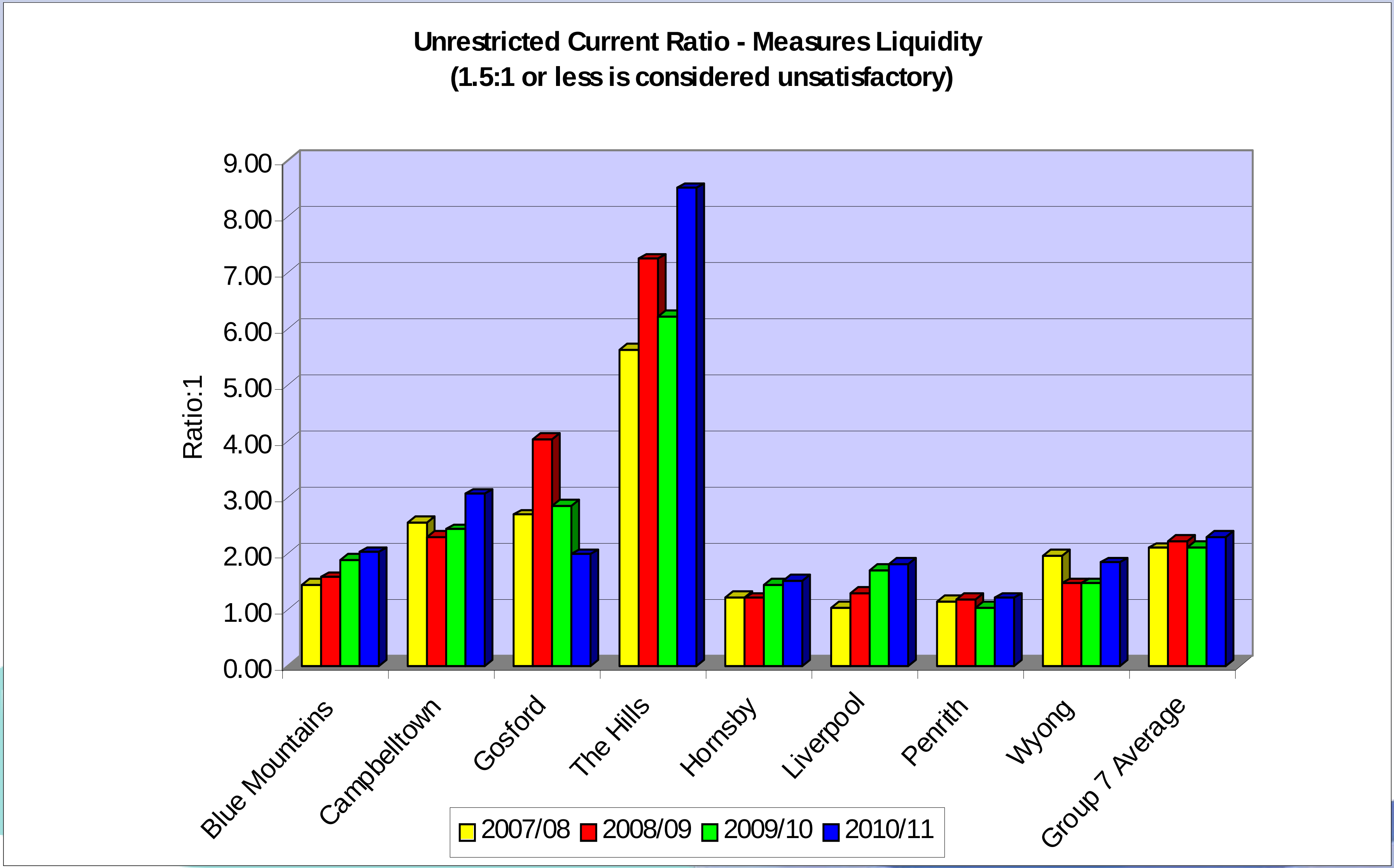
- Unrestricted current assets are those where there is no form of restriction imposed by legislation or other requirements governing their use.

- Current assets that **are** restricted and therefore are not incorporated into this measure include developer contributions, RMS contributions, water and sewer rates, grants and domestic waste management charges.

- Some factors affecting this indicator are:
  - Planning and budgetary controls
  - Cash management and the timing of cash flows
  - The level of restricted assets
  - Credit management policies
  - Broader economic circumstances

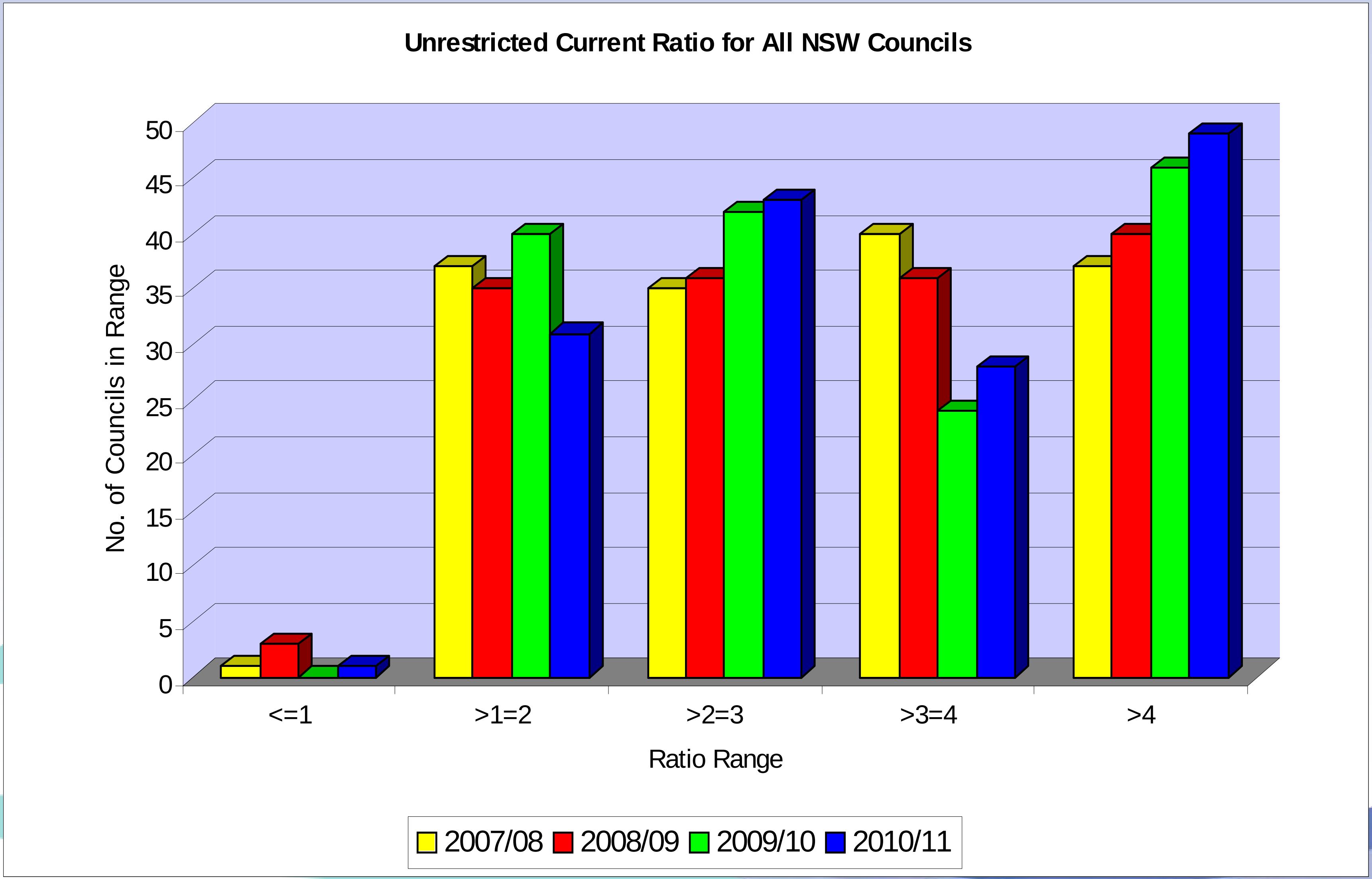
Wyong Shire Council
CENTRAL COAST

Unrestricted Current Asset Ratio for Group 7 Councils



Wyong Shire Council
CENTRAL COAST

Unrestricted Current Asset Ratio For All NSW Councils



Wyong Shire Council
CENTRAL COAST

Key Messages From The Data

- From the 11 Council groups in the DLG's "Snapshot", **Group 7 had the lowest average unrestricted current asset ratio** at an average of 2.29.
- For 2010/11 all Councils in the group managed to show an improvement on the previous period (2009/10) **except Gosford.**
- Gosford's unrestricted current ratio for 2010/11 was 1.98 (down from 2.84). Wyong's was 1.83, up from 1.45.
- Only The Hills (8.51), Campbelltown (3.06) and Blue Mountains (2.01) had a ratio higher than 2:1 in the peer group.
- Gosford (1.97), Wyong (1.83), Liverpool (1.81) and Hornsby (1.51) had ratios just above 1.5:1.
- Below 1.5:1 is the level which DLG consider the situation to be unsatisfactory as the council may be unable to meet all its short term commitments if they fall due on or around the same time.
- **At 1.19 for 2010/11, Penrith continued to fall below the DLG 'satisfactory' benchmark as they have since 2007/08.**

Wyong Shire Council
CENTRAL COAST

The Debt Service Ratio

- This ratio assesses the degree to which revenue from continuing operations is committed to the repayment of debt.
- The ratio is generally higher for councils in growth areas where loans have been required to fund infrastructure such as roads, water and sewerage works.
- The ratio assesses the impact of loans and interest repayment on the discretionary revenue of councils.
- DLG's benchmark for the debt service ratio is:
  - <10% satisfactory
  - 10%-20% fair
  - >20% possible cause for concern

Wyong Shire Council
CENTRAL COAST

The Debt Service Ratio *(cont)*

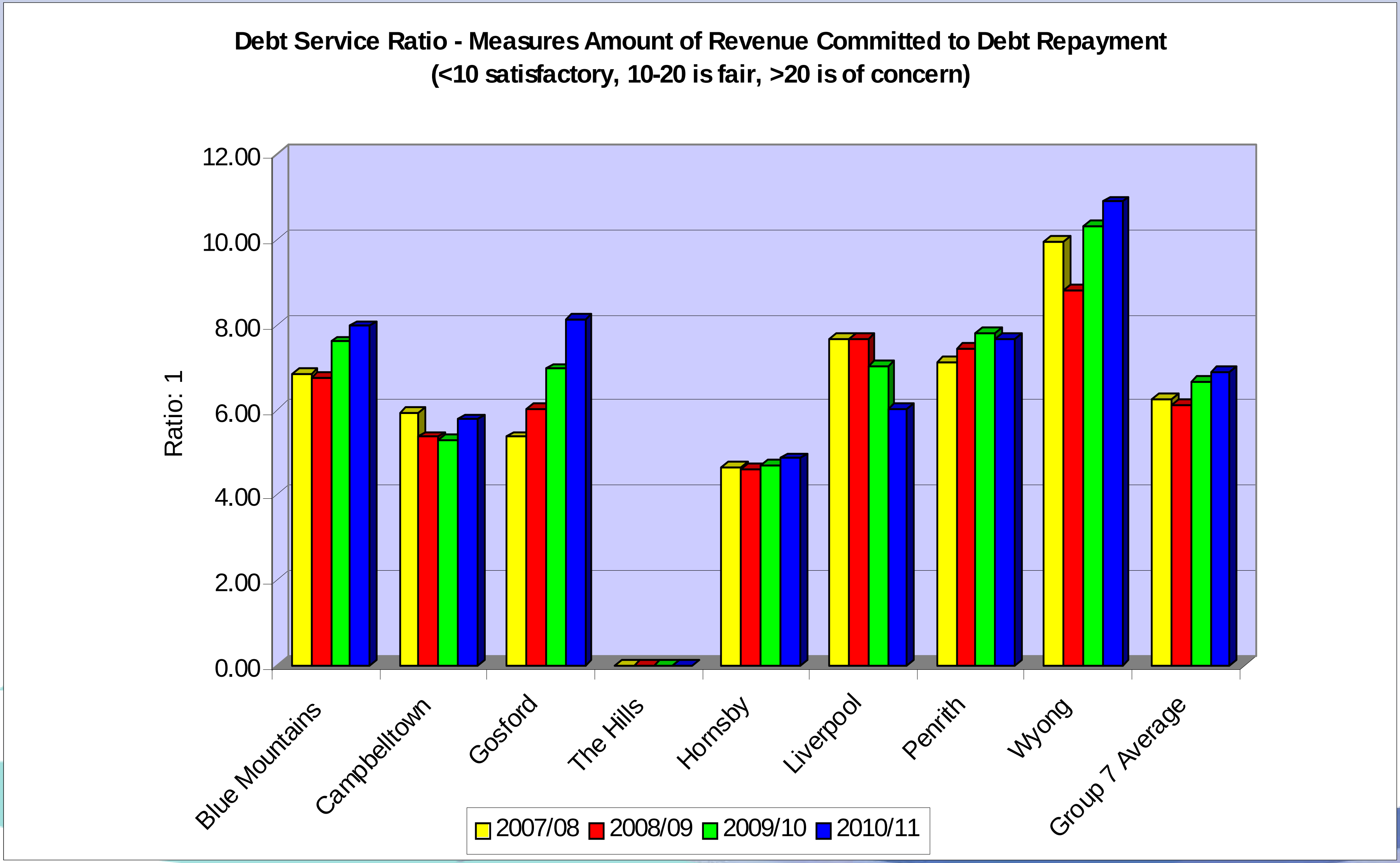
- Some factors affecting this indicator are:
  - Council's policies and strategies on debt, capital investment and capital contributions
  - New development
  - Interest rate movements and loan terms
  - Level of cash reserves
  - State of infrastructure/life stages of assets
  - Loan variations and terms of repayment

- DLG consider the use of loan funds for infrastructure improvements and other capital purposes to be a prudent financial strategy, as it helps spread the cost of the asset across its life, although this needs to be managed carefully.

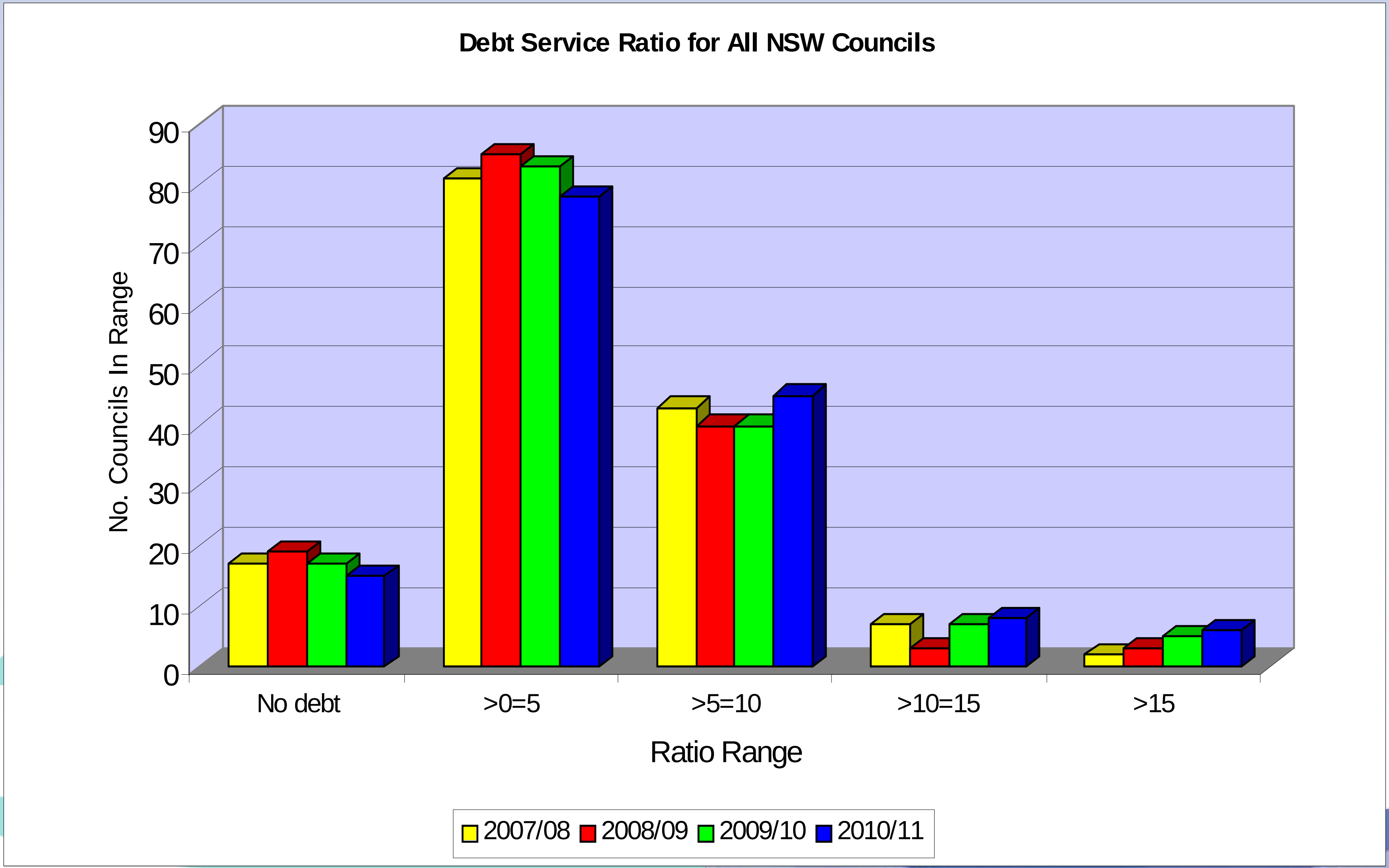
- When assessing this indicator, the ratio may be compared with other financial performance ratios such as unrestricted current asset ratio over a period of years to give an overall trend of the general financial well-being of a council and the effectiveness of its overall fiscal management of council.

Wyong Shire Council
CENTRAL COAST

Debt Service Ratio for Group 7 Councils



Debt Service Ratio For All NSW Councils



Wyong Shire Council
CENTRAL COAST

Key Messages From The Data

- For 2010/11, Wyong continued to have the highest debt service ratio in the group at 10.88. This showed a further increase from 2009/10, when the ratio was at 10.32. This reflects Council's reliance on borrowing and the associated high borrowing costs.

- Wyong falls within DLG's "fair" rating category whereas the rest of the group, by coming in at a ratio below 10, are considered "satisfactory".

- The Hills had the lowest ratio in the group, with the envious position of no long term debt obviating the need for any revenue to be committed to debt servicing. There were a total of 15 out of 152 Councils (10%) in this position for 2010/11, with a debt service ratio of 0.

- Only Liverpool and Penrith posted an improved position from 2009/10.

- Gosford showed the biggest increase from the previous period up 1.17, from 6.96 in 2009/10 to 8.13 in 2010/11.

- **The challenge is to balance debt servicing costs at a level such that liquidity does not become adversely affected whilst maintaining the building/infrastructure renewal ratio within an acceptable level of tolerance**.

Wyong Shire Council
CENTRAL COAST

The Building & Infrastructure Renewal Ratio

- This measure assesses a council's rate at which assets are being renewed against the rate at which they are depreciating.
- Renewals are defined as *replacement* of existing assets rather than acquisition of new assets.
- Infrastructure includes roads, bridges, water and sewerage supply and stormwater drainage.
- Councils need to ensure that operating and community assets are managed effectively and efficiently to meet community service needs and expectations and to provide a safe environment.

Wyong Shire Council CENTRAL COAST

The Building & Infrastructure Renewal Ratio *(cont)*

- Some factors affecting this indicator are:
  - Capital expenditure policy
  - One off changes to council's asset base
  - The depreciation rate and method used
  - Community service expectations
  - Desired levels of service
  - The size of the LGA area

- A ratio of 1:1 indicates that the renewal of assets equals the amount of depreciation, amortisation and impairment.

- A 1:1 ratio indicates that $1 used to renew an asset equals $1 spent on depreciation, amortisation and impairment.

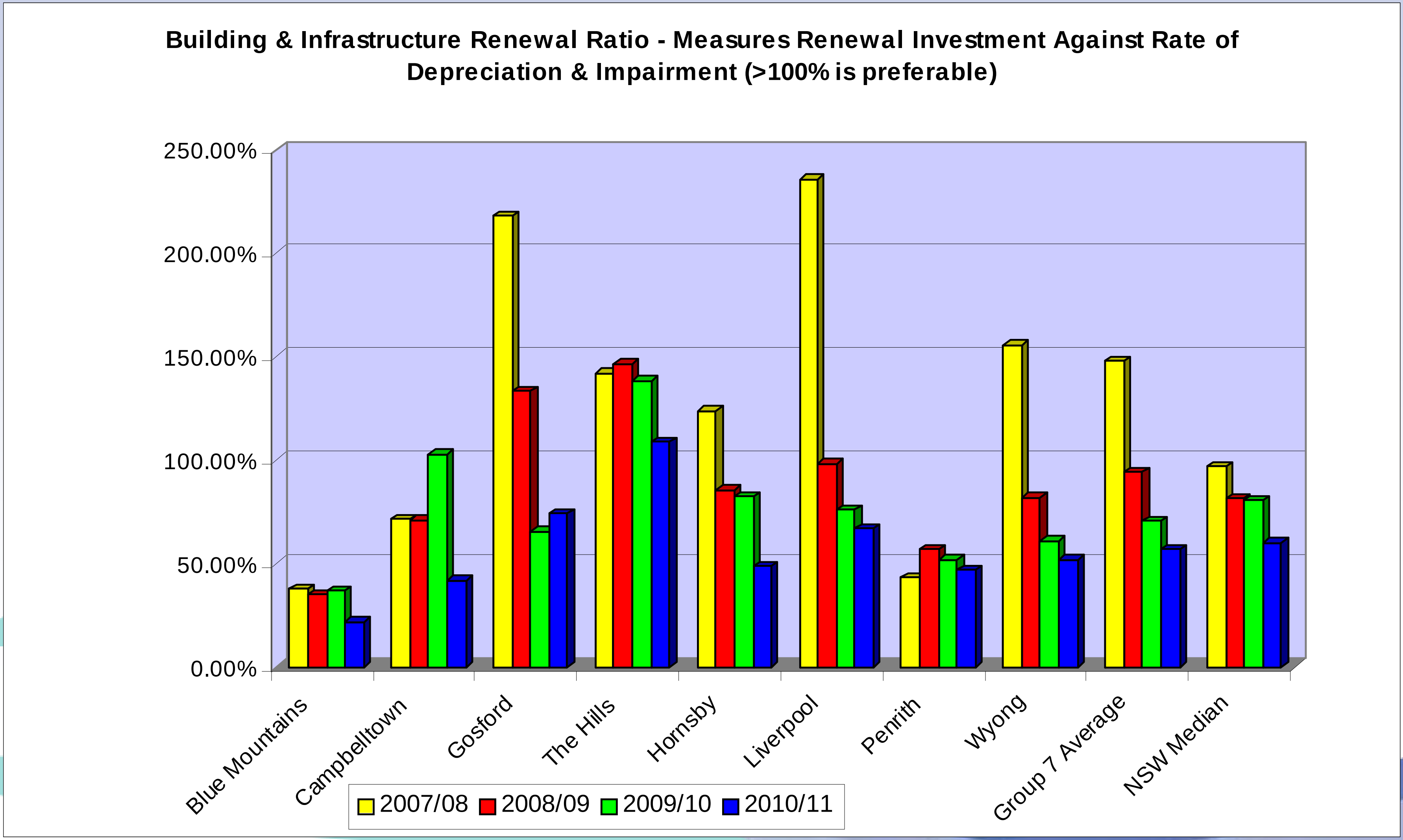
- An increase in the building infrastructure renewal ratio indicates councils are renewing assets faster than they are being consumed (depreciated).

- This measure is shown in %. A rate of 100% therefore is the equivalent of 1:1. Results over 100% indicate the extent to which assets are being renewed faster than they are depreciating, which is most favourable.

Wyong Shire Council CENTRAL COAST

Building & Infrastructure Renewal Ratio

(renewal investment as % of depreciation, amortisation and impairment)



Wyong Shire Council
CENTRAL COAST

Key Messages From The Data

- The 'boom' year for spending on building/infrastructure renewal was 2007/08 with Gosford, The Hills, Hornsby, Liverpool and Wyong all recording a ratio of over 100%.

- Gosford and Liverpool have seen the sharpest decline since 2007/08, with Gosford falling from 218% in 2007/08 to 74% in 2010/11 and Liverpool falling from 235% in 2007/08 to 66.5% in 2010/11.

- Gosford is the only Council to have improved its position on 2009/10 (up to 74% for 2010/11 from 65% in 2009/10)

- Wyong has experienced a continuing decline from 155% in 2007/08, down to 81% in 2008/09, 61% in 2009/10 and 52% in 2010/11.

Key Messages From The Data

- Blue Mountains is tracking very low at under 40% year on year since 2007/08 and is down to an extremely low 22% for 2010/11.
- Blue Mountains (22%), Campbelltown (42%), Hornsby (49%) and Penrith (47%) all fall under 50% with this ratio.
- The Hills is the most consistent performer in the group, still posting a ratio over 100% (109%) for 2010/11, although this was a fall from 138% during the previous period. Having no debt to service undoubtedly helps!
- A sudden surge of renewal/maintenance followed by a period of more constrained expenditure or activity can lead to mounting problems in the future, with asset deterioration occurring across the portfolio, giving rise to essential maintenance and renewal requirements falling due around the same time for particular classes of asset.
- The challenge is to try to maintain consistency with this ratio, at around the 100% mark or higher through a carefully planned and phased programme of asset renewal.

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Wyong LGA

- Income acquired through discretionary charges or fluctuating sources (eg grants) is less reliable and stable than income received through rates and annual charges. This is particularly significant in poor socio-economic regions such as the Central Coast, where there has been no sustained growth in the number of employed Central Coast residents over the past 5 years. Disposable income for many Shire residents therefore is not likely to be significant.

- Wyong's position in relation to income exceeding expenditure continues to improve (as indicated in the Financial Accounts for 2011/12). Whilst the data generally shows that Wyong still has a long way to go, it also indicates there have been some key improvements and that continued prudent, financial management is having a positive effect which will, eventually, flow through to community services and facilities especially if the SRV is approved.

- As community members become more aware of WSC's strengthening financial position (or perceive it to be the case through a SRV), demand for more or improved Council services and facilities is likely to occur and expectations that those demands will be met will be high.

- A stronger financial position will create greater opportunities for new and improved community facilities and services. However, it also creates an interesting dynamic within the Central Coast region, especially as the data shows that Gosford's financial position is getting increasingly worse.

Risk Outlook: What This Might Mean for Wyong LGA

- As the impact of greater financial stability and increased economic investment start to take effect in Wyong Shire (especially if Gosford's position continues or gets worse), a number of outcomes are possible:
  - migration of higher net worth individuals from Gosford LGA to Wyong as new, improved or better maintained services/facilities are on offer;
  - increased number of temporary/transient visitors eg commuters, shoppers, holiday-makers through more and better work opportunities and a broader range and quality of activities/facilities;
  - a shift in crime or the types of crime being committed in the LGA eg anti-social behaviour crimes against the community such as graffiti and vandalism tends to be lower in more affluent areas but crimes against the individual such as burglary tend to be higher. (This also shifts the cost of recovery away from Council and onto the individual)
  - more obvious and pronounced divergence between the wealthy and poor within the community, creating social isolation for some and a segregated rather than integrated community (longer term this will also have a political impact in terms of voting behaviours)
  - more favourable decisions such as in the awarding of grants or provision of major infrastructure for the Wyong region as Council develops a reputation for sound financial management and delivery of quality services and facilities to the Community

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Council

- *Capacity to Pay:* Gosford and Wyong have the highest outstanding rates and annual charges in the group (7.15% for Gosford and 7.12% for Wyong). The economic indicators for the region are not showing any signs of a significant improvement in the near future so the number of defaults in rate payments is not likely to improve significantly either. The implementation of more innovative approaches towards the collection of outstanding debts and rate payment options may be required to manage this down further.

- *Capacity to Spend*: increased costs for essential items and non-discretionary dues such as rates are likely to lead people to withdraw from the use of discretionary services. This is turn will impact the revenue collected from user-charges and fees. Council will need to be closely attuned to the needs and wants of the community if the revenue from user-charges and fees is not to be significantly affected in an adverse way and these services will need to be marketed strongly to attract potential users, even targeting those from outside the Shire. This is particularly pertinent to Wyong as WSC relies on rates and annual charges for less than 50% of its total income and has 21% of its income made up of fees and charges.

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Council (cont)

- *Cost of Borrowing vs Cost of Lending:* WSC has the group's third highest interest income (at 3.5% of total income) yet significantly higher borrowing costs expenses (5.5% of total expenditure) than other group members. As the cost of borrowing is always higher than income accrued through lending, it makes sense to regularly review the borrowing **and** investment strategies simultaneously to ensure the balance between the two is in line with acceptable levels of tolerance.

- *Managing Staff:* although Wyong's actual employee costs are low relative to the group, for 2010/11 Wyong and Hornsby were the only councils in the group to post an increase in employee costs from the previous period. Furthermore, the FTE data for 2010/11 (see separate comparative data for *Service Provision)* also shows an increase in WSC's FTE numbers. As Wyong's financial position strengthens and Community expectations grow, it will be particularly acute (politically and reputationally) if employee costs (and FTE numbers) continue to trend upwards whilst the provision of services/facilities continue to be scaled back.

Wyong Shire Council
CENTRAL COAST

Conclusion of Comparative Data Analysis of NSW Councils

Financial Indicators

Comparative Data Analysis of NSW Councils

Wyong Shire Council:

Service Provision Indicators

Quick Recap

- DLG compile comparative data on key performance indicators (KPIs) for 'peer' group Councils to help DLG monitor Council performance across a spectrum of activities
- WSC is in Group 7 along with: Blue Mountains, Campbelltown, Gosford, The Hills, Hornsby, Liverpool & Penrith
- KPIs are measured across nine categories: (i) financial; (ii) rating; (iii) corporate; (iv) environmental management; (v) recreation, leisure & cultural services; (vi) community services; (vii) public order and safety; (viii) health; and (ix) housing and community)
- This analysis covers all the KPIs for the service provision categories ie corporate, environmental management etc
- In the following charts, the NSW **median** has been quoted for State-wide comparison purposes ie one half of all NSW councils have values lower and one half have values higher. This is to give a slightly more meaningful comparison as the differential between large urban and small rural councils across the State can lead to an unhelpful skewed distribution of values in many instances when taking the average.

Wyong Shire Council
CENTRAL COAST

The KPIs Per Category

Corporate:

- number of equivalent FTE

Environmental Management:

- environmental management expenses per capita

Recreation, Leisure & Cultural Services:

- net recreation, leisure & cultural expenses per capita

Community Services:

- community services expenses per capita

Wyong Shire Council
CENTRAL COAST

The KPIs Per Category (cont)

Public Order & Safety:

- public order and safety expenses per capita

Health:

- Health services expenses per capita

Housing and Community:

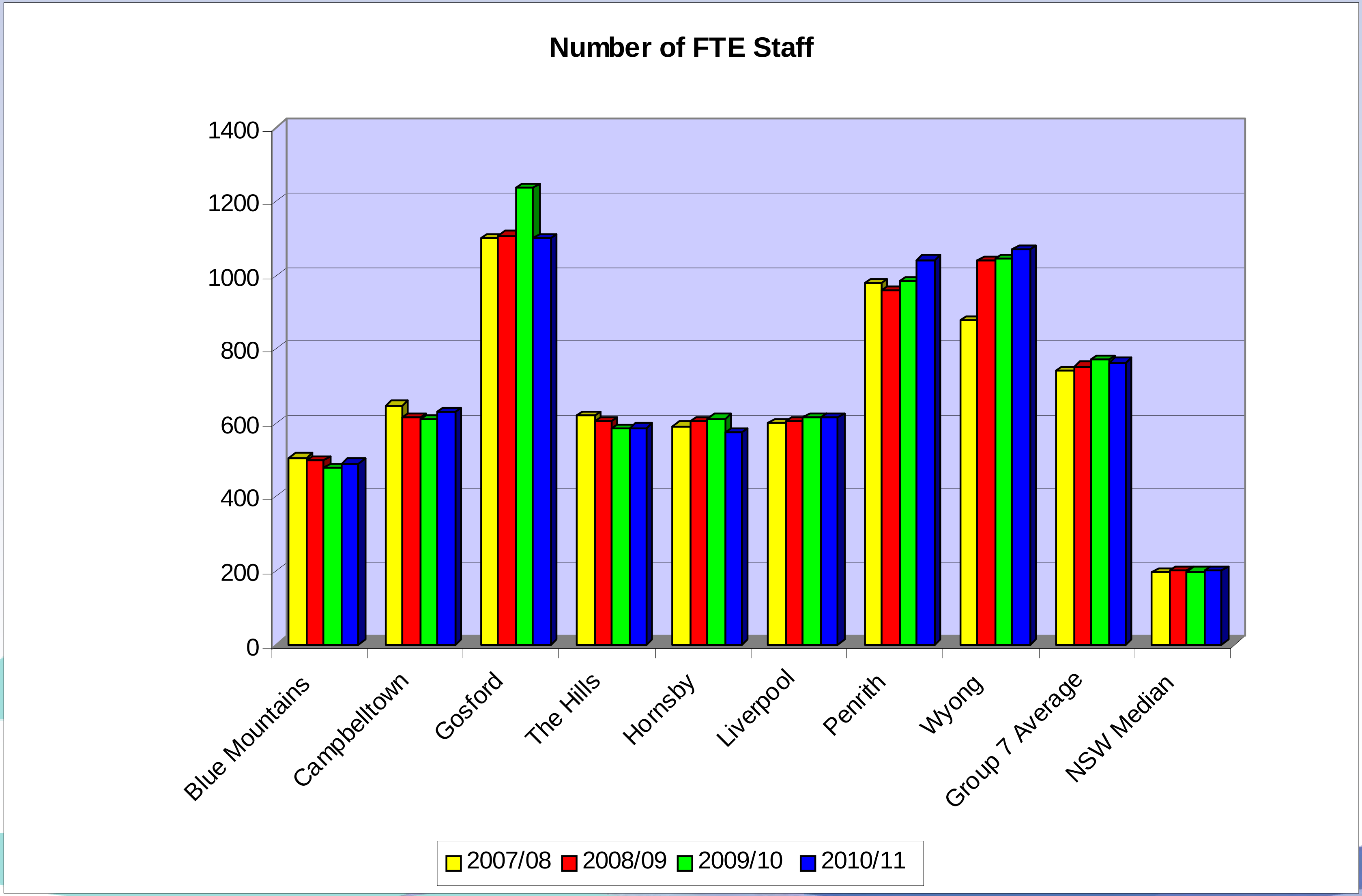
- Housing and community amenities expenses per capita

Wyong Shire Council
CENTRAL COAST

The Corporate Measure

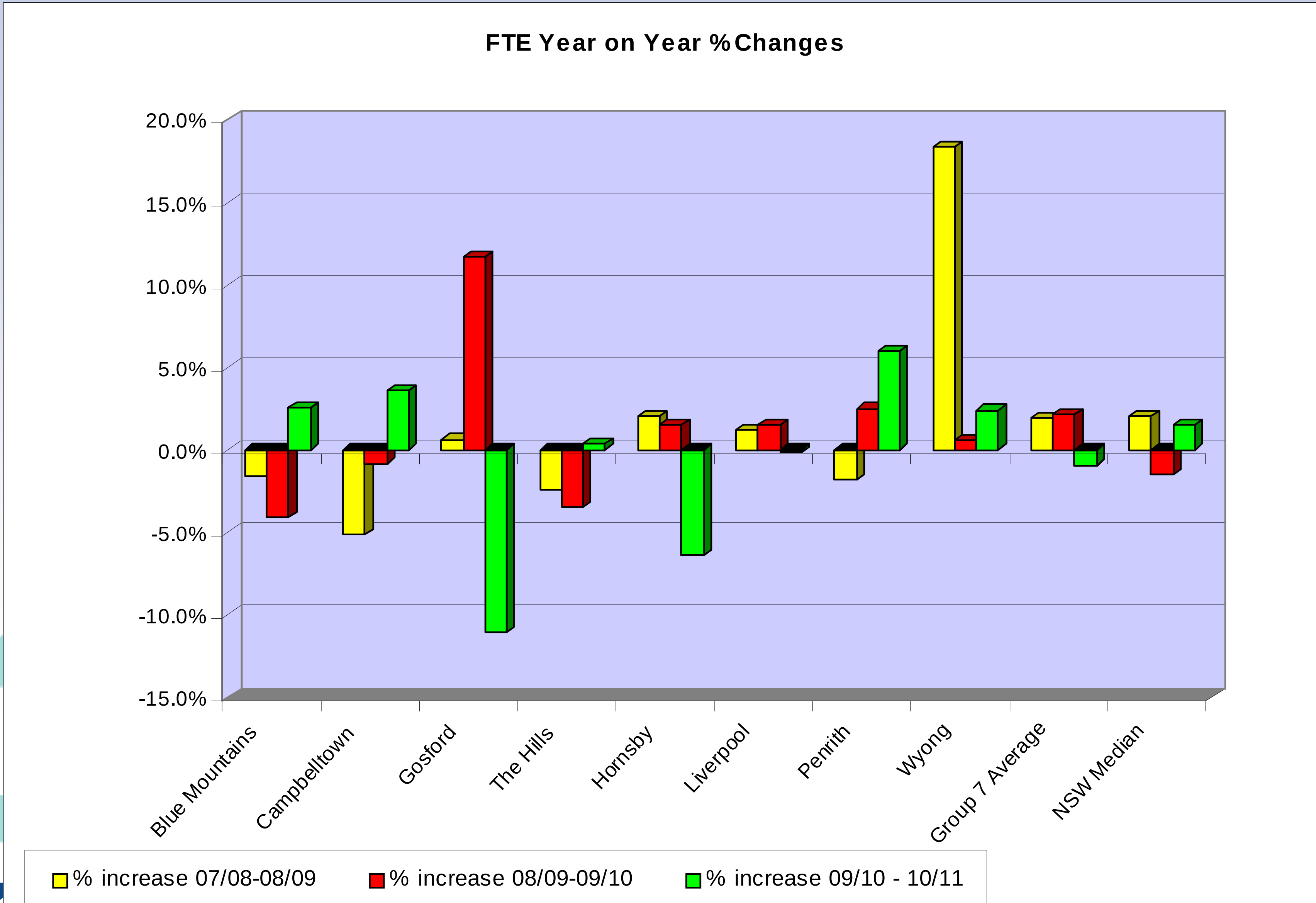
- The FTE (full-time equivalent) figure is based on the total number of full or part-time staff and casual staff on council's payroll on the last payday of June in each year
- Some factors affecting the FTE indicator are:
  - budget & organisation structure
  - use of casual and contract staff
  - whether Council has created or reduced services over the period
- The FTE measure gives an indication of the efficiency with which staff resources are being managed and, when read in conjunction with employee costs data, indicates whether staff numbers *and associated costs* are being actively managed year on year

Number of FTE



% FTE Increase or Decrease Year on Year

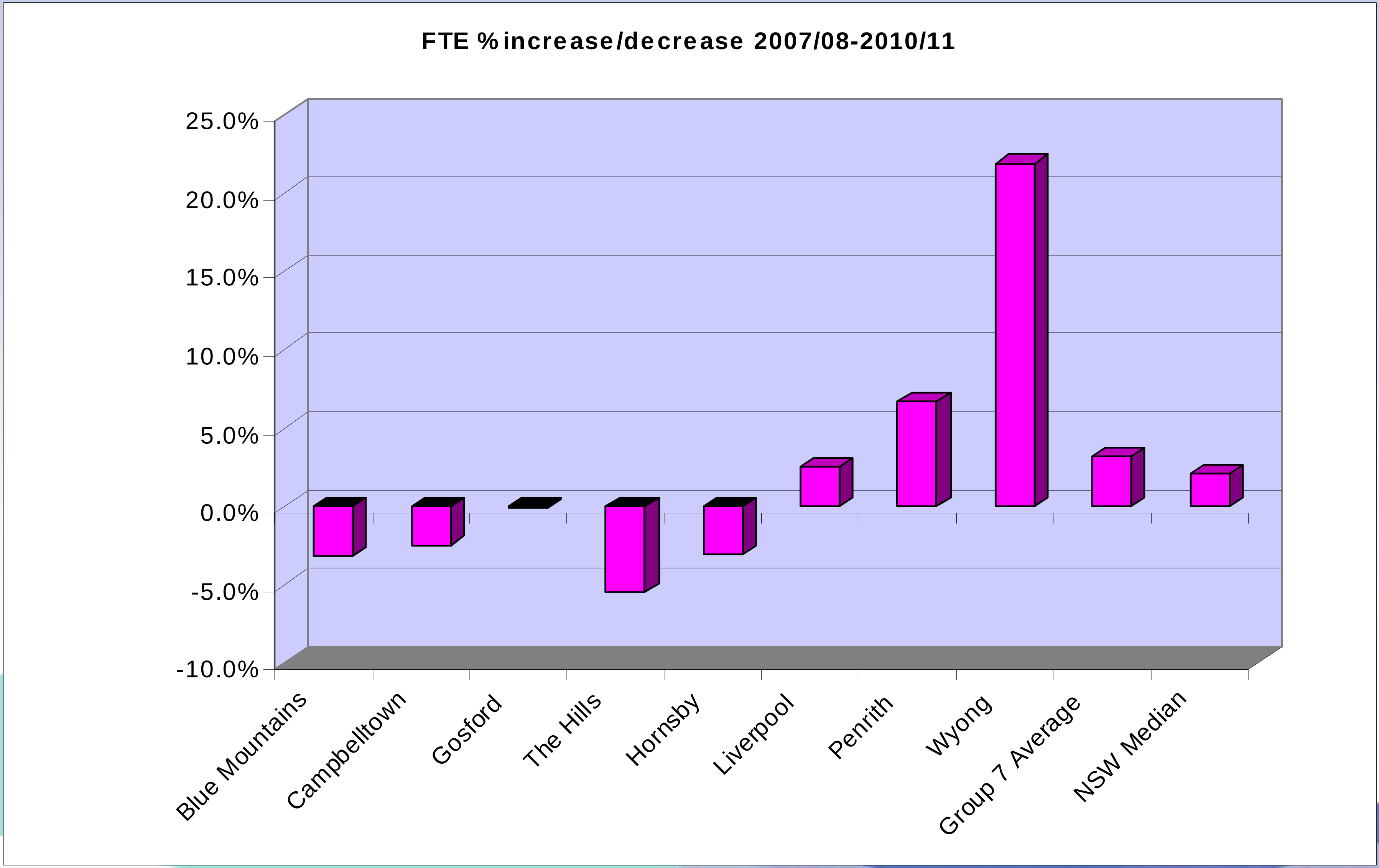
(decrease shown as negative figure)



Shire Council
CENTRAL COAST

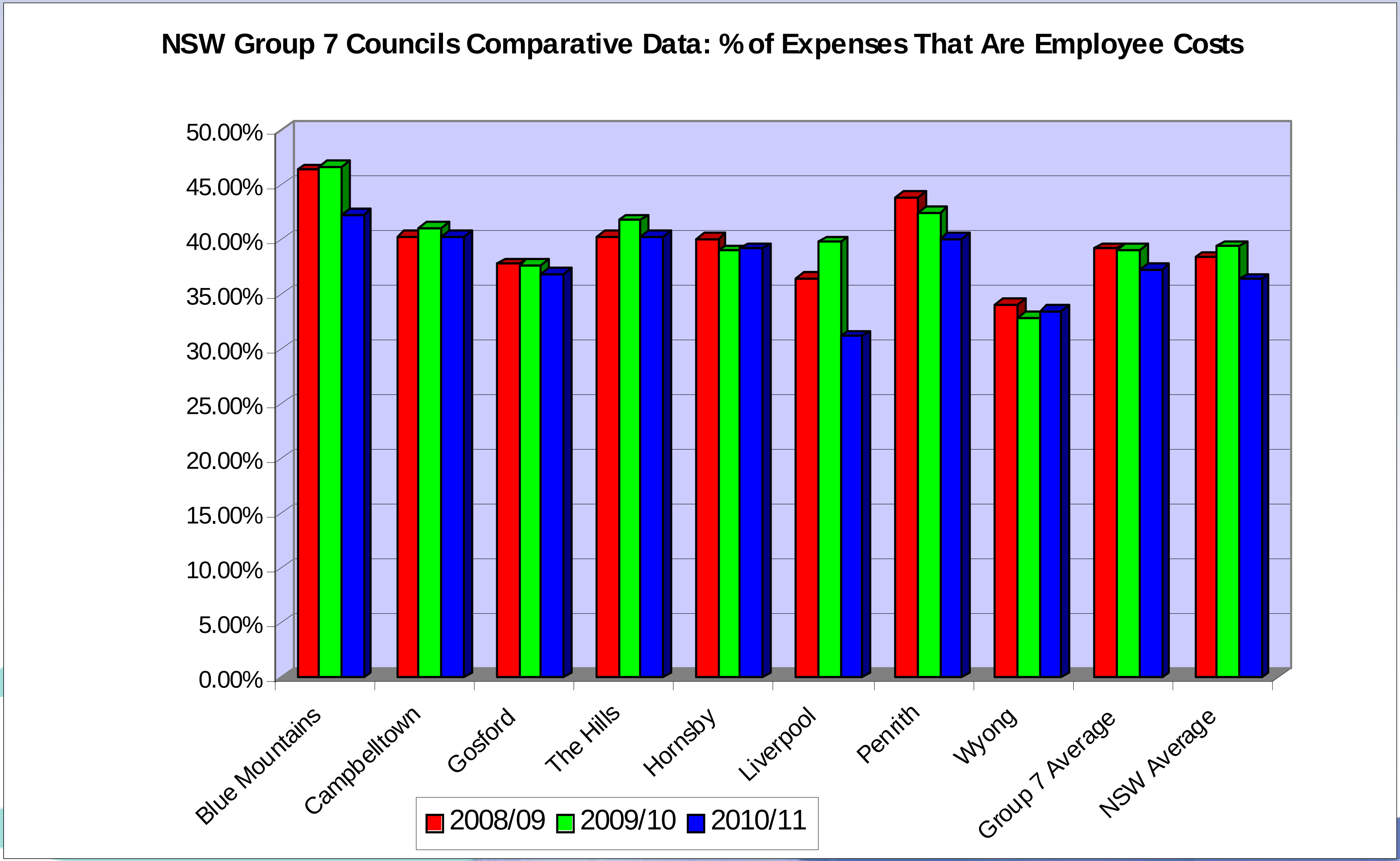
% FTE Overall Increase/Decrease Since 2007/08

(decrease shown as negative figure)



Wyong Shire Council
CENTRAL COAST

Expenses From Continuing Operations: Employee Costs



Wyong Shire Council
CENTRAL COAST

The Environmental Management Measure

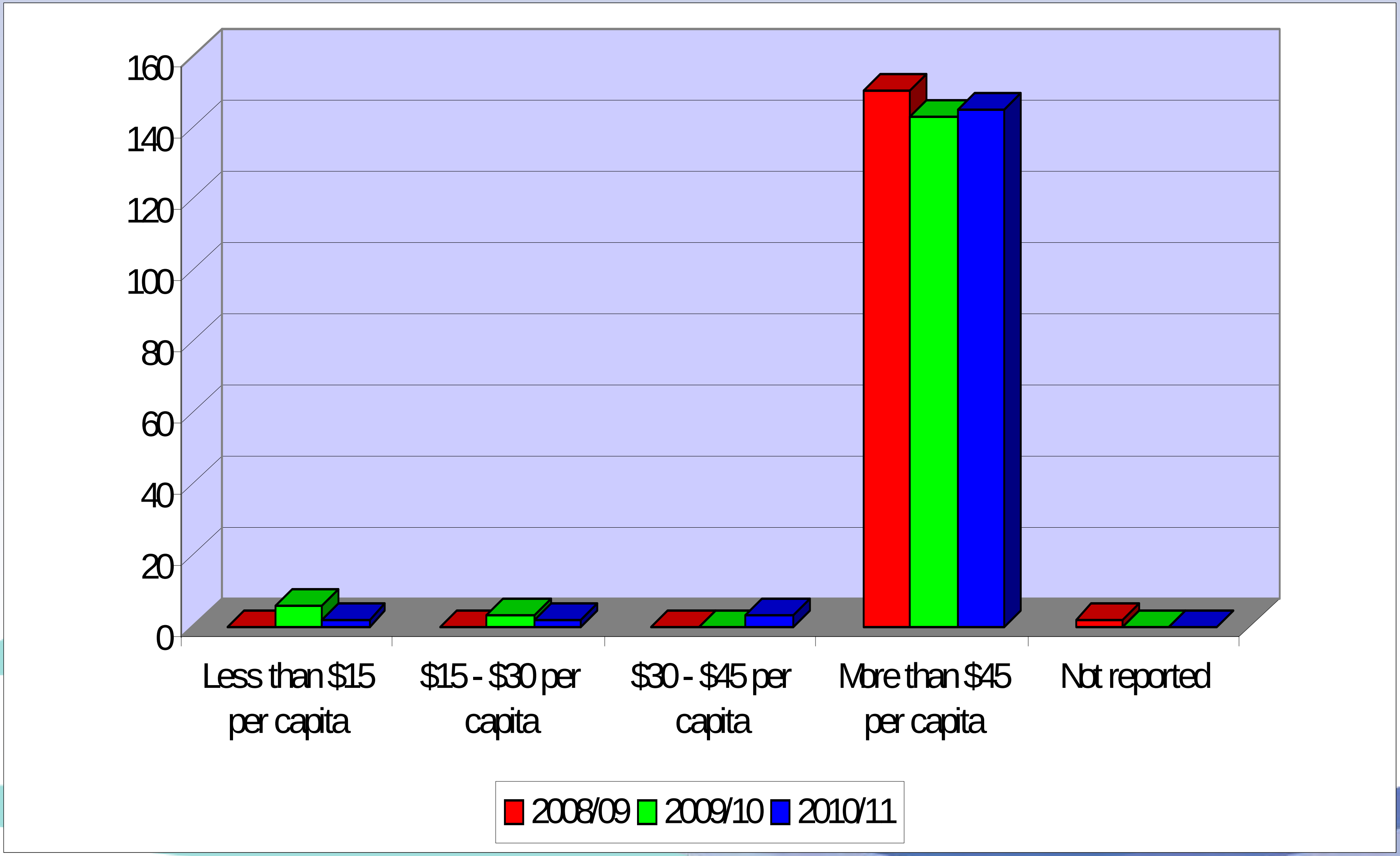
- This is an amended KPI which measures the amount spent on environmental management activities per capita.

- The measure includes key activities such as:
  - noxious plant and insect/vermin control
  - solid waste management
  - street cleaning
  - drainage
  - stormwater management
  - environmental protection

- Factors affecting this indicator include:
  - Number of environmental management staff employed
  - Council policies about regulation
  - Land usage mix
  - Council services provided
  - Population

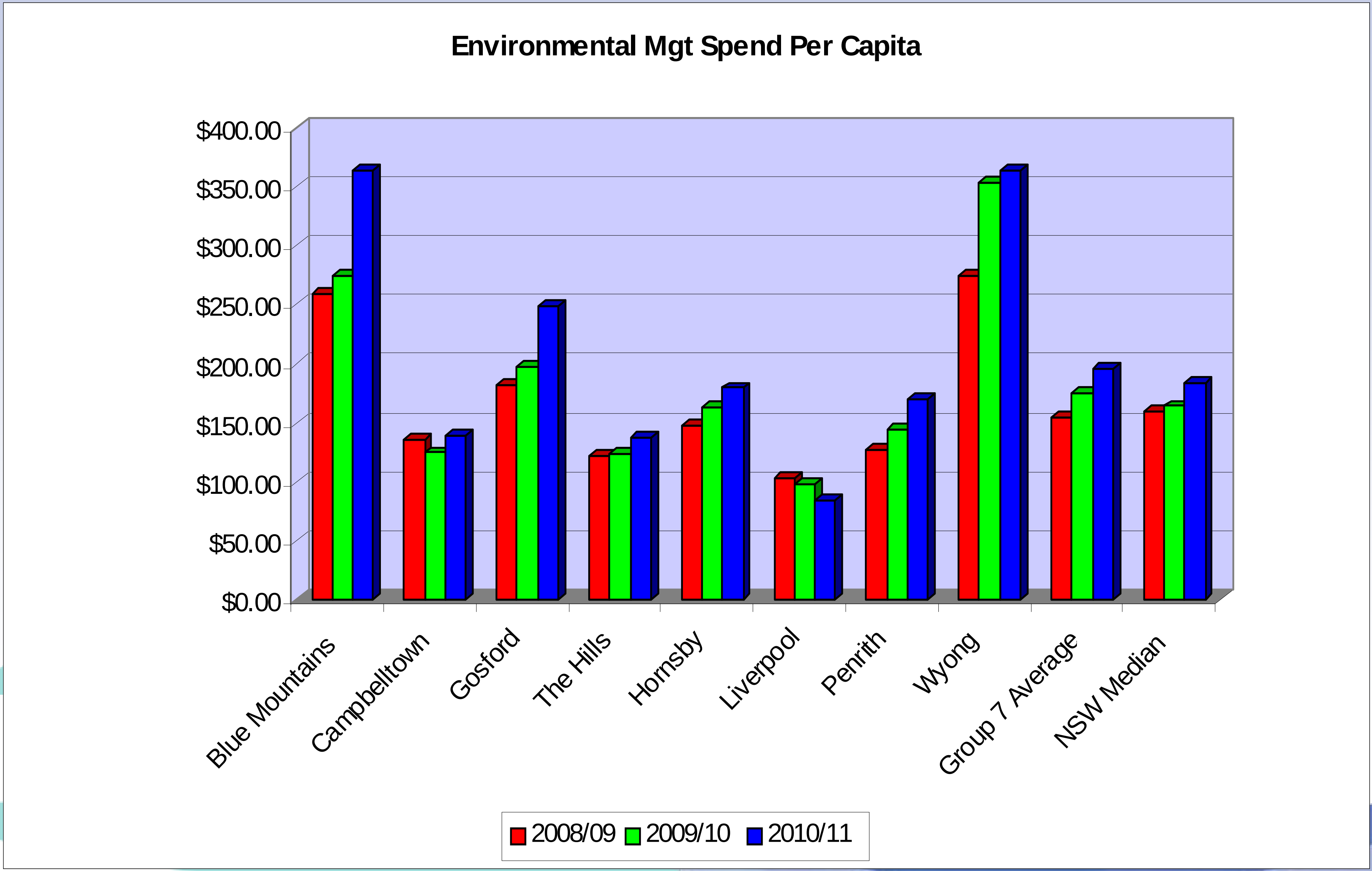
Wyong Shire Council
CENTRAL COAST

Range of Environmental Management Expenses Per Capita for all NSW Councils



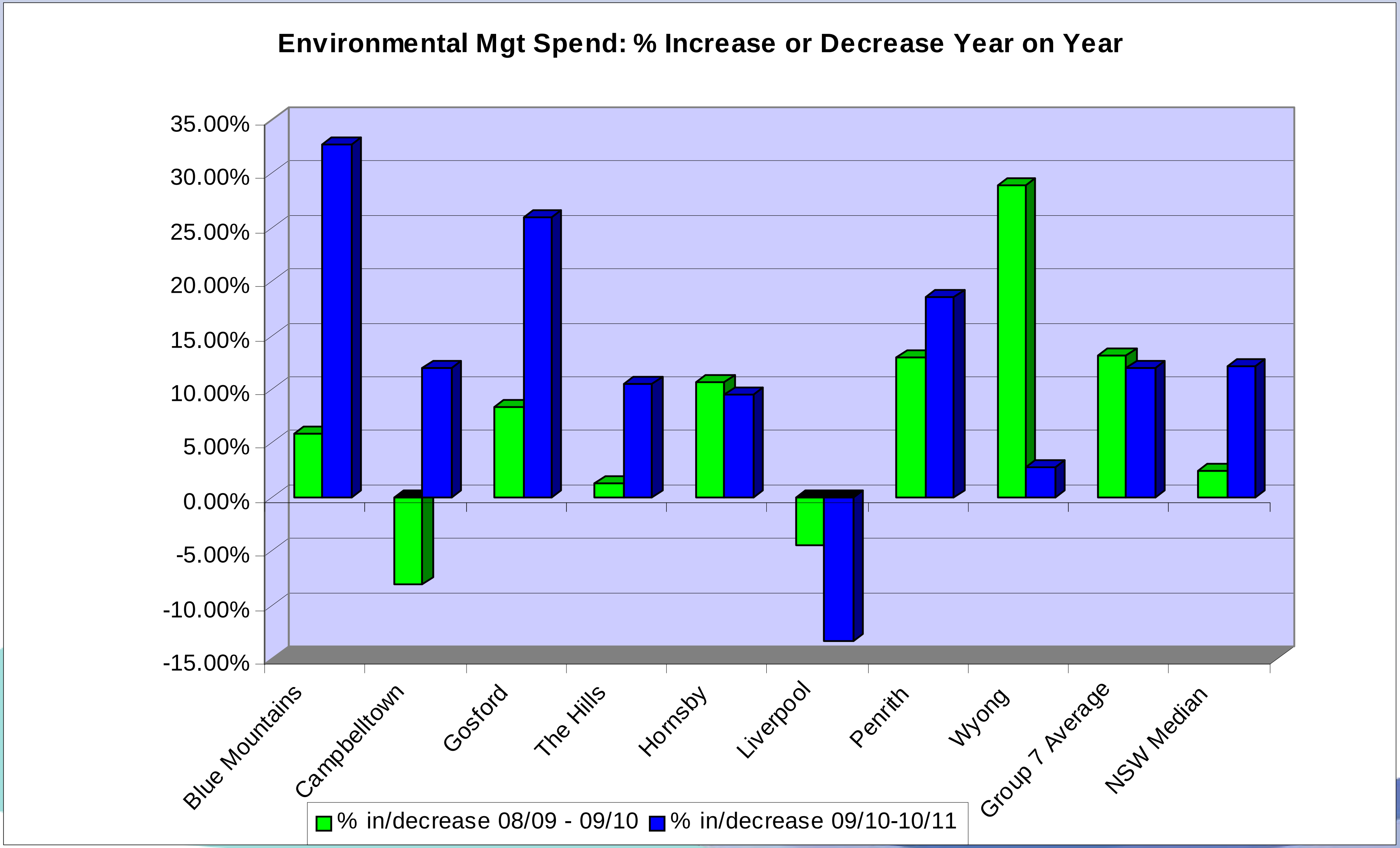
Wyong Shire Council
CENTRAL COAST

Environmental Management Expenses Per Capita



Wyong Shire Council
CENTRAL COAST

Increase/Decrease in Environmental Mgt Expenses Per Capita 2008-2011 (decrease shown as negative figure)



Wyong Shire Council
CENTRAL COAST

The Recreation, Leisure & Cultural Services Measure

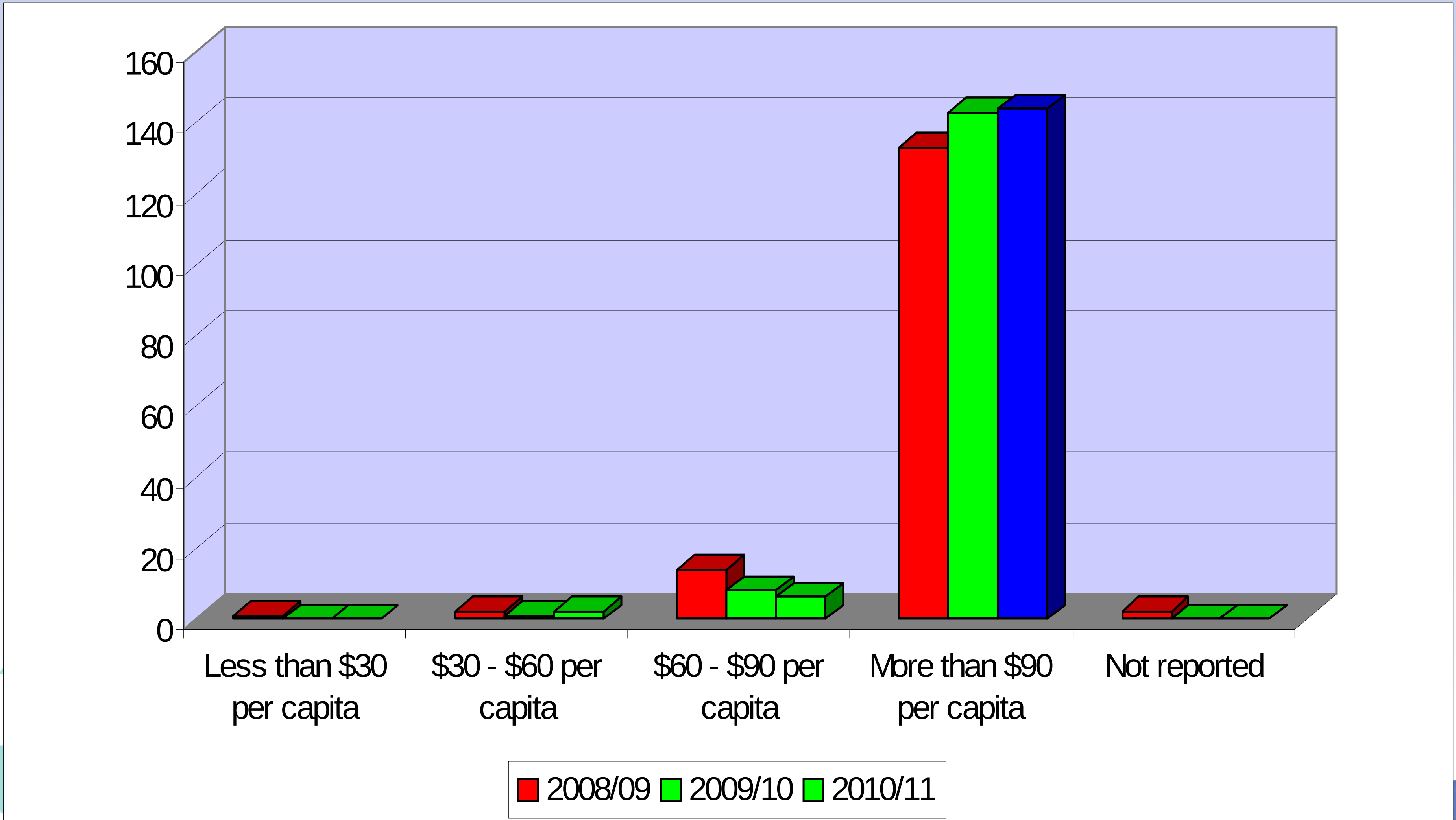
- This is an amended KPI which now includes cultural activities in the measure.

- Councils are encouraged to develop and implement strategies that will result in more people becoming physically active.

- The measure includes the provision of services such as:
  - parks and playing fields
  - swimming pools
  - beach patrols
  - tennis courts and multi-purpose recreation facilities
  - libraries and museums

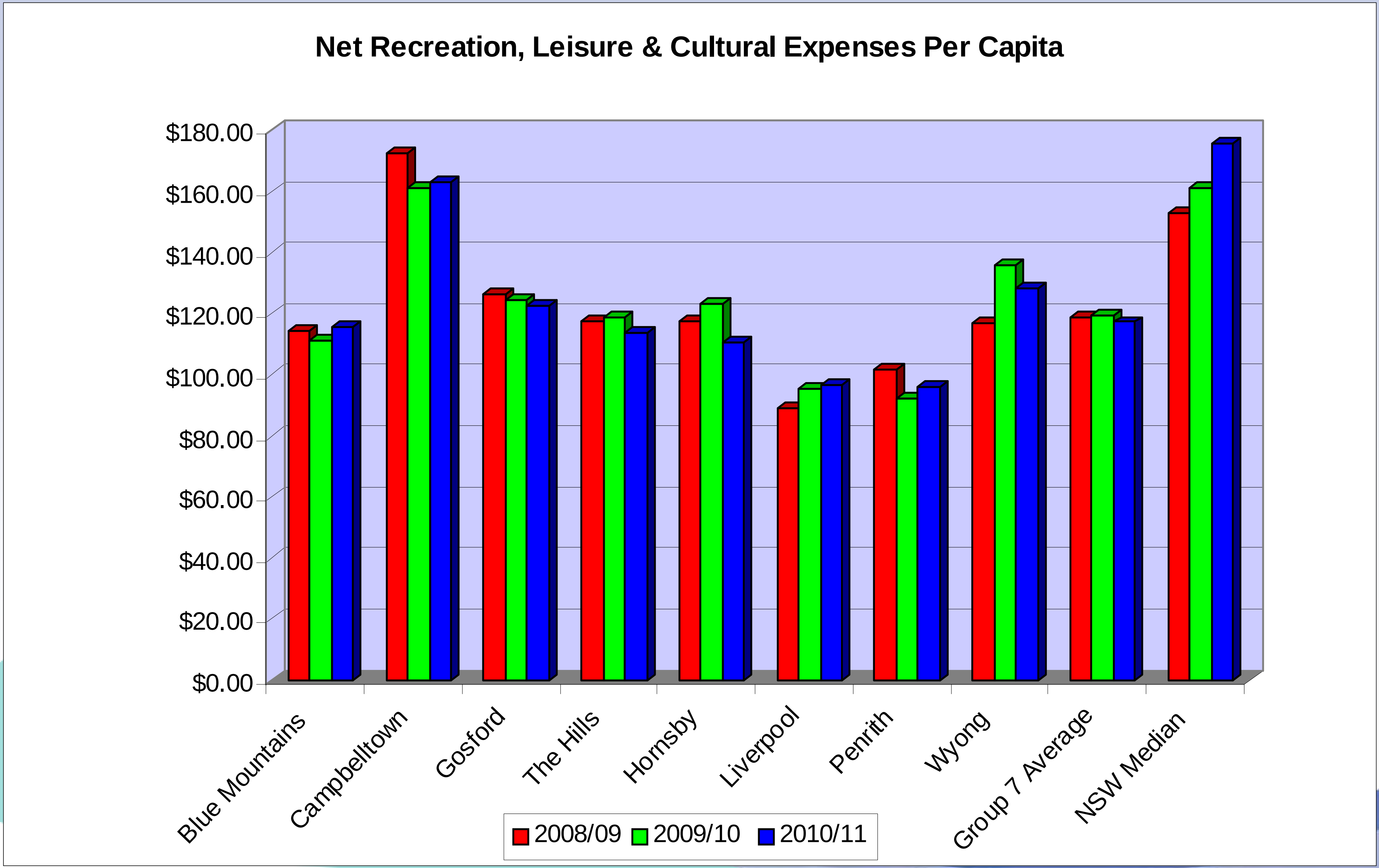
- Factors affecting this indicator include:
  - Size, type and number of facilities
  - Council's policies on 'user pays' principle and cost allocation practices
  - Available open space and natural resources
  - Population mix
  - Amount of non-resident (eg tourist) usage

Range of Net Recreation, Leisure & Cultural Services Expenses Per Capita for all NSW Councils



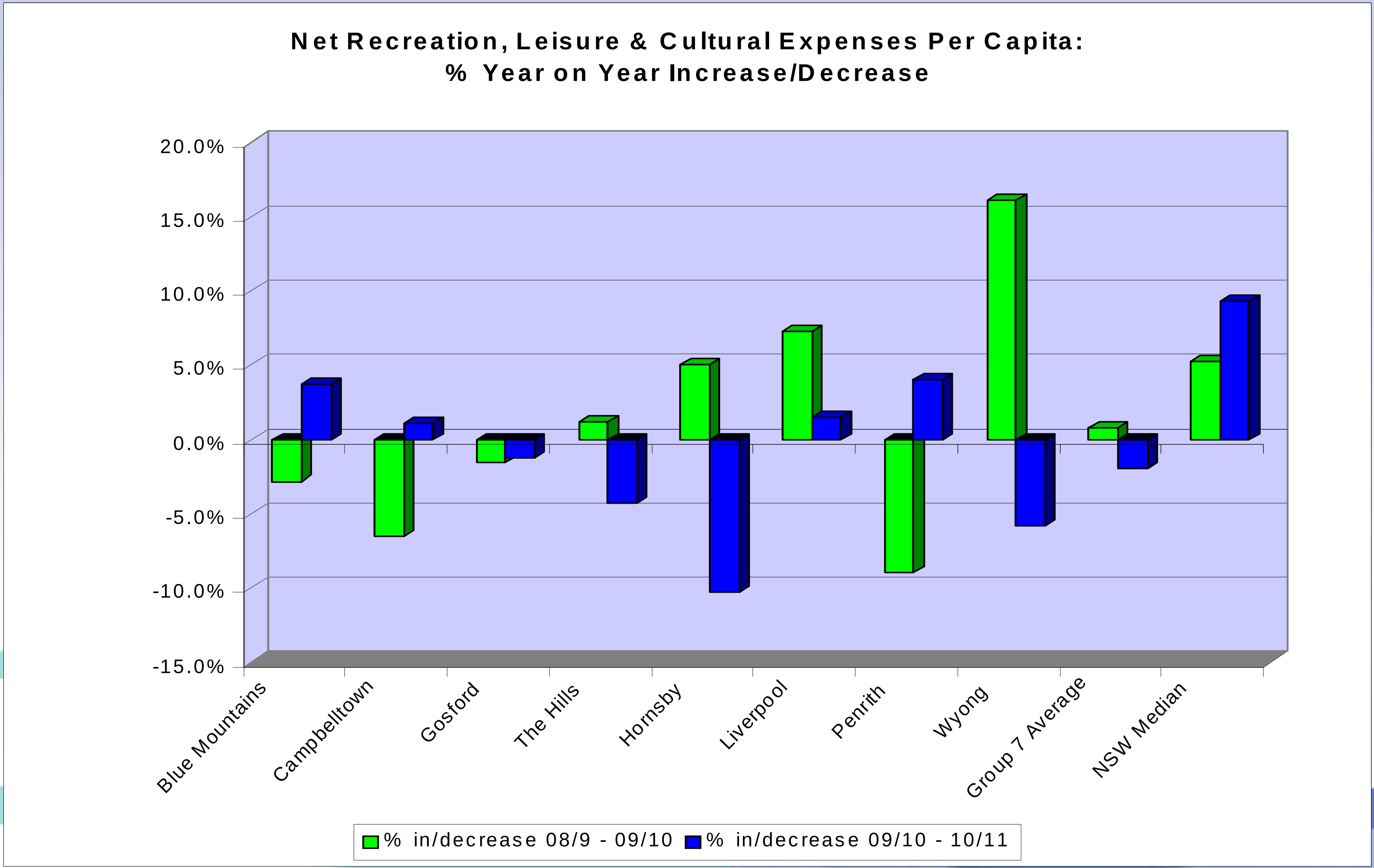
Wyong Shire Council
CENTRAL COAST

Net Recreation, Leisure & Cultural Expenses Per Capita



Wyong Shire Council
CENTRAL COAST

Increase/Decrease in Net Recreation, Leisure & Cultural Expenses Per Capita 2008-2011 (decrease shown as negative figure)



Wyong Shire Council
CENTRAL COAST

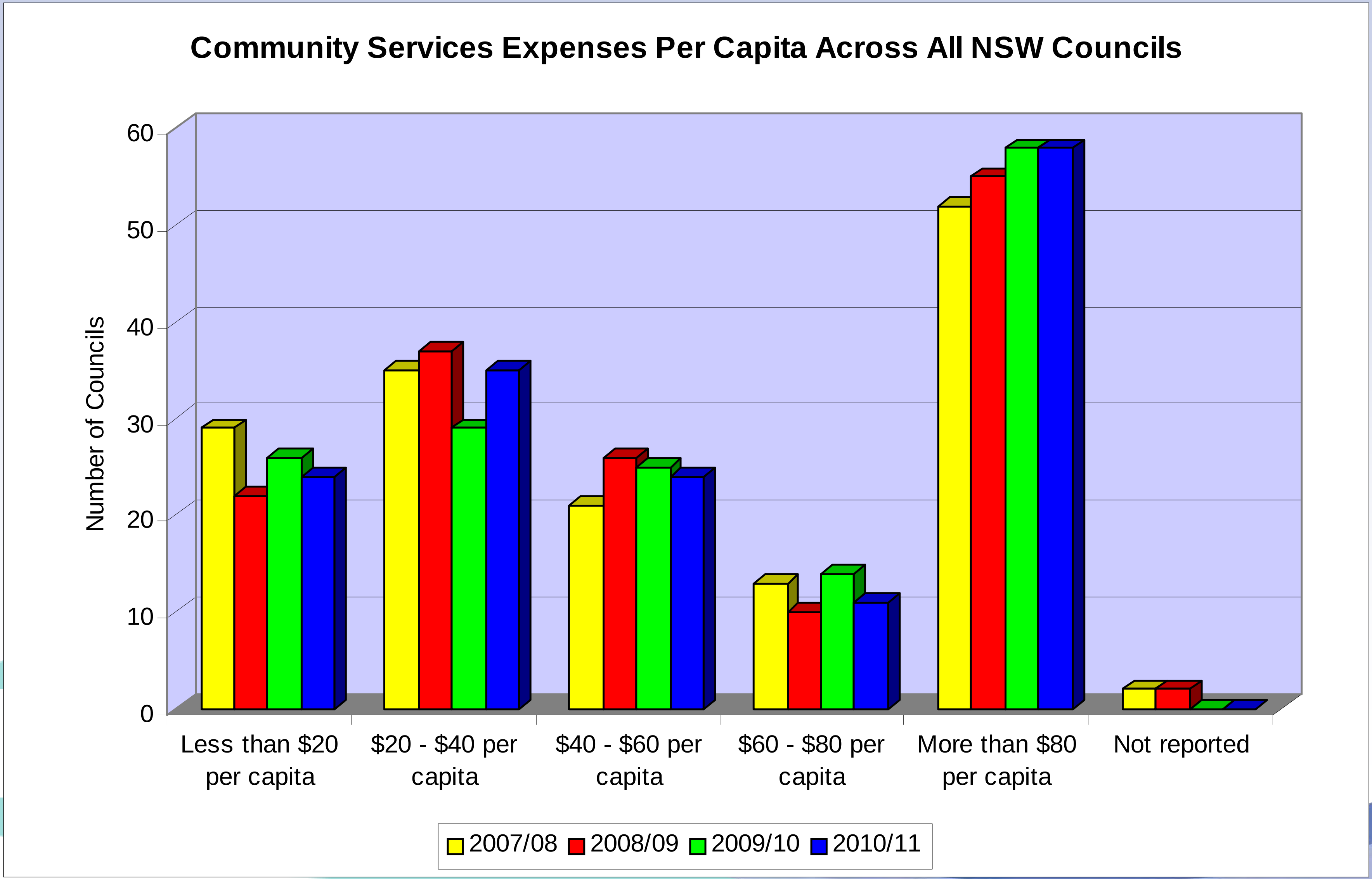
The Community Services Measure

- This measure includes the provision of services such as:
  - community centres and halls
  - senior citizen centres
  - aged care centres
  - childcare centres
  - youth centres
  - programmes/services for groups in the community with specific needs eg the aged, the disabled, Aboriginal and Torres Strait Islanders, poeple for diverse cultural and linguistic backgrounds

- Factors affecting this indicator include:
  - The number of community services staff employed
  - The number and ragne of community services provided
  - The population mix and diversity
  - The availability of funding
  - Socio-economic factors
  - Council policies and the amount of non-resident usage (eg tourism)
  - Council cost allocation practices
  - Short term programmes
  - Whether Council adopts a ‘user pays’ or ‘user contributes’ policy and/or whether some services/facilities are free or heavily subsidised

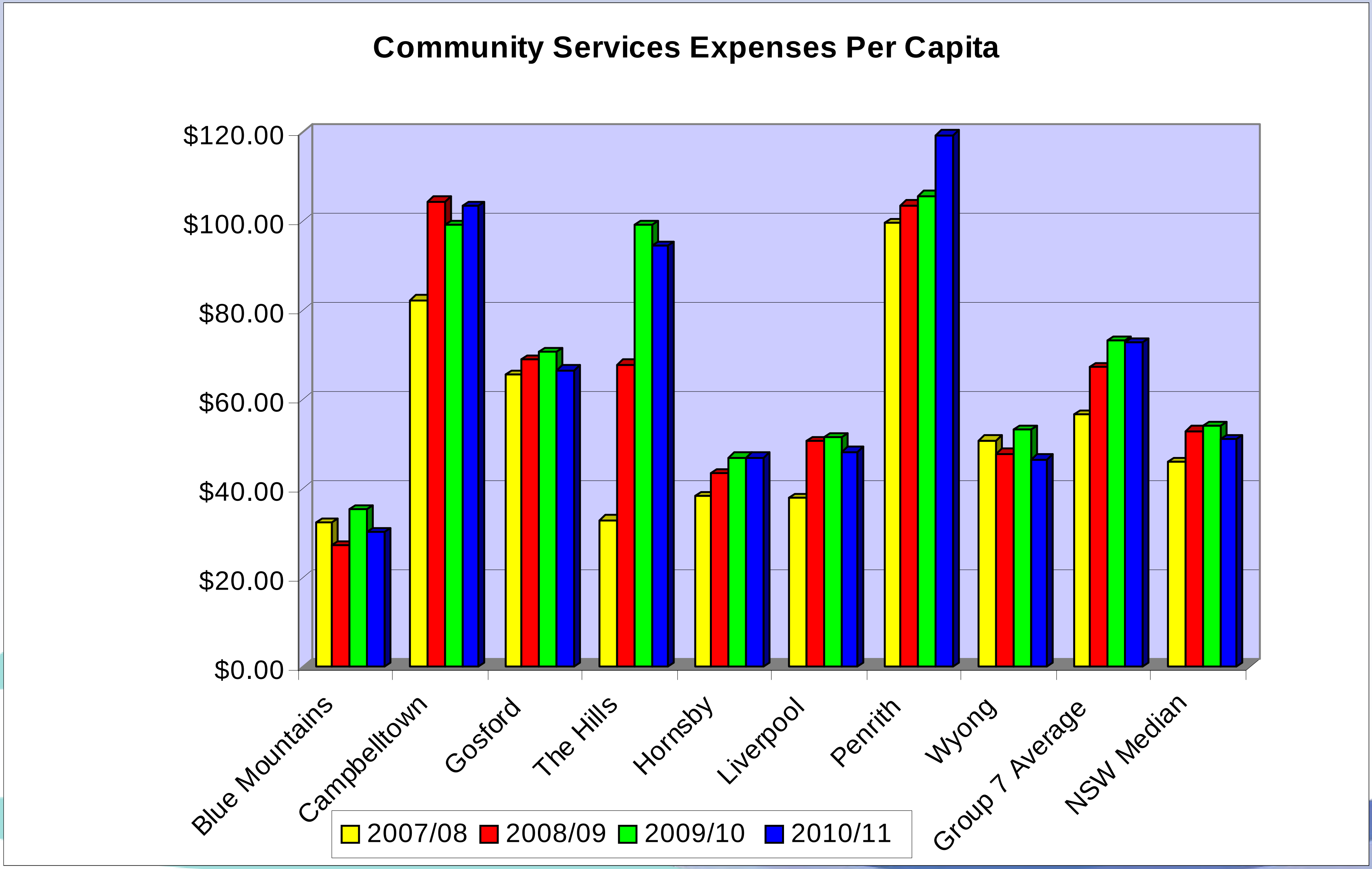
Wyong Shire Council
CENTRAL COAST

Range of Community Services Expenses Per Capita for all NSW Councils



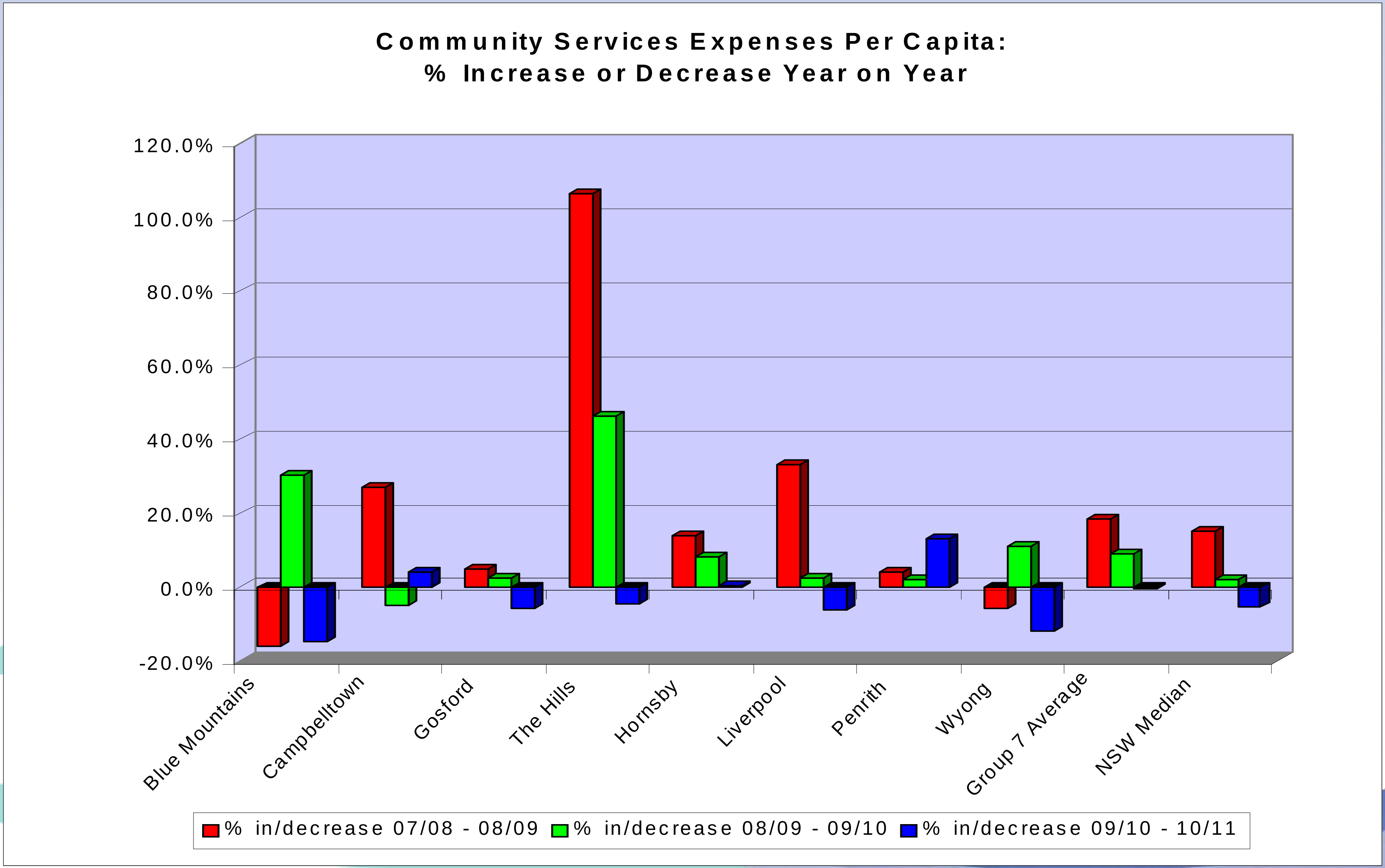
Wyong Shire Council
CENTRAL COAST

Community Services Expenses Per Capita



Wyong Shire Council
CENTRAL COAST

Increase/Decrease in Community Services Expenses Per Capita 2007-2011 (decrease shown as negative figure)



Wyong Shire Council
CENTRAL COAST

The Public Order & Safety Measure

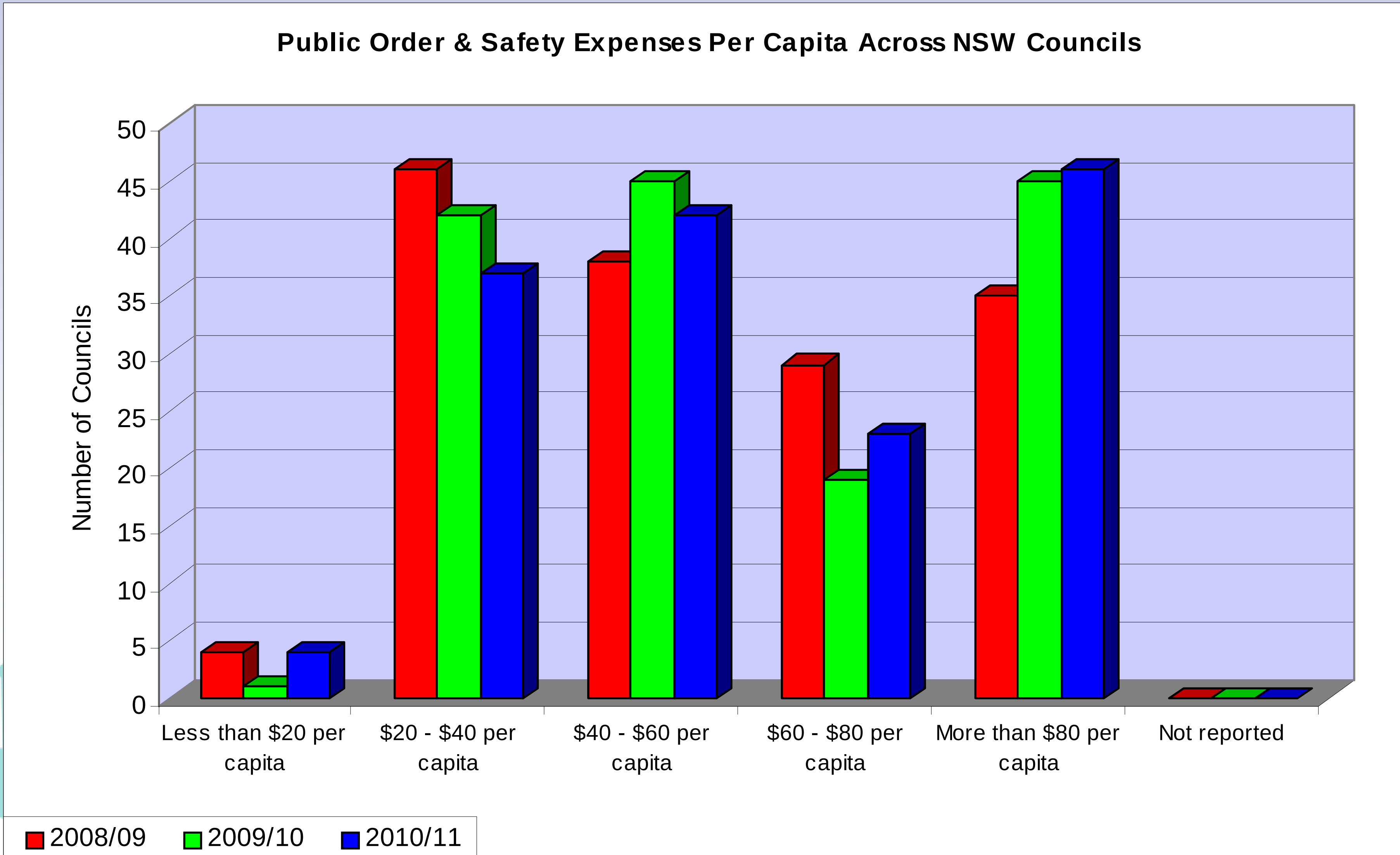
- This is a new measure

- This measure includes the provision of services such as:
  - facilities such as the Rural Fire Service and other emergency services
  - animal shelters
  - Surf life saving

•This measure includes the provision of services such as:

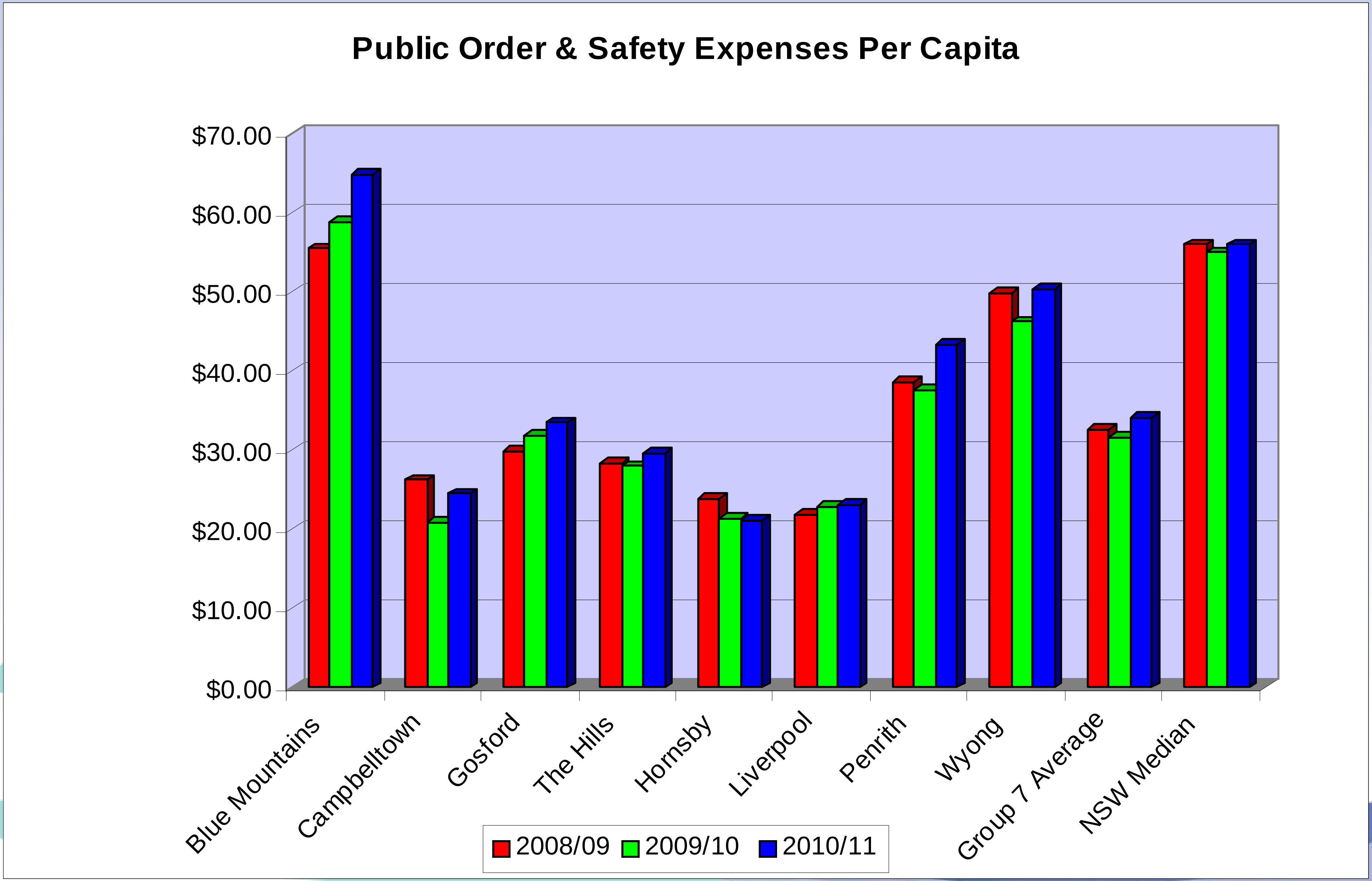
- Factors affecting this indicator include:
  - The number and range of services provided
  - Socio-economic factors
  - Council location and environmental factors
  - Short term programmes

Range of Public Order & Safety Expenses Per Capita for all NSW Councils



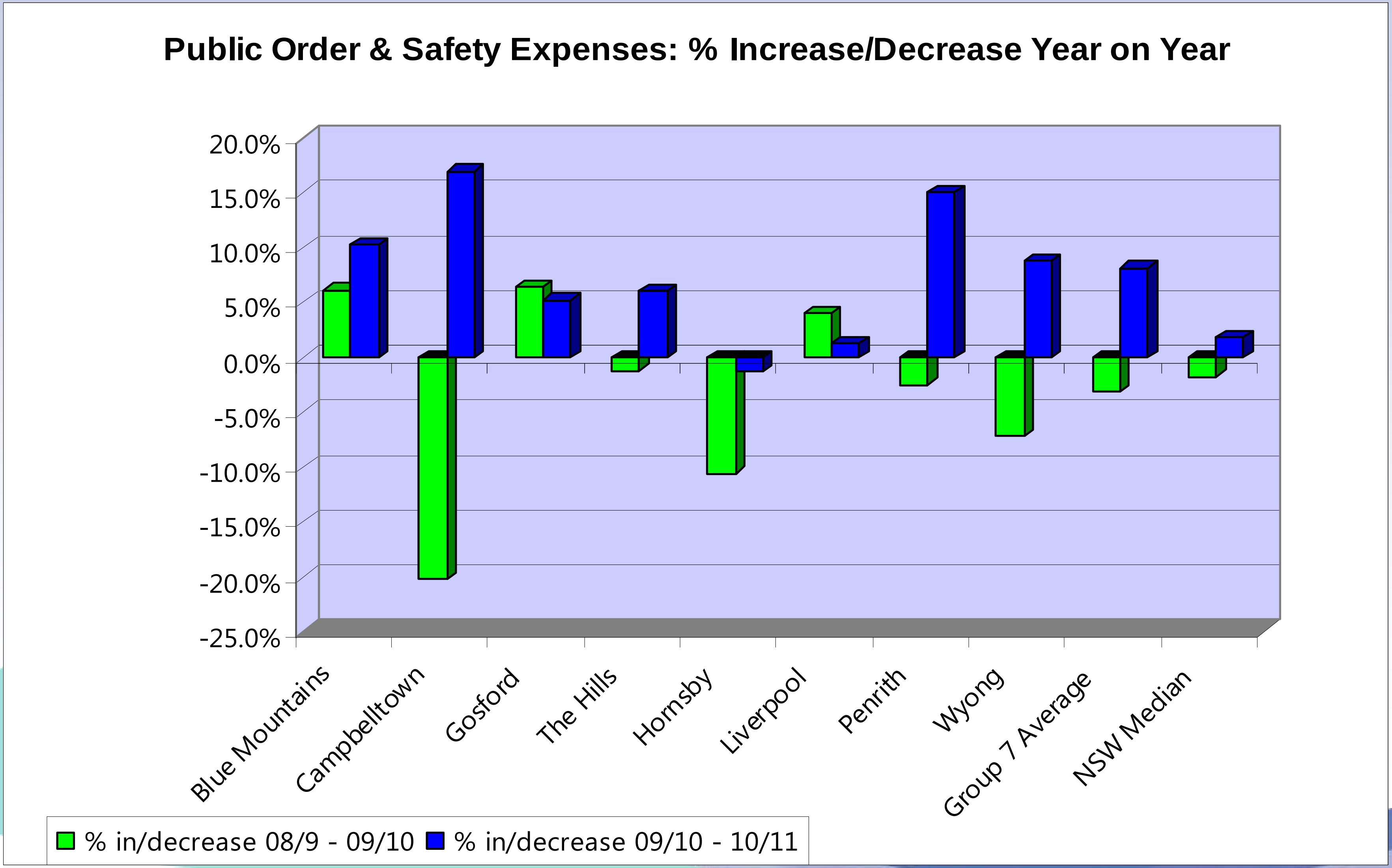
Wyong Shire Council
CENTRAL COAST

Public Order & Safety Expenses Per Capita



Wyong Shire Council
CENTRAL COAST

Increase/Decrease in Public Order & Safety Expenses Per Capita 2008-2011 (decrease shown as negative figure)



The Health Measure

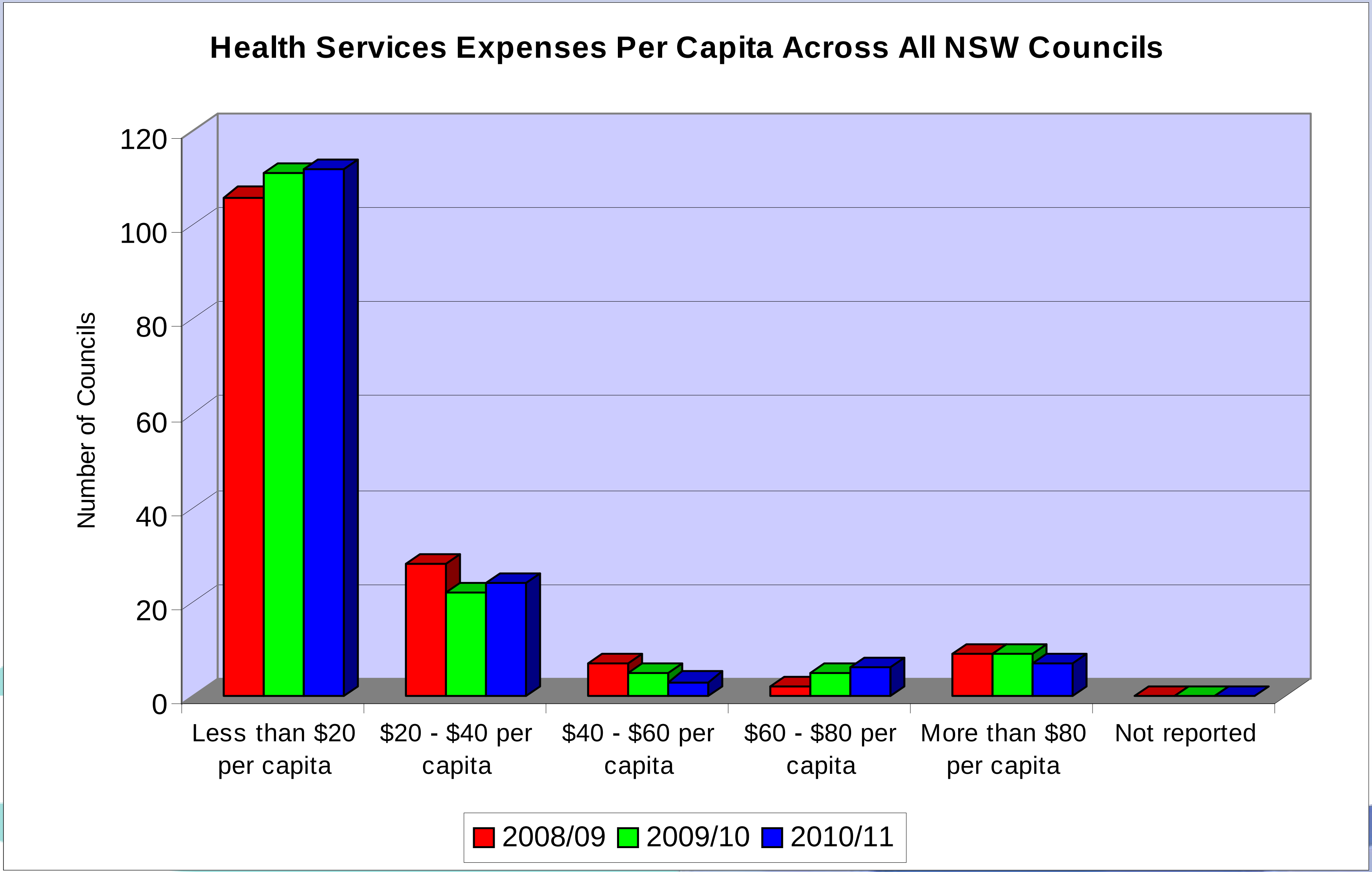
- This is a new measure (previously it used to form part of the Environmental Management measure)

- This measure includes the provision of services such as:
  - administration and inspection
  - food control
  - health centres
  - provision of staff and services for groups in the community with specific needs

- Factors affecting this indicator include:
  - the number of health services staff employed
  - the number and range of health services provided
  - socio-economic factors
  - the availability of funding
  - short term programmes

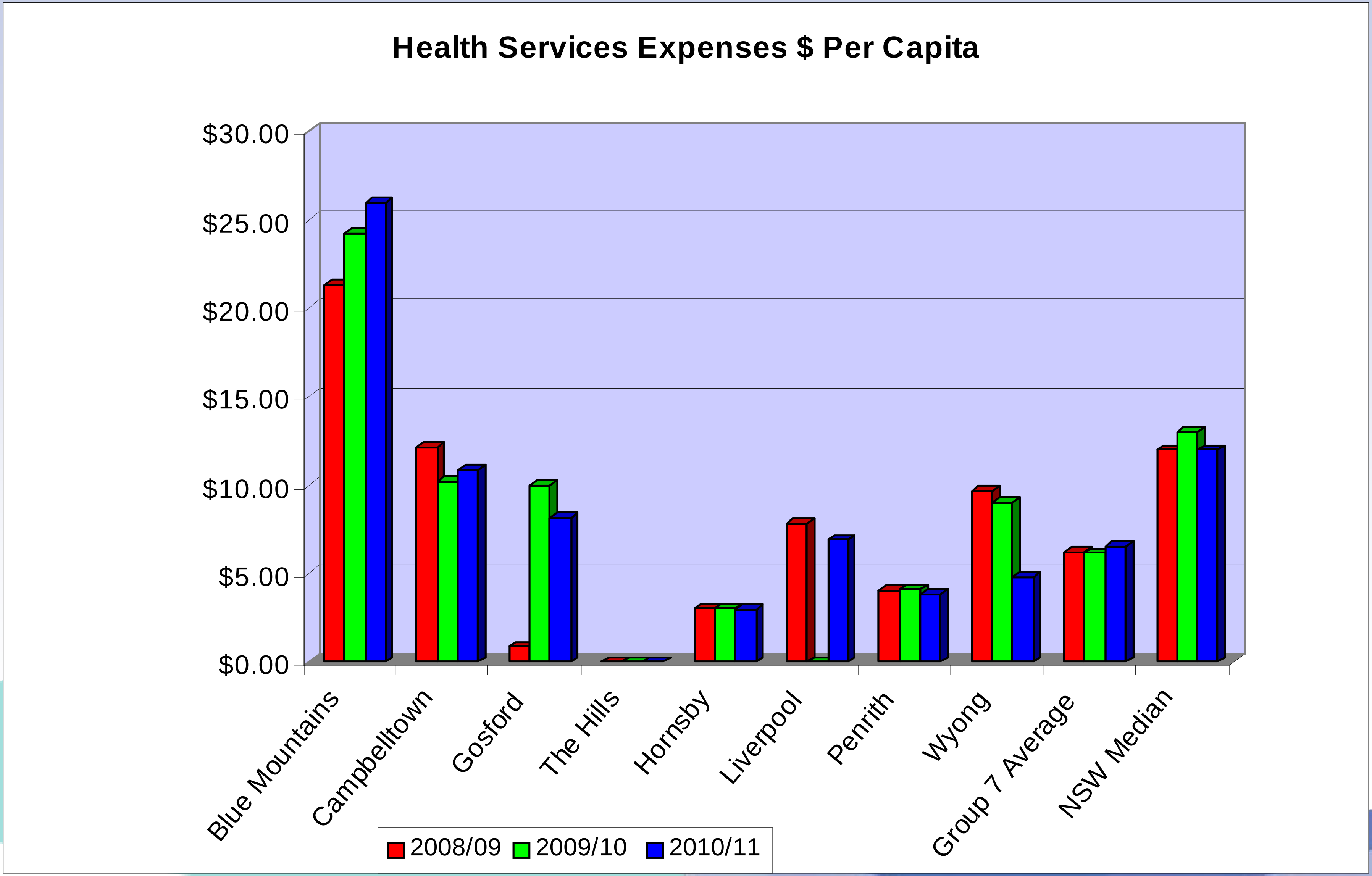
Wyong Shire Council
CENTRAL COAST

Range of Health Services Expenses Per Capita for all NSW Councils

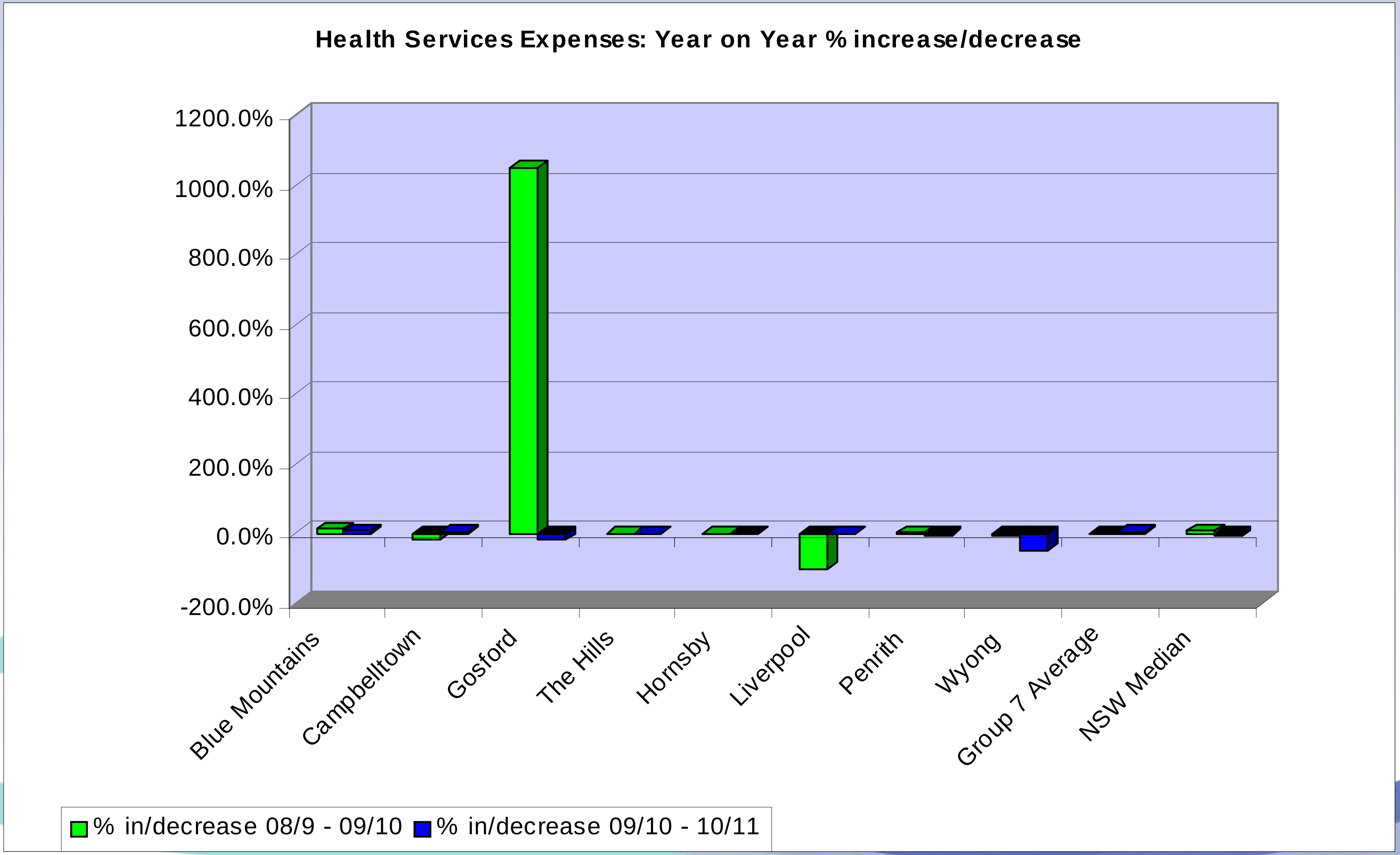


Wyong Shire Council
CENTRAL COAST

Health Services Expenses Per Capita



Increase/Decrease in Health Services Expenses Per Capita 2008-2011 (decrease shown as negative figure)

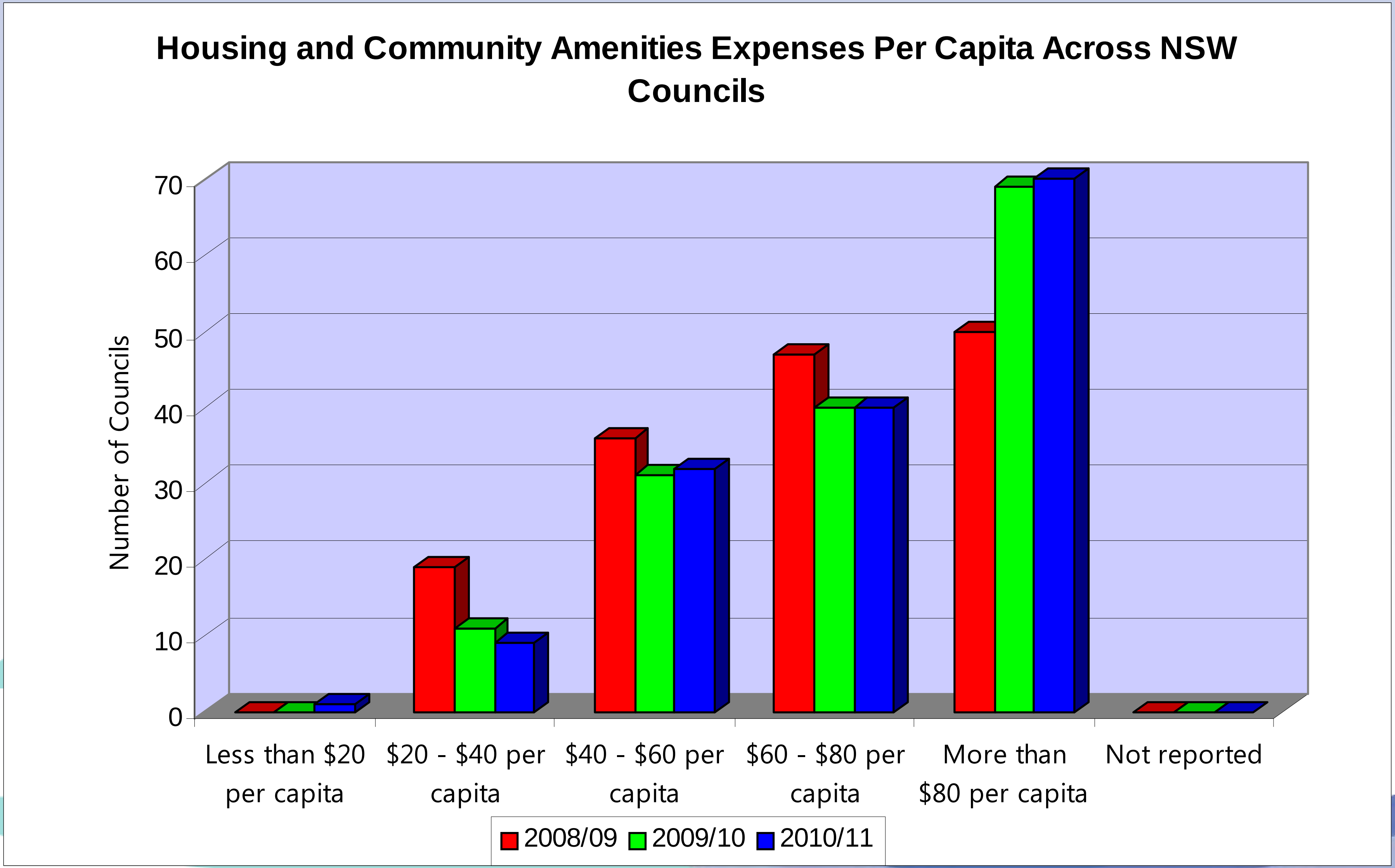


Wyong Shire Council CENTRAL COAST

The Housing & Community Amenities Measure

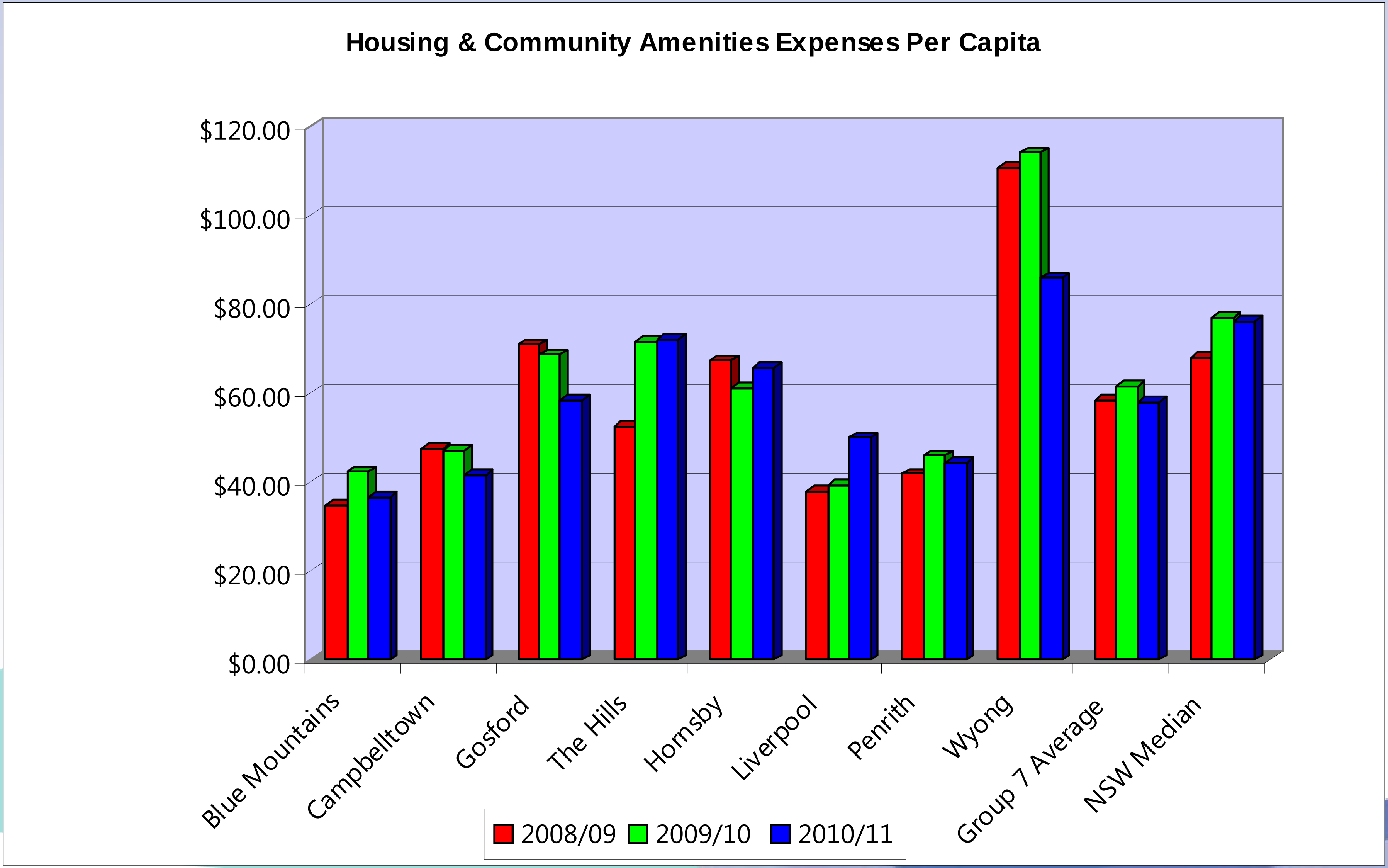
- This is a new measure
- This measure includes the provision of services such as:
  - public cemeteries
  - public conveniences
  - street lighting
  - town planning
- Factors affecting this indicator include:
  - the number of staff employed for the provision of the amenities
  - the number and range of services provided
  - Council policies
  - Council cost allocation practices
  - short term programmes

Range of Housing and Community Amenities Expenses Per Capita for all NSW Councils



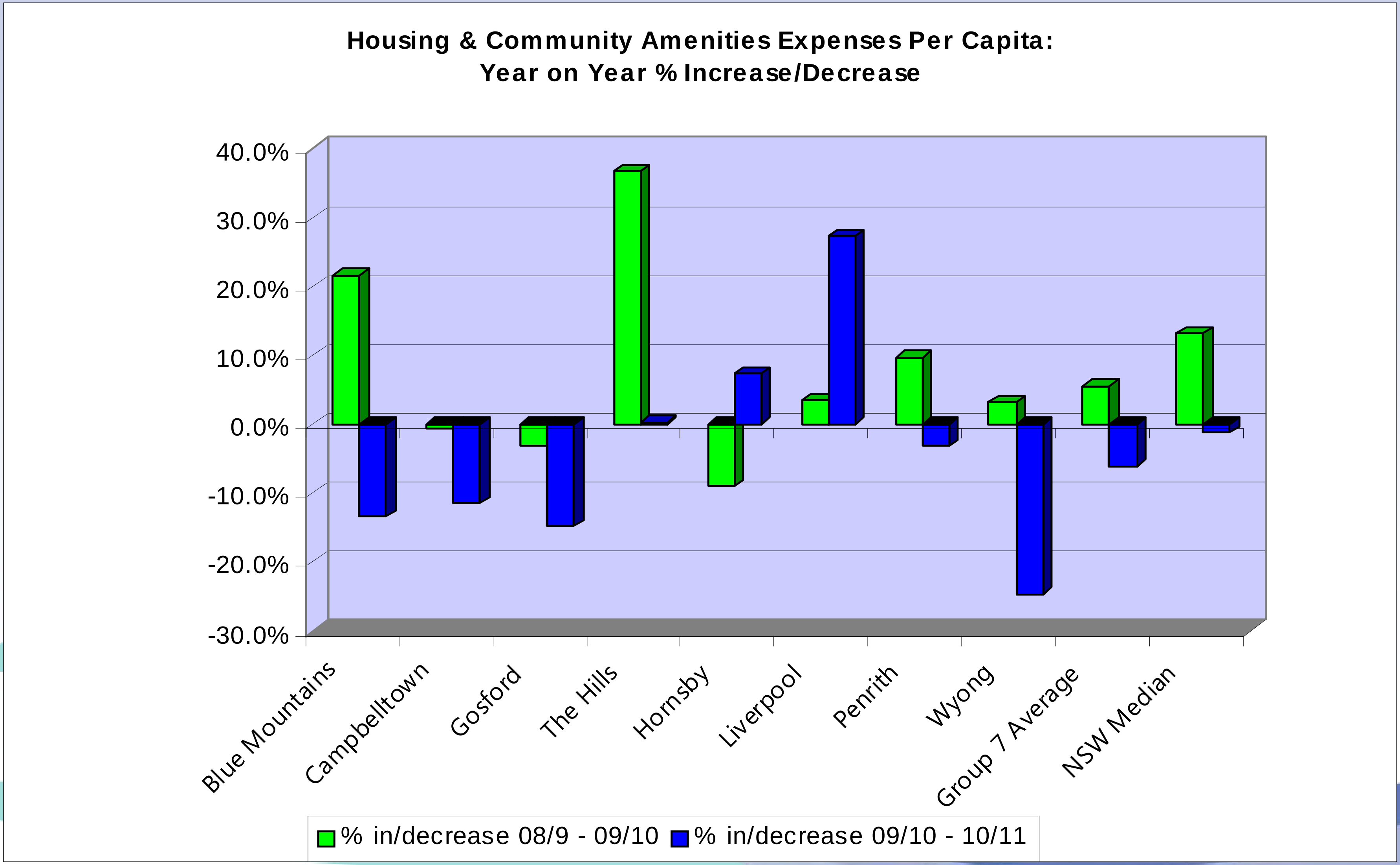
Wyong Shire Council
Central Coast

Housing & Community Amenities Expenses Per Capita



Wyong Shire Council
CENTRAL COAST

Increase/Decrease in Housing & Community Amenities Expenses Per Capita 2008-2011 (decrease shown as negative figure)



Wyong Shire Council
CENTRAL COAST

Key Messages From The Service Provision Data

Corporate KPI: FTE

- small shifts from year to year can be misleading because of timing and FTE position when the data is taken, so the overall trending is key.
- In Group 7, only The Hills have demonstrated a gradual (year on year) reduction in FTE numbers since 2007/08. Wyong is the only Council in the group to show an increase in FTE year on year since 2007.

Environmental Management KPI: Amount Spent on Environmental Management Activities Per Capita

- Wyong and the Blue Mountains are significantly higher than the rest, coming in at over $363 per capita for 2010/11, which is more than double the rest of the Councils in the group, except for Gosford which spends $249 per capita.
- Within Group 7, only Liverpool Council has decreased spending year on year since 2008/09 within this activity.

Key Messages From The Service Provision Data

Recreation, Leisure & Cultural Services KPI: Net Recreation, Leisure and Cultural Expenses Per Capita

- There has been quite a bit of fluctuation across this activity since 2008/09, although the changes in spend year on year tend to be fairly minor.
- Campbelltown has the highest expenditure for 2010/11 at $163 per capita. Wyong is the second highest at $128 and Gosford the third highest at $123. The rest come in at $115 per head or below.

Community Services KPI: Community Services Expenses Per Capita

- This measure probably shows the greatest fluctuation in per capita spend across the group for 2010/11, with Penrith spending the most at $119 per person and Blue Mountains spending approximately just a quarter of this amount at $30 per head.
- For the same period, Wyong spent $47 which is the lowest spent per capita in the Shire on this activity since 2007/08.
- .

Key Messages From The Service Provision Data

Public Order and Safety KPI: Public Order and Safety Expenses Per Capita

- Wyong ranks in the top 2 in the group for spend per capita on public order and safety.
- For 2010/11 Blue Mountains has significantly higher spend than the rest, at $65 per capita, and Wyong comes in at $50. The rest come in at $43 per capita or below.

Health Services KPI:

- Again Blue Mountains leads the group for 2010/11 with a per capita figure of $26.00.
- The Hills have posted **no spend at all** on this activity since 2008/09.
- Hornsby, Penrith and Wyong all come in at under $5.00 per head.

Wyong Shire Council
CENTRAL COAST

Key Messages From The Service Provision Data

Housing and Community Amenities KPI:

- For 2010/11, Wyong had significantly higher spend per capita than any other Council in Group 7, at $86.00 per head. The Hills came next at $72.00 with the rest coming in at $66.00 per capital or below.

- Although Wyong heads up the Group for per capita spend on this activity, for 2010/11 Wyong also posted the biggest decrease in spend on the previous year. For 2009/10 Wyong's per capita spend was $114.00.

- Penrith has been the Council that has managed to keep its spend on this activity the most stable over the period since 2008/09. The rest show fairly unpredictable fluctuation.

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Wyong LGA

WSC's spending per capita is high or very high for all categories of service provision except Community Services and Health Services. This reflects the type, quality and range of services available and can create an expectation amongst the community of continuing provision at the same level of cost, quantity and quality. Scaling back on services therefore, to help manage the financial position of Council more carefully in future, is likely to cause a degree of angst and concern within the community. This is especially the case in areas where Council services/facilities are subsidised in order to meet a social need within the community. It is always harder to explain why a particular service/subsidy/facility can no longer be provided and to withdraw it, than it is to introduce a new service even at full cost recovery, because certain members of the community have built up a dependency on the service that is already provided at the cost/subsidy at which it is being provided. Inevitably however, changes in the demographics of the region will lead to some services no longer being economically viable whilst demand for new facilities/services will increase. Thus community pressure for the continuation of facilities and services (especially those which are subsidised) therefore is more likely to be based on emotional, financial and vested interest rather than market forces and genuine levels of supply/demand.

Wyong Shire Council
CENTRAL COAST

Risk Outlook: What This Might Mean for Council

- 'User-pays' is an economically sound principle because it tends to apply only to discretionary services and therefore only affects those who use the service and who can choose whether to use the service or not. Going forward, it may be that Council has to apply the 'user-pays' principle even more widely to reach full cost recovery for services.

- Ultimately this could also mean deciding whether full cost services/facilities are actually better managed through genuine market forces leading to Council's withdrawal from the provision of the service completely. This still needs to be balanced with Council's obligations under its charter as set out in Scn 8 of the Local Government Act, in particular to be consistent with and promote the social justice principles of equity, access, participation and rights.

- The same considerations are true of in-house services as well and, of course, changes to in-house service provision are less contentious with members of the public (especially if FTE and employee costs are seen to be rising). Regardless of the outcome of the SRV decision, Council will still need to continue to generate efficiencies and cost-savings and increase revenue. As Managers of community and infrastructure facilities and services have been forced to do in recent years, Managers of in-house services will need to prove that they are fully in command of their business in order to continually demonstrate value for money and warrant retaining the services of their Unit as an in-house provision.

- Optimal efficiency through the accuracy and accessibility of data will be required in management information reports to show and anticipate emerging trends so that timely decisions can be taken on the future provision of services and resourcing for that service.

Conclusion of Comparative Data Analysis of NSW Councils

Service Provision Indicators

Wyong Shire Council
CENTRAL COAST

F2012/00283
D02902061

24 February 2012

Mr Ross Woodward
Chief Executive, Local Government
A Division of the Department of Premier and Cabinet
Locked Bag 3015
Nowra NSW 2541

Dear ~~Mr Woodward~~, Ross

REVIEW OF WYONG SHIRE COUNCIL'S 2010/11 FINANCIAL STATEMENTS

With reference to your letter of 27 January 2012 regarding the recent review of Council's 2010/11 Financial Statements by your Division. Below is Council's response.

Overview

The concerns raised in your letter were recognised by Wyong Shire Council before the 2010-11 Management Plan was adopted. On my appointment in May 2010 I initiated an urgent revision of the draft 2010-2011 Management Plan and targeted a material financial improvement for 2010-11 year reducing the forecast operating deficit from ($30m) to ($17.4m) in the adopted 2010-11 Management Plan.

In addition, during the 2010-2011 financial year a comprehensive analysis of service delivery was undertaken which led to Wyong Shire Council's (WSC) business planning processes taking up preparation of a Strategic Business Plan (for 2011-12 and beyond) in accordance with the new legislation for Integrated Planning & Reporting despite WSC being a Group 3 Council.

Positive strategies were immediately established to:-

- Develop new revenue streams;
- Eliminate the operational deficit within four years;
- Ensure tight management controls over expenditure;
- Align services with the Community Strategic Plan outcomes;
- Ensure detailed service planning was the driver of budget outcomes and asset expenditure;
- Ensure that assets aligned with services;
- Ensure prioritisation of capital expenditure aligned with Strategic Objectives and produced optimal outcomes for the investments made;
- Maximise cost savings available from Shared Services – especially with Gosford City Council; and

2 Hely St / PO Box 20 Wyong NSW 2259 | P 02 4350 5555 | F 02 4351 2098 | E wsc@wyong.nsw.gov.au | www.wyong.nsw.gov.au | ABN 47 054 613 735 | DX 7306 Wyon

- Explore the establishment of a rating base revenue that aligns with the efficient cost of services.

The new Strategic Business Plan for 2011-12 was established based on an organisation-wide Service Delivery Review which pursued major cost-structure improvements and set up a pathway to fiscal sustainability by 2015. A copy of the Service Delivery Review Report is attached as Annexure 1.

The 2009/10 ($30.0m) deficit was reduced to ($17.4m) 2010/11 and a target of ($14.7m) 2011-12 as the first steps in a staged improvement to "break-even operational surplus" by the end of 2014-15 and is on target as reported to Council in the 2011- 12 Q2 Annual Plan and Budget Review Report. (See Annexure 2)

As demonstrated in the 2011-12 Q2 Annual Plan and Budget Review Report, progress during 2011-12 is well on-track for being under target and forecasting for the next two years similarly reflects the intended recovery pathway of having an operational deficit less than ($10.0m) in 2012-13 and (<$5.0m) for 2013-14. In line with our sustainable financial strategy Wyong Shire Council will move into an operational surplus in the financial year 2014-15.

Following on from the Service Delivery Review and with other efficiency improvements Wyong Shire Council will have produced a recurrent $20m turn around on Council's 2012-13 Profit and Loss Statement. Council will pursue three further initiatives to assist in achieving our sustainable financial position. These are:-

- Gaining a permanent increase in rating revenue to a level that aligns with the true cost of efficient service delivery at a standard comparable with New South Wales benchmarks;
- Realising the substantial operating efficiencies to be gained from establishing shared services between Gosford and Wyong to capture long-term economies of scale; and
- Developing alternative income streams through the enhancement of Council's property holdings.

Background

Deficits in recent financial years were the cumulative result of a number of factors including:

- A growing population within Wyong Shire. The majority of this growth on the Central Coast is occurring in green-field development areas of the Wyong Shire. This growth has brought with it a need to build and maintain an increasing asset infrastructure portfolio. As you would be aware, under the Sydney Metropolitan Strategy Wyong is targeted with an extra 70,000 residents over the next 20 years.

- Increased demand and expectations for higher quality community services from our residents.

- Costs imported from other levels of government without appropriate financial compensation (e.g. emergency services, weed management, collecting waste levies etc.). Council is now paying various State Government Departments and Agencies in excess of $24m per annum.

- Increasing needs for the maintenance and replacement of assets – which has created significant tension between service levels and rising costs of delivery. While it is noted Council has a capital backlog of $193m (2010-11). This will be reduced to

$163m in 2011-12 and $111m in 2012-13 by Council investing a significant component of its capital expenditure into its existing infrastructure.

- The rate capping system in NSW, whereby Local Government's ability to increase rates has failed to keep pace with the cost of doing business. Rate pegging has generally been consistent with CPI increases whereas the major part of Council's expenditure is civil construction where significant imported costs impose expenditure levels in excess on the CPI.

The Service Delivery Review undertaken in July - Sept 2010 resulted in an organisational restructure, to improve service delivery to the community and to establish financial sustainability for Wyong Shire Council in the long term.

The Review made 77 recommendations and identified 21 additional savings – all of which were adopted by Council and resulted in:-

- Immediate savings from reduced costs $2.6 million annually.
- Increased Revenue $1.0 million annually.
- Production/Productivity increases $4.0 million annually.

The majority of the 77 actions and savings were completed by June 2011 and those that remained, plus many more, were incorporated into the 2011-12 Strategic Plan which has allowed Council to derive the full financial benefits in a practical, staged manner.

The Service Delivery Review provided the impetus to begin a change in organisational culture that is vital to future fiscal sustainability. Wyong Shire Council needed to find new ways of service delivery that maintained service levels but at lower cost.

The draft 2012-13 Annual Plan/ 4-year Delivery Plan has had a strategic sign off by Council on the weekend of 18/19 February 2012. (Note: This will be subject to the statutory public exhibition and adoption in May 2012. This draft budget continues the positive financial trend by forecasting a ($10m) operating deficit).

Detailed below is Wyong Shire Council's response to the specific concerns raised by the Division of Local Government in the correspondence dated 27 January 2012.

1. **Consolidated net operating result before capital grants and contributions has been in deficit for the last 5 years, together with ongoing forecast deficit results in Council's Long Term financial Plan.**

   In June 2010 Council adopted its first Long Term Financial Strategy (LTFS) based on known data <u>before</u> the Service Delivery Review began and <u>before</u> the new financial direction was established.

   The LTFS was subsequently amended (2011-12) and formulated to provide a robust pathway to long-term financial sustainability to ensure that Wyong Shire Council:

   - Has an ongoing ability for the next five years to fund its current level and/or chosen level of services;
   - Can maintain its assets at optimal condition given the service levels required by community;
   - Has the ability to meet the financial impact of any likely significant unplanned event (e.g. major flooding); and

- Meet legislative requirements.

Council's new LTFS (see Annexure 3) provides for a sustainable pathway toward operating "break-even" point by 2015 by establishing target Operating results of:

- 2011/12 Deficit (<$15) million. On track, December 2011 budget forecast full year deficit of $14.7 million.

- 2012/13 Deficit (<$10) million. On track, draft budget $10.0 million deficit endorsed at the Council Strategic Planning Workshop held 10/11 February 2012. Continued improvements in 2012/13 budget process including increased detail in budgets at a service / product level and an increased focus on Fees & Charges.

- 2013/14 Deficit (<$5) million. Service levels to be reviewed and assessed in detail in consultation with the community in 2012/13.

- 2014/15 Break-even/operating surplus achieved via new revenue streams.

To achieve these targets Council has in place a number of strategies including:

- Continuous improvement in financial position and performance. There is a strong, ongoing focus on tight fiscal control over expenditure through strict budget management, monthly budget reporting and reviews, and management control at the point of expenditure commitment;

- Establishment of a Project Assessment Team to oversee the strategic alignment and value of major activity and approve project scopes prior to projects commencing;

- Application of intense controls and focus on labour costs. In 2010/11 employee costs were 33% of recurrent operating expenditure. This expenditure area has been closely managed from June 2010 when the staff FTE peaked at over 1,200 to a FTE capped in 2011/12 at 1,095, and now reduced in 2012/13 to 1,065. This has been done with no material reduction of service to the community or any industrial disputes;

- Establishment of the strategic target of an operating surplus from 2014-15 in the Long Term Financial Strategy;

- Ensuring an equitable rating structure;

- Establish "best value" service delivery that maximises the affordable return to the community;

- Where practical, to achieve full cost recovery for the provision of services;

- Increase funding for asset maintenance and renewal;

- Reviewing its asset portfolio to ensure the assets provide an appropriate benefit to the community and align with Council's strategic direction, for the purpose of considering a range of asset rationalisation options. A review of land categorisation has been completed and a review of Council's asset portfolio will be undertaken in conjunction with community engagement activities in 2012;

- Manage Council's investments and resources in a prudent manner, with a focus on revenue opportunities and increased return on investments; and

- Manage debt to maximise community value.

Council has also commenced a Community Engagement & Consultation program to determine the community's priorities and service levels with a view to possibly applying for a Special Rate Variation in 2013/14.

2. **Deficit net operating result before and after income for capital purposes in the Sewerage Fund over the past 4 years, and Deficit net operating result before capital items in the Water Fund for the last 4 years.**

The drought of 2001-2007 placed huge pressure on Council's water supply, which at its lowest point was 12% of total capacity.

Council has, over the years since 2001 had strict water consumption restrictions in place which has had a two fold effect on Council's financial position :-

- Decreased water usage = dramatically decreased revenue and
- Increased costs for alternative water supplies (e.g. purchasing water from Hunter Water Authority).

Establishing water security was a priority and included building a larger pipeline link between Wyong and the Hunter Water Authority and Wyong and Gosford Water Supply Authorities building the Mardi-Mangrove Pipeline project, which was a $120 million project partially funded by the Federal Government. This pipeline along with a further $60m upgrade of Mardi Dam and pumping station was completed in 2011.

The Division will be aware that Wyong Shire Council's water and sewerage charges are regulated by the Independent Pricing and Regulatory Tribunal (IPaRT). Currently prices are set in such a way that capital costs such as new pipelines have to be funded from borrowings to ensure intergenerational equity.

These large capital projects have caused increased interest on borrowings in recent years, while revenue from water usage decreased significantly due to the drought. The effect on the operating result in the water and sewer funds are apparent.

The financial sustainability strategies (detailed above) when applied to the LTFS for Water Supply sees a return to surplus in 2013/14, and Sewerage will return to surplus in 2016/17. Council is presently preparing its pricing submission for new charges to reflect the true value of supplying water and waste water services from 1 July 2013.

Central Coast Water Corporation
In 2011 Council obtained a 50% shareholding interest in the Central Coast Water Corporation. The Central Coast Water Corporation Amendment Act was assented in February 2011 to provide for the creation of an independent corporation jointly owned by Gosford City and Wyong Shire Councils to provide water and sewerage services to the residents of the Central Coast.

The formation of the Central Coast Water Corporation is progressing and it is planned to be fully operational on 1 July 2014 with a renewed focus on the Water & Sewer business on a commercial basis. While the business model for the Central Coast Water Corporation has not yet been determined its principle objective is to be a successful business that reduces the cost to the Central Coast communities while guaranteeing the supply of a quality water and sewer service. Attached as Annexure 4 is the Memorandum of Understanding signed with the Minister of Water, the Central Coast Water Corporation Amendment Act and the Central Coast Water Corporation Constitution.

3. **A high percentage of outstanding rates and annual charges, indicating that Council's debt recovery processes could be improved.**

Wyong Shire Council agrees and has taken action that changed the manner in which debt-collection is undertaken. Further steps will include contracting out the aspects of debt collection that are not core business in terms of Council's customer service quality.

However debt collection success is intimately linked with the socio-economic characteristics of a community and its ability to pay.

Wyong Shire has historically been above the industry benchmark of 5% by 1.5% - 2.5% and whilst this is unacceptable to those who pay their rates on time, it is reflected by demographics such as:-

- Wyong has had one of the lowest labour force participation rates of all regions in NSW;
- The Shire's unemployment rate is historically been 2-5% above the NSW and Australian unemployment rates 2006 census quotes unemployment @ 8.2%;
- High Youth Unemployment -16%;
- Very high population of people over 65 - 18.3%;
- Household Income level (average) the lowest of comparable Council @ 25% less than the State average; and
- Conversely Wyong residents pay 30% more of their household income on mortgage repayments.

*Source – 2006 Census

Wyong Shire Council continues to target repayment levels to achieve the 5% benchmark. Wyong Shire Council has taken the initiative of appointing a credit management specialist in July 2011 to implement improved credit management debt recoveries and to develop other Council staff with the appropriate skills.

The debt recovery team continues to focus on achieving arrangements to pay where payments in full are not financially achievable for the rate payer and on legal action where arrangements are not made or where they are not adhered to. Council is also looking to out-source targeted debt recovery cases where it is advantageous from 1 July 2012.

4. **A low annual infrastructure renewal rate (IRR) of 51.77% with a 4 year average of 87.87%. Of particular concern are the renewal ratios for Council's Water and Sewer assets, which had an IRR in 2010/11 of 27% and 14% respectively (2% and 15% respectively in 2009/10). Council should aim to achieve a rolling average of around 100% for all asset categories.**

Renewal ratios have been dominated by the need to put in place new assets that deal with the protection needed by the community against future water supply difficulties – e.g. $120m for the Mardi–Mangrove pipeline and $60m for the Mardi Dam and pumping station upgrade.

With that hurdle completed in 2011, Council's 2011-2015 Strategic Plan Council appropriated increased investment in renewal works as exampled by its' increased investment in road renewal works by $5.0m a year up to $11.6m in 2011/12 .

Wyong Shire Council will spend $28.6m in total on asset renewal work during 2011-12, which is a significant increase on $16.4m in 2010/11.

Council's draft 2012-13 budget includes $29.1m allocated to asset renewals and $19.7m to upgrade works representing approximately 75% of the proposed total capital expenditure budget. Based on Council's draft 2012-13 budget it is estimated that

Council's ARR rate in 2012-13 will be 86%, which is a significant improvement from previous years. Council will continue to work towards the target of 100%.

It is of note to emphasise that Council does not control price setting in water and sewage and given that IPaRT did not allow Council to vary its water and sewage prices to meet the unforseen drought expenses, the funds allocated to infrastructure renewals were reduced.

This issue will be addressed in future IPaRT price determinations, where increased levels of infrastructure renewal will be required and in the longer term will continue to be addressed by the Central Coast Water Corporation which will become a Water Supply Authority for the Central Coast in July 2014.

5. A shortfall in expenditure for the maintenance of infrastructure assets in 2010/11 of $7.3 million. Over the past 4 years Council has short funded estimated required asset maintenance to a total of $29.2 million.

The 2010/11 financial year saw a significant change in culture at Council with a firm commitment to achieve a recurrent break-even level of expenditure by 2014/15, whilst committing to addressing the underlying gaps in asset renewals.

A key challenge for Council is to determine how best to sustainably balance investment in new asset intensive services against the need to maintain existing services at levels of cost and quality which are acceptable to the community.

Wyong Shire Council has, over the last two years, moved a long way forward in Asset Management and made the appropriate resource investment for ensuring optimal asset investment for the future that support Council's intended service contribution to the Community.

The Asset Management Strategy focuses on the timely renewal or upgrade of existing assets rather than creating new assets unless that approach represents the best business case. (See Annexure 5)

Council will increase its investment in road renewal works by $5.0m a year to $11.6m in 2011/12 and spend $28.6m on total asset renewal work during 2011/12, and $29.1m in 2012/13 - a major increase on the $16.4m spend in 2010/11.

Council's draft budget for 2012/13 involves a significant increase in maintenance expenditure. It now plans to spend 1.53% of the current replacement value of its assets on maintenance work – a sound target that will soon overcome its maintenance funding shortfall. Further, as the increased renewal expenditure improves the condition of its assets, the associated required maintenance expenditure is expected to fall. Council's asset maintenance backlog in 2010-11 was $193m but will reduce to $163m in 2011-12 and be further reduced to $111m in 2012-13 as a result of increased funding by Council.

6. The condition of Council's infrastructure assets as reported in Special Schedule 7 (unaudited).

The principle item in the Schedule is Councils self-assessment of roads as compared with the SMEC benchmarks. In the past Wyong Shire Council has adopted a conscious position of maintaining its roads at a level that has been a manageable spend for the community.

This approach has resulted in a basic level of service which, when compared to the SMEC standards, produces the major variation as appears in Special Schedule #7. Council has now opted for a higher level of service in roads, it will be able to soon report an improved condition of this key component of its asset portfolio.

Council long-term Asset Management Strategy specifies objectives and outcomes for asset management over the next ten years.

Asset Management Plans contain specific detail on individual assets such as condition, value, maintenance cost, service capacity, renewal needs, life expectation and strategic service expectations.

The desired outcomes of the Asset Management Strategy are as follows:

- Ensuring the right assets are built;
- Ensuring assets are managed well through sound planning and integration with the Community Strategic Plan and LTFS;
- Ensuring a balance between Council operations, new assets and existing assets;
- Ensuring future budgets, The Annual plan and the 4 year Delivery Plan reflect the asset requirements; and
- Ensuring assets are effectively maintained through 'whole of life' costing.

It is envisaged that Council will also be applying for assistance under the recently announced Local Infrastructure Renewal Scheme (LIRS) to assist in the funding of Council's infrastructure backlog.

7. **Internally restricted funds for infrastructure renewal and replacement is considered to be insufficient given Council's low infrastructure renewal rate, shortfall in annual maintenance, poor condition of infrastructure assets and the estimated cost to bring assets to a satisfactory standard.**

As previously stated, Council has conducted a Service Delivery Review and implemented a number of initiatives to improve its financial position to break even in 2014/15. The various initiatives will enable Council to increase internally restricted funds to asset renewal in future years.

Council will need to balance the need to deliver current services and programs against the need to set aside funds for future renewal and replacement works. One downside of restricted funds is that for every dollar held in reserve for the future, it is money that is not delivering current services and programs or renewing assets.

While Council may not have specific reserves for Infrastructure Renewal and Replacement, it should be noted that at the end of 2010/11 Council held $39.6 million in internally restricted reserves, of which $14.2 million was trading capital; (funds set aside for unforseen future costs) and $14.8m in unrestricted cash. It should be highlighted that Council's investment portfolio is mainly held in short/medium term deposits and as such does not have the high risk profile or liquidity problems of many Councils in NSW.

8. **Request for a copy of Council's Auditor's Management Letter relevant to the 2010/11 Annual Financial Statements.**

Council's external Auditors, in their management letter (attached as Annexure 6), have noted the improved financial position on a number of fronts, especially the Operating Result. They further concluded that Council's financial position is sound and stable.

Conclusion

The progress made since 2010 toward restoring financial performance is both dramatic and sustainable. A key element has been a remarkable build-up in the working alliance between Gosford and Wyong Councils. The now extensive shared services range of activities delivers considerable benefit to both Councils. (see Annexure 7) Wyong Council is dedicated to increasing and deepening the working relationships with other Councils.

We are confident the management steps taken since the beginning of the 2010-2011 year are a robust and prudent pathway to restoring financial viability while still delivering on acceptable levels of service to the Community of Wyong. Council has also worked hard to develop and provide security to its workforce. This is evidenced by the excellent industrial relations record over the last 2 years while implementing this change agenda. It should be noted Council is in the second year of a five year plan and the progress to date as detailed above in my opinion is exceptional.

The business planning rigour introduced for the current year combined with tight management controls, has already achieved much needed progress in the daily management decision-making that is critical to Wyong Shire Council's long-term success.

Council believes that Wyong Shire's future is bright as a growing community that is part of the Central Coast region and we will be looking forward to creating further efficiencies and enhanced service delivery to our community with our neighbouring council, Gosford City.

I would like to acknowledge the efforts of the Councillors and Staff at Wyong Shire Council for the positive outcomes to date with regard to achieving Council's improved financial performance and delivery of best value services to our community. It really has been a team effort, if you have any questions please call me on 4350 5200.

Yours sincerely

Michael Whittaker
General Manager

Premier & Cabinet
Division of Local Government

5 O'Keefe Avenue NOWRA NSW 2541
Locked Bag 3015 NOWRA NSW 2541

Our Reference: A269352
Your Reference:
Contact: Marilyn McAuliffe
Phone: 02 4428 4141

Mr Michael Whittaker
General Manager
Wyong Shire Council
PO Box 20
WYONG NSW 2259

Dear Mr ~~Whittaker~~ Mike

I am writing in regard to Wyong Shire Council's financial position as at 30 June 2011.

The Division of Local Government has completed an annual financial review of all NSW councils based on their latest financial reports and other relevant information.

A review of Wyong Shire Council's 2010/11 financial statements has raised the following concerns regarding Council's financial position:

- Consolidated net operating result before capital grants and contributions has been in deficit for the last 5 years, together with ongoing forecast deficit results in Council's Long Term Financial Plan
- Deficit net operating results before and after income for capital purposes in the Sewerage Fund over the past 4 years
- Deficit net operating results before capital items in the Water fund for the last 4 years
- A high percentage of outstanding rates and annual charges, indicating that Council's debt recovery processes could be improved
- A low annual infrastructure renewal rate (IRR) of 51.77% with a 4 year average of 87.84%. Of particular concern are the renewal ratios for Council's Water and Sewer assets, which had an IRR in 2010/11 of 27% and 14% respectively (2% and 15% respectively in 2009/10). Council should aim to achieve a rolling average of around 100% for all asset categories
- A shortfall in expenditure for the maintenance of infrastructure assets in 2010/11 of $7.3 million. Over the past 4 years Council has short funded estimated required asset maintenance to a total of $29.2 million
- The condition of Council's infrastructure assets as reported in Special Schedule 7 (unaudited)
- Internally restricted funds for infrastructure renewal and replacement is considered to be insufficient given Council's low infrastructure renewal rate,

shortfall in annual maintenance, poor condition of infrastructure assets and the estimated cost to bring assets to a satisfactory standard.

I note that while Council is in Group 3 for the implementation of the Integrated Planning and Reporting (IP&R) framework, Council has already implemented IP&R.

I also note that Council's Asset Management Strategy highlights the need for Council to better manage its assets, especially with regard to funding asset maintenance and renewal, and outlines strategies to address these issues. However, Council's ability to remain financially sustainable in the long term is of concern given the forecast financial results in Council's Long Term Financial Plan.

Therefore, I would appreciate receiving your advice on the strategies and mechanisms that Council has put in place, or intends to put in place, to improve Council's longer term financial position.

Additionally, Council is requested to provide a copy of the auditor's management letter, relevant to the 2010/11 annual financial statements.

I would appreciate receiving your response by Friday, 24 February 2012. If you wish to discuss any matter raised in this letter, please contact Mrs Marilyn McAuliffe, Senior Performance Analyst, on telephone (02) 4428 4141.

Yours sincerely

Ross Woodward 27/1/12

Ross Woodward
Chief Executive, Local Government
A Division of the Department of Premier and Cabinet

Latest Findings in NSW Council Sustainability

Hallmark Local Government Conference, 29th July 2008

© Professor Percy Allan AM

Review Today Pty Ltd

Agenda

- 2006 Local Government Inquiry
- 2007 Council Sustainability Report
- 2008 Council Sustainability Report
- What should councils do?
- Council sustainability reviews

2006 Local Government Inquiry

- In 2005/06 an inquiry into NSW local government sustainability was undertaken by a three person panel that was chaired by Professor Allan who also directed its research.
- The Inquiry was sponsored by the LGSA, but was undertaken completely independently of that organisation.
- The LGI’s findings on councils’ financial sustainability were as follows…….

2006 Local Govt. Inquiry Findings

- The balance sheets of most councils were exceptionally strong, displaying very low levels of indebtedness to other sectors of the economy.

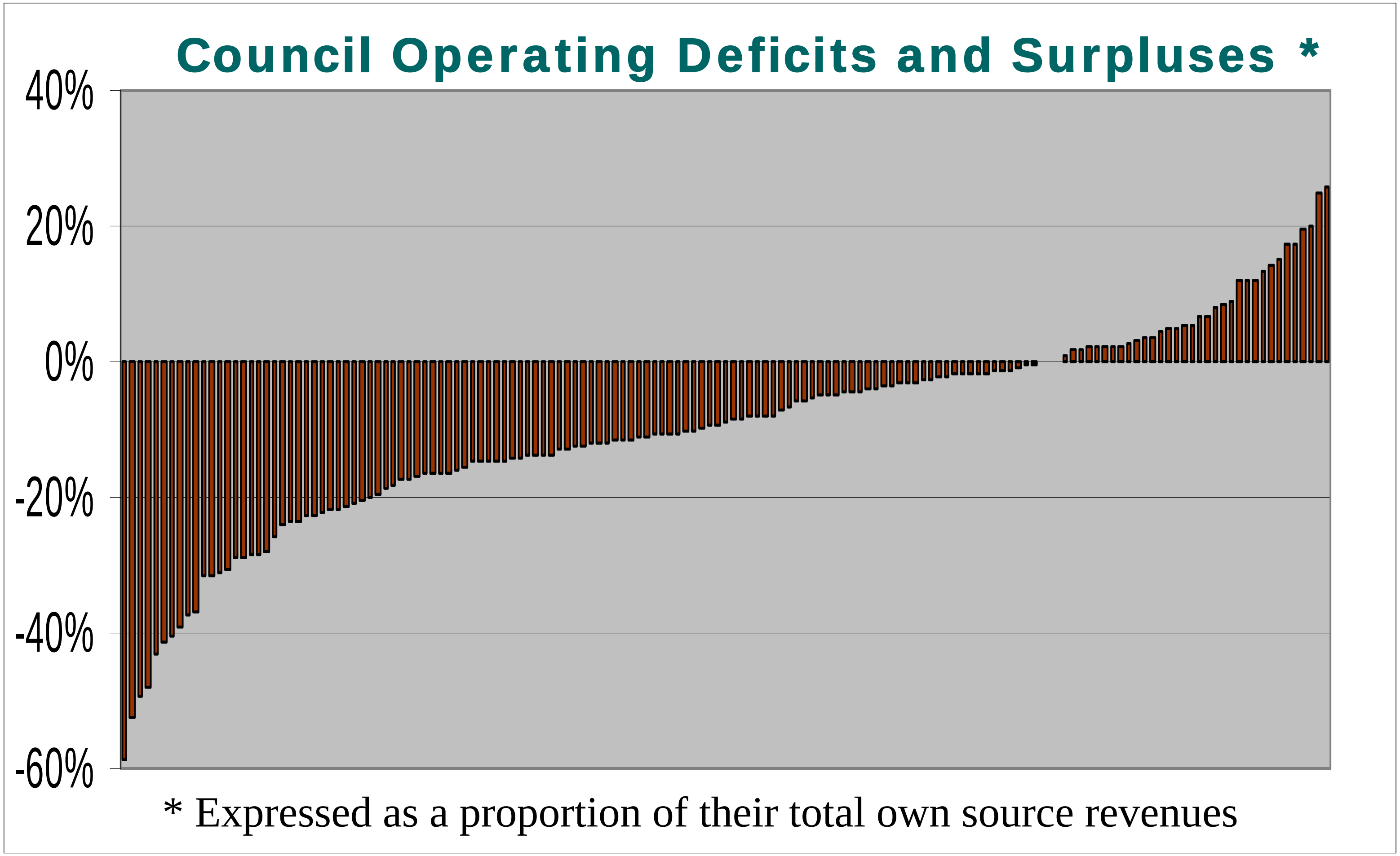
- On average, the net financial liability of councils was little more than 2% of its total assets. Only a handful of councils exceeded 10%. This compared with 25% for the NSW Government and over 50% for PPP infrastructure operators.

2006 Local Govt. Inquiry Findings

- By contrast, the operating statement of most councils was heavily in deficit.

- Excluding commercial utilities (e.g. water and sewerage) councils on average ran an operating deficit of almost 5% of their total own-source revenues. Over 20% ran operating deficits in excess of 20%.

2006 Local Govt. Inquiry Findings



2006 Local Govt. Inquiry Findings

- Councils' operating deficits are largely funded by running a surplus on capital account rather than resorting to borrowings.

- This means capital contributions, capital grants and proceeds of asset sales are mainly used to prop up operating costs rather than undertake capital renewals and enhancements.

2006 Local Govt. Inquiry Findings

- The annual deficiency in capital spending for all council purposes was of the order of $500m a year. This had resulted in an infrastructure backlog of over $6.3 billion.

- This backlog would grow by a further $14.6 billion over the next 15 years if the renewals gap was not closed. This figure did not take account of any future infrastructure enhancements as a result of population growth, increasing social mobility and better building standards.

2006 Local Govt. Inquiry Findings

- On a no-policy changes basis, council per capita revenues and expenses were expected to grow in real terms by 8% and 9% respectively over the next decade. This would aggravate councils' existing operating deficits.
- Additional functions and pressures could result in council real per capita expenditure growth being double what it would be without any policy changes.

2006 Local Govt. Inquiry Findings

- Under these circumstances councils’ overall expenditure growth could only be matched by their revenues if all water utilities achieved full cost recovery (so they could pay commercial rates of dividend) and all councils lifted their rates, charges and fees to those of the top 25% of councils.

2006 Local Govt. Inquiry Findings

- However, even these radical revenue measures would not be sufficient to eliminate most councils' operating deficits. Indeed for two thirds of councils, deficits would still average 8% of their own source revenues.

- For one in four councils the long-term outlook was particularly bleak. Without substantial rate increases and/or disruptive expenditure cuts, they were financially unsustainable.

2007 Council Sustainability Report

- In 2007 FiscalStar was commissioned by Review Today to update the findings of the LGI.
- This study proved controversial because while the LGSA favoured researching the sustainability of local government as a whole it objected to the results being disclosed for individual councils.

2007 Council Sustainability Report

- Review Today believes that the challenges of any public service that is not financially sustainable will only attract public (and hence government) attention when the implications of inaction are understood by each community and citizen that uses those services.
- This requires analysing and highlighting the challenges at the point of delivery of the service be it a council, school, hospital or police station.

2007 Council Sustainability Report

- This is why the Local Government Inquiry's findings and recommendations were by and large not heeded by the state and federal governments.
- Ordinary citizens could not fathom how councils financial and infrastructure crisis would affect them personally. As a result local government was not an issue in voters minds in the 2007 state and federal elections.

2007 Council Sustainability Report

- Localising the analysis and reporting of public sector performance is the next big reform in Australian public sector management.
- Witness the Rudd Government's insistence on performance league tables for individual hospitals as is done in Britain.
- Report cards on individual schools, TAFE colleges, police stations, courts and other vital public service delivery points could follow.

2008 Council Sustainability Report

- In 2008 Dexia, a French Bank that supports research into local government best practices around the world, sponsored Review Today to commission FiscalStar to undertake a new survey of local council sustainability using the latest data available from councils and a more sophisticated analytical methodology.
- Other than sponsoring the survey, Dexia had no input to the methodology or analysis which was undertaken solely by FiscalStar.

2008 Council Sustainability Report

- Review Today’s role was to coordinate and quality control the report’s presentation and its public communication.
- FiscalStar is an Adelaide based practice that specialises solely in rating local council financial sustainability in Australia and New Zealand.

2008 Council Sustainability Report

- FiscalStar surveyed the 100 largest local councils in NSW using both their published information and answers to a questionnaire.
- Only 3 councils Botany Bay, Gwydir and Wellington) don’t disclose sufficient financial and infrastructure data on their websites for FiscalStar to make an assessment of their financial sustainability.

2008 Council Sustainability Report

- The main finding of the 2008 FiscalStar report is that 35 of the 100 largest councils in NSW need to increase their rates, fees and charges by at least 80% over the next ten years or severely cut their services in order to regain financial sustainability.
- Another 19 councils will also need to take drastic action because their financial sustainability is marginal.

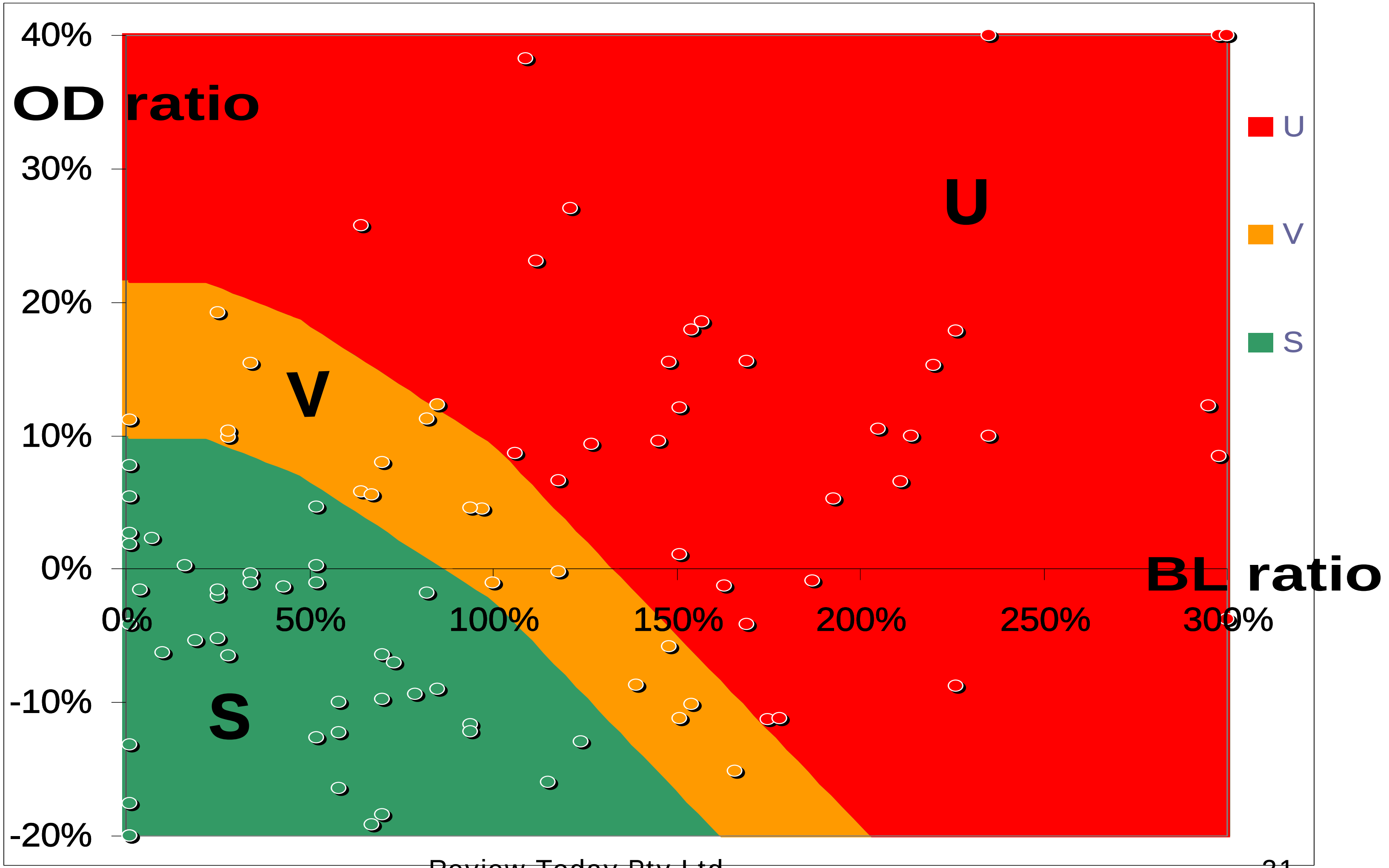
2008 Council Sustainability Report

The Financial Sustainability of Existing Financial and Infrastructure Policies, Largest 100 NSW Councils, 2006/07

Sustainability Rating	Number of Councils
Sustainable	43
Vulnerable	19
Unsustainable	35
Not assessed*	3
	100

* 3 of the largest 100 NSW councils (Botany Bay, Gwydir and Wellington) have published neither their 2005/06 nor their 2006/07 statutory financial reports in full on their websites

2008 Council Sustainability Report



2008 Council Sustainability Report

- The unsustainable group included a large number of fast growing regional coastal and outer-metropolitan councils.

2008 Council Sustainability Report

- 11 of the 18 regional coastal urban councils were unsustainable. Only 3 were sustainable.
- 10 of the 22 outer-metropolitan councils were unsustainable and another 4 vulnerable.
- By contrast a majority of inner metropolitan councils and regional rural councils were sustainable.

2008 Council Sustainability Report

	Sustainable	Vulnerable	Unsustainable
Inner-Metropolitan	11	3	5
Outer-Metropolitan	10	4	8
Regional Coastal Urban	3	4	11
Regional Inland Urban	6	5	6
Regional Rural	13	3	5
Total	43	19	35

2008 Council Sustainability Report

- The heart of the problem is that most councils have a huge backlog of infrastructure (roads, stormwater drains, buildings, etc) that has passed its used by dates and needs renewal, not just patching to be safe, sound and sightly.
- For the 97 councils surveyed, the (unweighted) average backlog ratio is 90%, which contrasts starkly with their (unweighted) average debt ratio of 25%.

2008 Council Sustainability Report

- Only 12 councils have an infrastructure backlog that is less than 10% of their annual operating revenues.
- 46 councils have a backlog of between 50% and 200% and another 10 councils have a backlog exceeding 200%.

2008 Council Sustainability Report

- FiscalStar found that the total infrastructure backlog for the 97 councils (excluding W&S) was $4.3 billion.
- This would suggest that the total for all 152 councils in NSW (excluding W&S) in June 2007 was around $4.8 billion, which is about 10% less than the LGI's estimate of $5.3 billion for June 2005.

2008 Council Sustainability Report

- Adding a council’s infrastructure backlog to its outstanding debt gives a measure of its total ‘broad liabilities’.
- FiscalStar found that the ‘broad liabilities’ of all councils that are unsustainable averages 187% of their total annual operating revenue.

2008 Council Sustainability Report

- For ‘vulnerable’ councils the broad liabilities ratio average is 95%. To be sustainable a council’s combined debt and backlog should not exceed around 60%.
- Even ‘sustainable’ councils need to be vigilant because their average is 55% suggesting that many are living on the edge of sustainability.

2008 Council Sustainability Report

- The ‘unsustainable’ and ‘vulnerable’ councils also have difficulties on other fronts.
- Most importantly their operating deficits when expressed as a proportion of their own source revenues average 9%.
- By contrast ‘sustainable’ councils have operating *surplus* ratios averaging around 10%.

2008 Council Sustainability Report

- FiscalStar found other weaknesses of many councils are:
  - a heavy reliance on tenuous grants from other governments
  - little or no spare cash to meet emergencies and special needs
  - expenses growing well in excess of underlying costs, and
  - insufficient capital works spending to renew ageing infrastructure.

2008 Council Sustainability Report

- Of the 22 net changes in ratings since last year, 13 were due to councils substantially changing their data (especially on infrastructure backlog) and 9 were due to improvements in FiscalStar's analytical methodology.
- The latter reflected councils having favourable financial characteristics (other than lower deficits and liabilities) that were not previously considered.

2008 Council Sustainability Report

- To be sustainable a council should be able to achieve two financial goals within 10 years without increasing rates, fees and charges or cutting services to an extent that would disrupt a community both socially and economically.
- Sustainability should not be confused with solvency. Nor un-sustainability with insolvency.

2008 Council Sustainability Report

- Sustainability means the ability of a council to continue with its existing revenue and spending policies without causing severe social and economic disruption to the community.
- A council may have unsustainable policies, but still be solvent because like all governments it can always tax and levy itself out of bankruptcy (notwithstanding rate pegging).

2008 Council Sustainability Report

- A council should be mindful of two primary financial goals:
  - Achieving a budget surplus, so that future taxpayers are not left with an excessive share of the costs of capital works, and
  - Containing the size of broad liabilities (i.e. debt plus the infrastructure backlog) so that debt charges remain affordable and infrastructure remains safe and sound.

2008 Council Sustainability Report

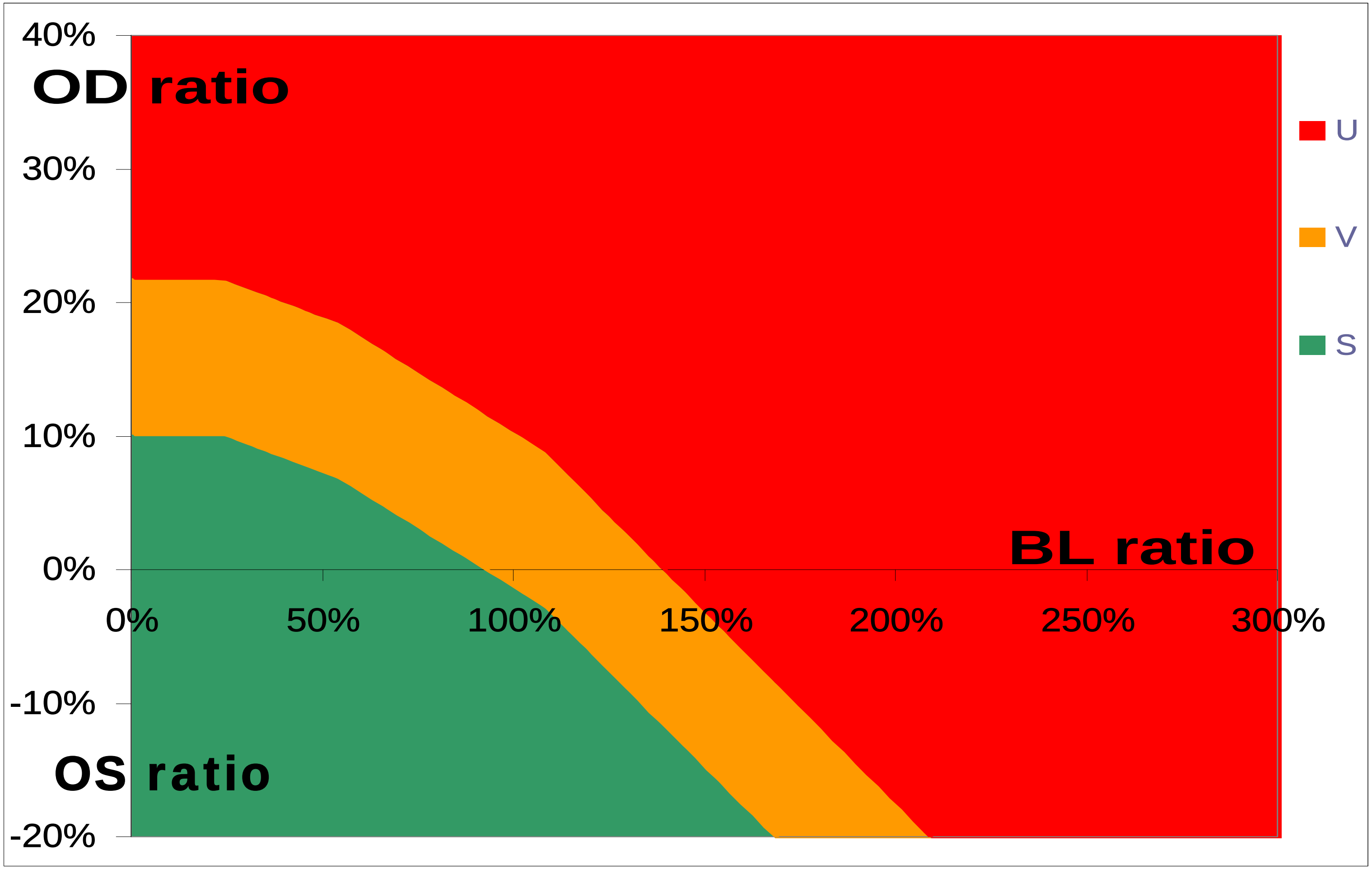
- Fiscal/Star in line with the LGI believes that responsible financial benchmarks for a council's are:
  - A minimum operating surplus ratio of 2.5%, and
  - A maximum broad liabilities ratio (reflecting long-term debt plus any infrastructure backlog) of 60%.

2008 Council Sustainability Report

- These financial sustainability parameters can be expressed on a chart with the operating deficit (OD) ratio represented by the vertical axis and the broad liabilities (BL) ratio shown along the horizontal axis.

  - Note that an operating surplus (OS) ratio is denoted by a negative operating deficit (OD) ratio.

2008 Council Sustainability Report



2008 Council Sustainability Report

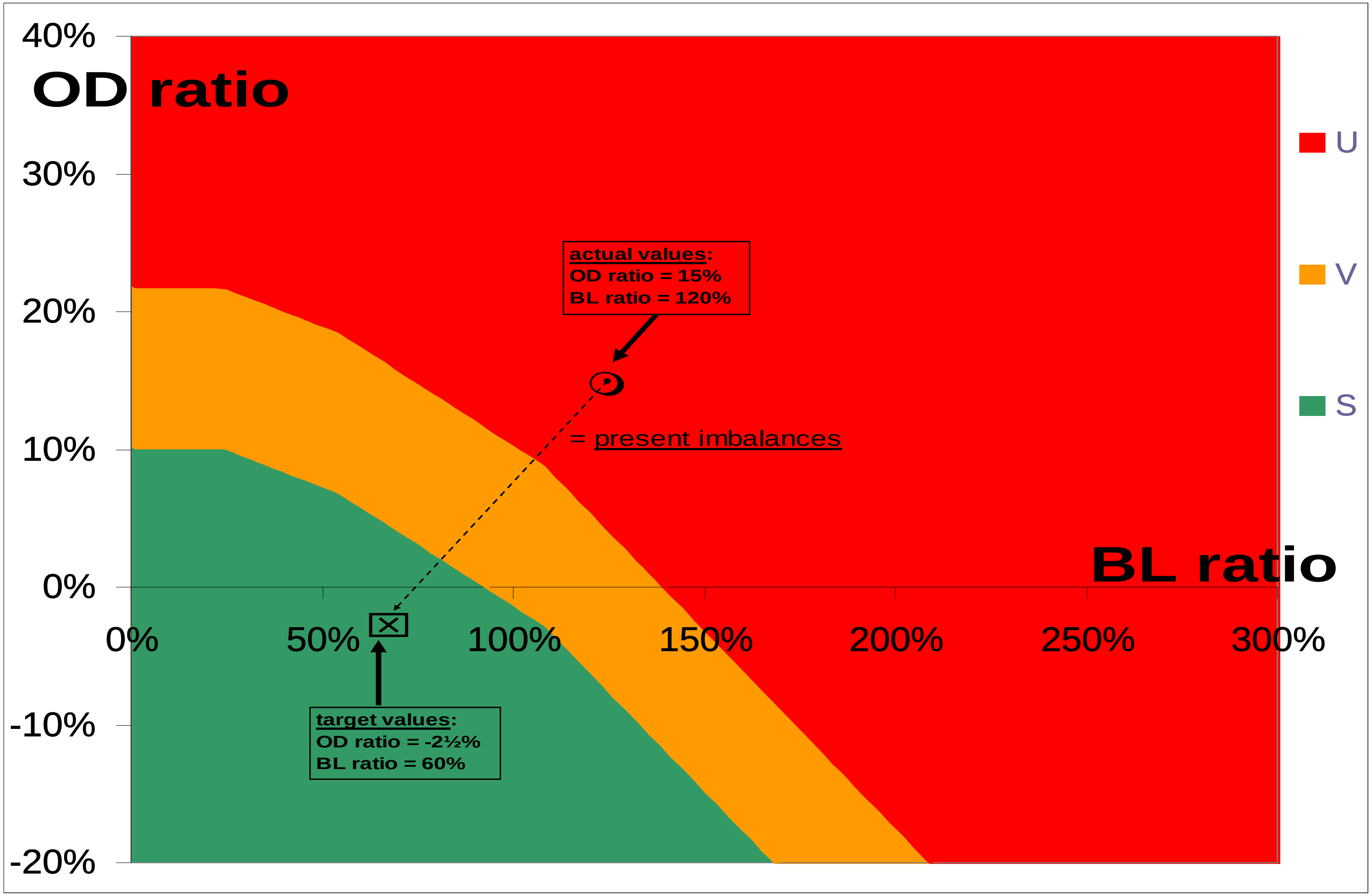
- The green, amber and red zones represent current council policy ‘sustainability’, ‘vulnerability’ and ‘un-sustainability’ respectively.
- The shape of any councils zones is determined by its degree of financial discretion (i.e. freedom); a concept explained later.

2008 Council Sustainability Report

- The next chart shows the path that one particular council which is in the ‘unsustainable’ red zone must take in order to achieve a 2.5% operating surplus ratio and a 60% broad liabilities ratio which lie safely within the ‘sustainable’ green zone.

- Note that in this example the un-sustainable council presently has an OD ratio of 15% and a BL ratio of 120%.

2008 Council Sustainability Report



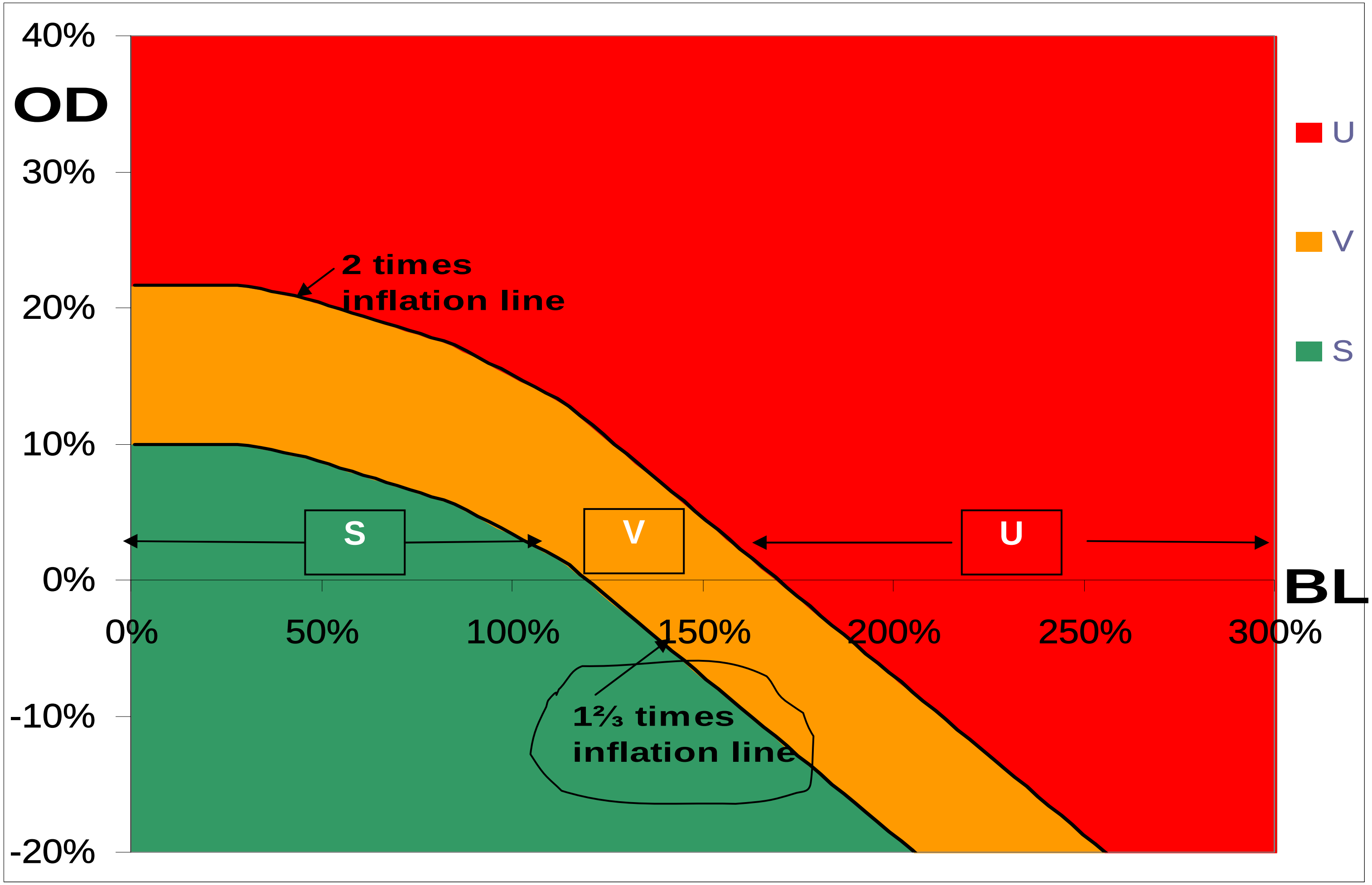
2008 Council Sustainability Report

- To achieve sustainability the particular council in the last chart will clearly have to increase its rates, fees and charges and / or cut its services by a substantial amount.
- This would be disruptive to its community, which is why its fiscal situation is designated as red, not green.

2008 Council Sustainability Report

- Councils in the green zone have sustainable revenue and spending policies as they won’t need to increase their rates, fees and charges by more than one and two-thirds the annual CPI increase over the next ten years to achieve the two financial sustainability benchmarks.

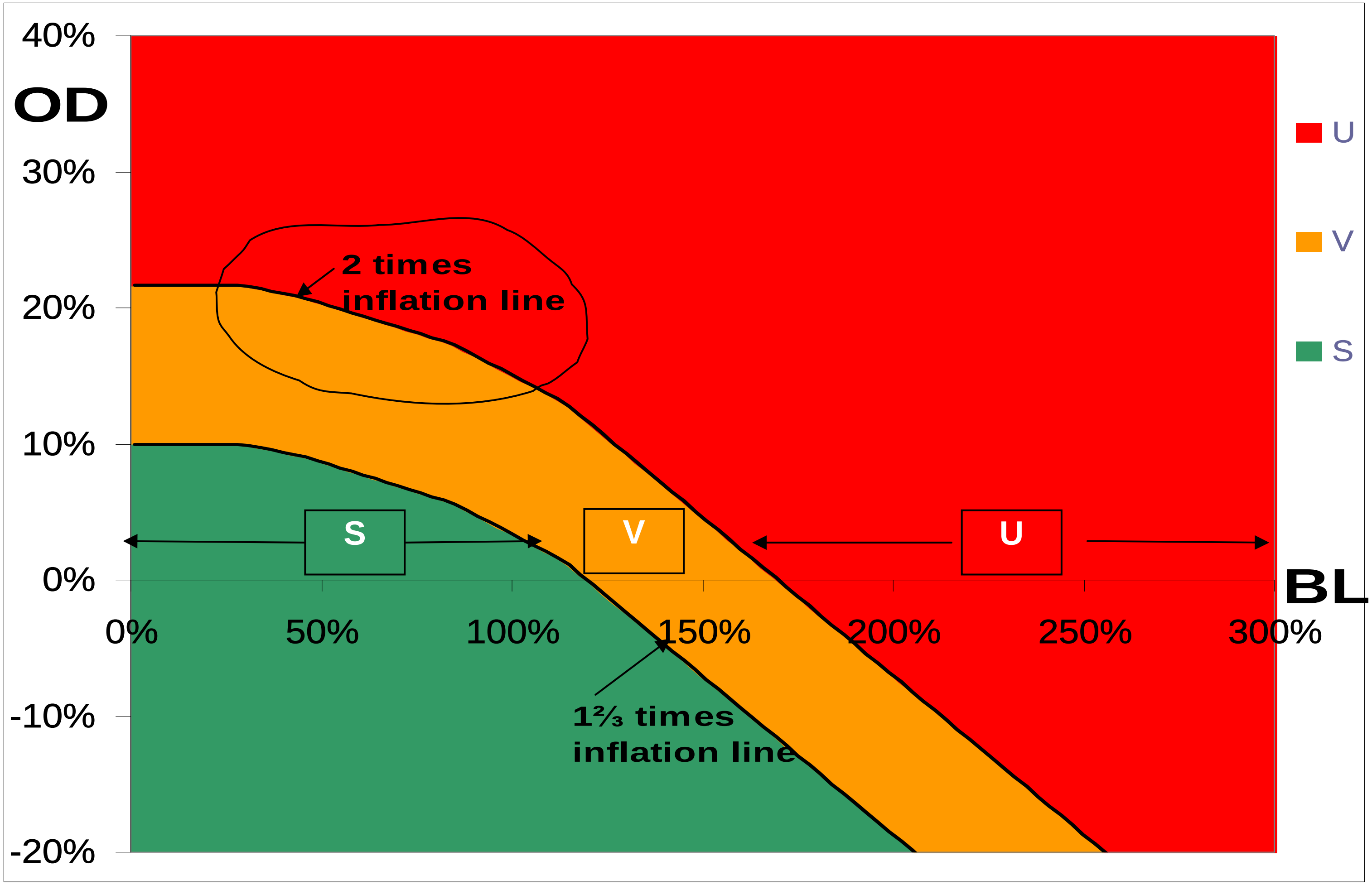
2008 Council Sustainability Report



2008 Council Sustainability Report

- Councils in the red zone have unsustainable revenue and spending policies since they will need to increase their rates, fees and charges by more than double the annual inflation rate over the next ten years to achieve the financial sustainability targets.

2008 Council Sustainability Report



2008 Council Sustainability Report

- Those councils in the amber zone fall between having sustainable and unsustainable revenue and spending policies so have been designated as vulnerable.

2008 Council Sustainability Report

- FiscalStar considers that increases in council rates, fees and charges below one and two thirds the average annual inflation rate over ten years is ‘sustainable’ because it shouldn’t cause severe disruption socially and economically.

- Note that this amounts to an increase in rates, fees and charges of under 5.8% per annum assuming annual inflation of 3%. Over ten years this would be less than 64% to meet the financial goalposts.

2008 Council Sustainability Report

- By contrast FiscalStar assumes that an increase in rates, fees and charges double the annual inflation rate over ten years would be socially and economically disruptive and as such 'unsustainable'.

- Note that that councils that fall into the unsustainable (red) zone will need to raise their rates, fees and charges by at least 6.1% per annum assuming annual inflation of 3%. This is more than 80% over ten years to achieve the financial sustainability goalposts.

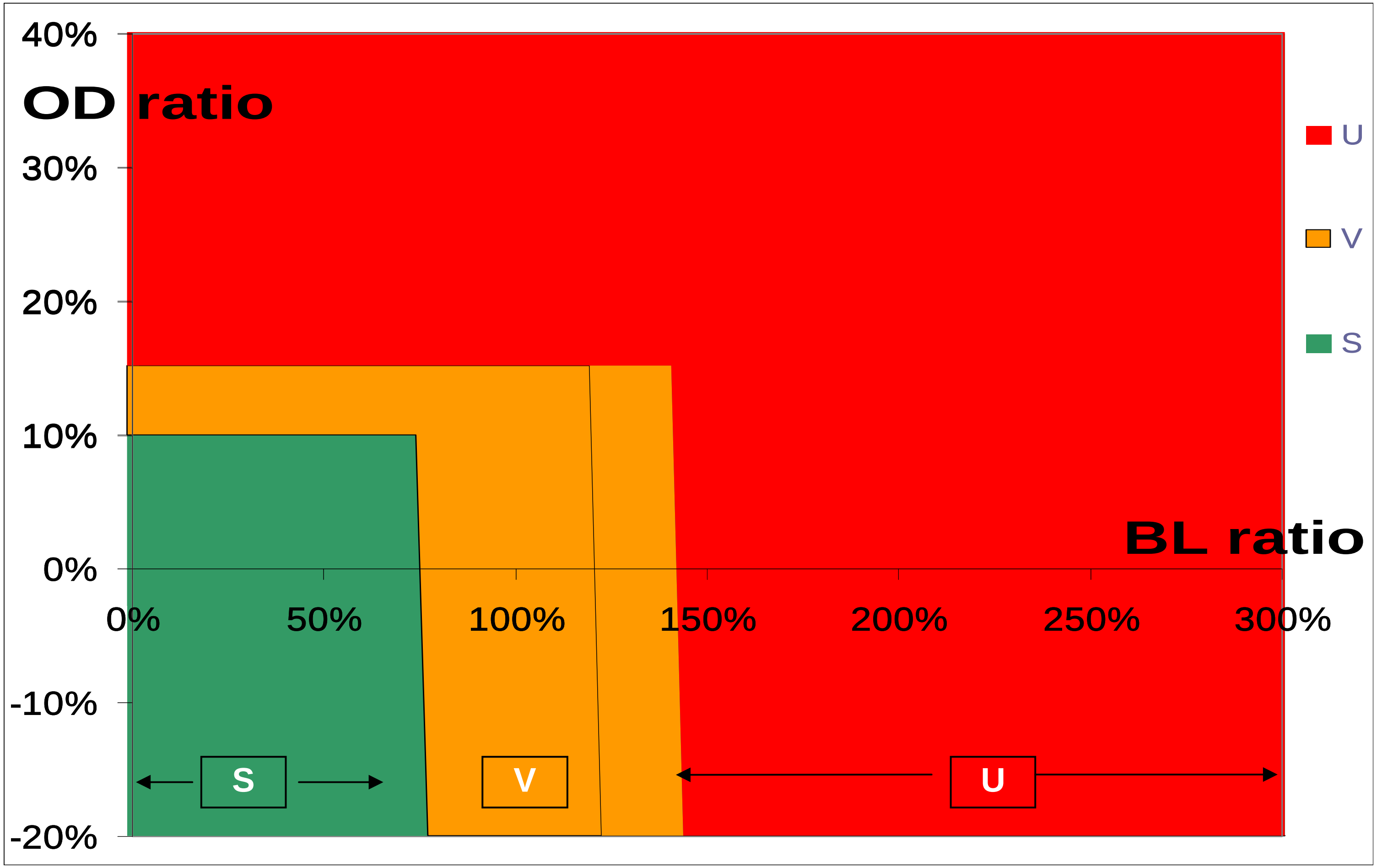
2008 Council Sustainability Report

- The councils assessed as un-sustainable would need to increase their rates, fees and charges by between 80% and 200% over the next 10 years to achieve financial health.
- Those rated vulnerable would need hikes in their revenue levies by 60% to 80% over the same period.
- By comparison the sustainable councils only face increases of between 30% and 40% between now and 2018.

2008 Council Sustainability Report

- The 2007 FiscalStar report relied principally on a council's deficit and liabilities to rate its sustainability.
- As a result a single fixed set of goalposts was used for each councils as shown in the next chart.

2008 Council Sustainability Report



2008 Council Sustainability Report

- A criticism was that this basic sustainability test was too simplistic since it overlooked other financial characteristics that impacted on a council's sustainability.

- In 2008 FiscalStar has amended its methodology to ensure that each councils goalposts is specially customised to reflect other characteristics that might enhance or impede its financial discretion or freedom.

2008 Council Sustainability Report

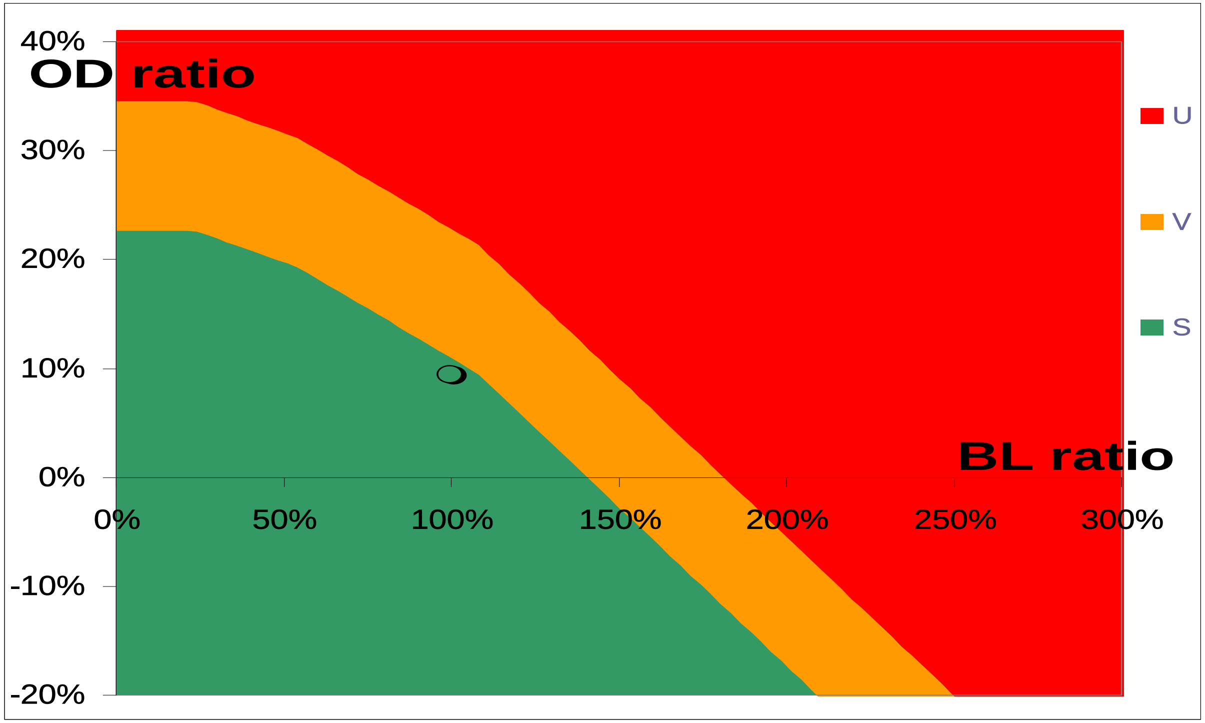
- Financial freedom is the ability of a council to control its financial destiny because:
  - It is not overly dependent on government grants
  - It has strong (unrestricted) cash balances
  - It increases its expenses at less than inflation
  - It renews infrastructure when its due
  - It values assets at fair-value, not historic-cost.

2008 Council Sustainability Report

- Councils exhibiting more financial freedom have less onerous criteria charts (i.e. green and amber zones) than councils that have less financial discretion.

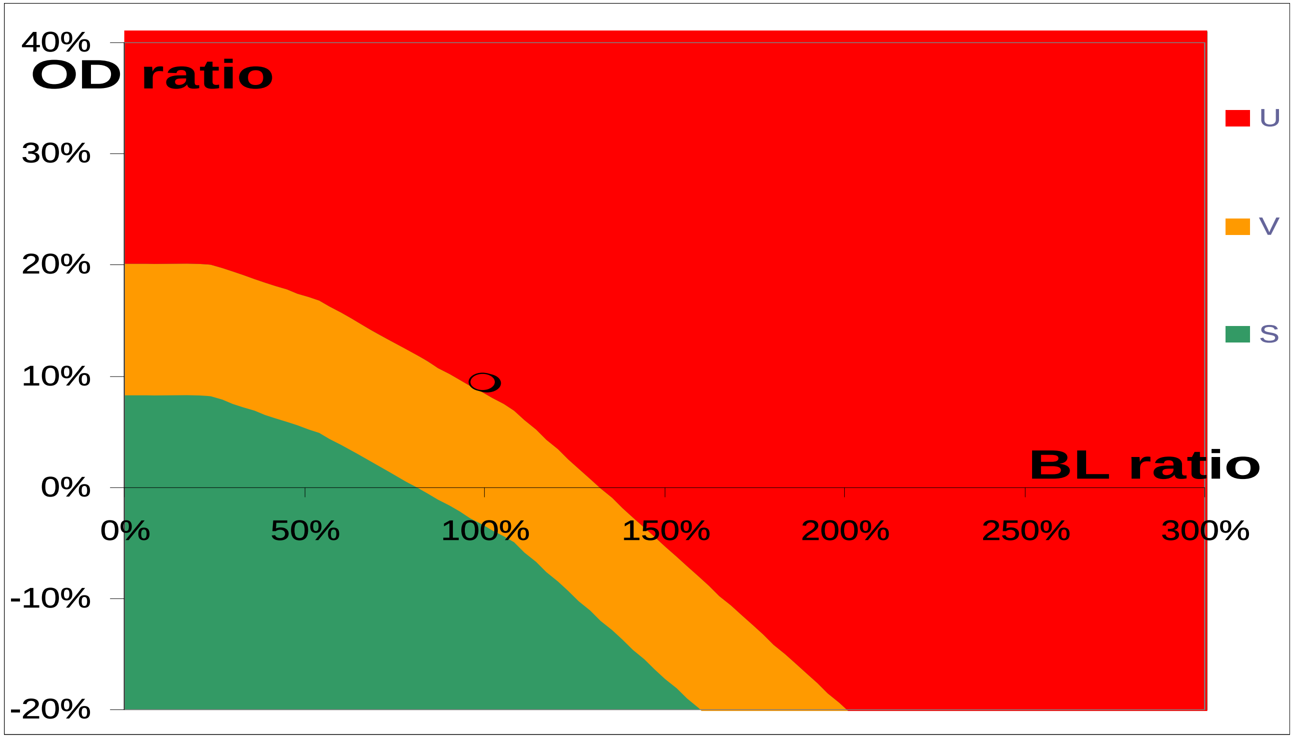
2008 Council Sustainability Report

- This is an example of a criteria chart for a council with a strong financial discretion.



2008 Council Sustainability Report

- This is an example of a criteria chart for a council with weak financial discretion.



2008 Council Sustainability Report

- So its possible for two councils to have the same operating deficit and broad liabilities ratios but to be rated very differently on sustainability because one has a high degree of financial discretion (e.g. large unrestricted cash reserves to meet an emergency) whereas the other does not.

2008 Council Sustainability Report

- The 2008 methodology differs from the 2007 one (which was also used by the SA, NSW, WA and Tasmanian local govt. inquiries) in that it takes account of a council's financial discretion (or freedom).

What should councils do?

- How should a council react to the FiscalStar report?

What should councils do?

- A council's first reaction to the latest results should not be complacency (if its sustainable) or denial (if its un-sustainable or vulnerable), but rather:
  - Is my published data (especially infrastructure backlog data) accurate?
  - If not, what can I do to improve its reliability?

What should councils do?

- If the data is reasonably accurate a council with either an ‘unsustainable’ or ‘vulnerable’ rating should take its rating seriously rather than shoot the messenger (i.e. FiscalStar).
- FiscalStar has unmatched experience in Australia and New Zealand at assessing the comparative financial performance/ health of governments at the national, state/regional and local levels.

What should councils do?

- Councils that are either not sustainable and / or sure about the reliability of their published data should do their own sustainability analyses.

What should councils do?

- If this shows they have a problem they should develop a business cases to persuade both their communities and the Minister for LG what needs to be done.

What should councils do?

- The NSW DLG has proposed that, each council prepare a 10 year community strategic plan (CSP) to be revised and rolled forward every 4 years; within 18 months after each council election.

What should councils do?

- Supporting the CSP will be long term financial, asset management, service delivery and funding strategies).
- The CSP process is a tool for councils to document their proposed path to sustainability.

What should councils do?

- It would also be foolhardy for councils to ignore the FiscaStar sustainability ratings in the hope that the Commonwealth and State will eventually come to their rescue.

Council Sustainability Review

- What does a council sustainability review involve?

Council Sustainability Review

- A sustainability review develops a long-term financial strategy to enable a Council to achieve the best balance between its obligations to:
  - Service provision
  - Infrastructure provision
  - Ratepayer affordability &
  - Financial viability.

Council Sustainability Review

- A council sustainability review addresses key questions such as......

Council Sustainability Review

- *Will Council's existing policies meet the community's infrastructure and service needs?*
- *If not, what can be done to fix infrastructure and provide necessary services.*

Council Sustainability Review

- *Are such alternative spending scenarios affordable within prudent fiscal limits?*
- *If not, what could be done to boost revenue, achieve efficiencies, or reorder spending priorities to make Council sustainable?*

Council Sustainability Review

- *Review Today* has undertaken in-depth financial sustainability reviews for the following councils:
  - Newcastle,
  - Albury,
  - Wollongong and
  - Great Lakes

Latest Findings in NSW Council Sustainability

The End

Contact details:

- **www.reviewtoday.com.au**
- **allan@reviewtoday.com.au**
  02 9810 6346
- **gaussen@reviewtoday.com.au**
  04 1912 2255

fiscal star

rating local government

The Financial Sustainability of the Existing Financial and Infrastructure Policies of NSW Councils

2008 Review

July 2008

This report is sponsored by Dexia Credit Local Asia Pacific Pty Ltd.

Dexia Credit Local Asia Pacific Pty Ltd is the Australian wholly-owned subsidiary of the European bank Dexia (www.dexia.com), which specialises in local government public finance and supports research into local government best practices around the world.

The assessments made by FiscalStar in this report are completely independent of Dexia as the report's sponsor. Dexia's main interest is to raise public awareness about the key drivers of council sustainability by encouraging genuine debate about the findings and the methodology being used. Dexia had no involvement in either the methodology or its application.

Dexia Credit Local Asia Pacific Pty. Ltd.
Level 23, Veritas House, 207 Kent Street, Sydney, NSW 2000
Phone : +61 2 9247 5639   Fax : +61 2 9259 0222

Review Today Pty Ltd is responsible for the coordination and quality control of the report's presentation and its public communication. It is not responsible for developing the analytical methodology and applying it to council data to arrive at financial sustainability ratings. Nor does it attempt to influence FiscalStar in any of its council assessments.

Review Today conducts financial sustainability reviews of individual councils on a contract basis. Its involvement with this report is part of its wider commitment to assisting councils to better understand their financial circumstances and how to improve their sustainability.

Review Today Pty Limited (ACN 89 120 721 717)
Suite 2, Mona Vale Business, 90 Mona Vale Road, Mona Vale NSW 2103
Phone: 1800 500 035   Fax: 1300 760 220   Email: gaussen@reviewtoday.com.au

Table of Contents

FiscalStar Services Pty Ltd
www.fiscalstar.com.au
email: inquiries@fiscalstar.com.au
PO Box 6197, HALIFAX STREET, SA 5000

Executive Summary

This report refines and updates the financial sustainability assessments published by FiscalStar in October 2007.

The assessments now cover the largest 100 NSW councils, and are based primarily on the latest statutory financial reports published by each council – for all but a handful of councils being in relation to the 2006/07 year.

Our overall assessment of the financial sustainability of the existing financial and infrastructure policies of the councils surveyed is summarised in the following table.

The Financial Sustainability of Existing Financial and Infrastructure Policies, Largest 100 NSW Councils, 2006/07

	number
Sustainable	43
Vulnerable	19
Unsustainable	35
Not assessed**	3
	100

** 3 of the largest 100 NSW councils (Botany Bay, Gwydir and Wellington) have published neither their 2005/06 nor their 2006/07 statutory financial reports in full on their websites

On our assessment, the existing policies of about 40% of the largest 100 NSW councils are financially **'sustainable'**.

A council's existing policies are assessed as financially 'sustainable' only if any operating deficit, infrastructure backlog or excessive debt that presently exists could be corrected without the council having to resort in future to substantial adjustments to its existing revenue-raising and/or expenditure.

Two main benefits arise if a council's existing policies are financially 'sustainable': first, the stability and predictability of the council's rates, fees & charges are not at risk and, secondly, the ratings burden is being shared fairly between the council's current and future ratepayers (i.e. today's problems are not being left largely for future ratepayers to fix).

The existing policies of a further 20% or so of the largest 100 NSW councils are financially **'vulnerable'**, and so fall just short of being financially sustainable.

Finally, our assessment is that the existing policies of one in every three NSW councils surveyed are financially **'unsustainable'**. Substantial changes to these councils' existing financial and infrastructure policies seem inevitable.

The financial solvency of such councils is not being called into question. **A council's existing policies are assessed as financially 'unsustainable' only if substantial revenue (and/or expenditure) adjustments seem inevitable**. This is evidence that today's problems are being left largely for future ratepayers to fix. Unless the State and/or Commonwealth governments come to their rescue via increased grants funding, ratepayers (and the community generally) will have to bear a considerable cost if these councils' finances and infrastructure condition are to be put right.

The Financial Sustainability of Existing Financial and Infrastructure Policies, Largest 100 NSW Councils, 2006/07

As assessed by:

fiscal★star
rating local government

larger NSW councils	financial sustainability rating of existing policies (a)
METROPOLITAN: INNER	
Ashfield Municipal Council	**Unsustainable**
Botany Bay City Council	**n.a.**
Burwood Council	**Unsustainable**
Canada Bay City Council	**Unsustainable**
Canterbury City Council	**Sustainable**
Hurstville City Council	**Sustainable**
Kogarah Municipal Council	**Sustainable**
Lane Cove Municipal Council	**Sustainable**
Leichhardt Municipal Council	**Sustainable**
Manly Council	**Vulnerable**
Marrickville Council	**Unsustainable**
Mosman Municipal Council	**Unsustainable**
North Sydney Council	**Sustainable**
Randwick City Council	**Vulnerable**
Rockdale City Council	**Sustainable**
Strathfield Municipal Council	**Sustainable**
Sydney City Council	**Sustainable**
Waverley Council	**Sustainable**
Willoughby City Council	**Vulnerable**
Woollahra Municipal Council	**Sustainable**
METROPOLITAN: OUTER	
Auburn Council	**Unsustainable**
Bankstown City Council	**Sustainable**
Baulkham Hills Shire Council	**Sustainable**
Blacktown City Council	**Sustainable**
Blue Mountains City Council	**Unsustainable**
Camden Council	**Unsustainable**
Campbelltown City Council	**Vulnerable**
Fairfield City Council	**Sustainable**
Gosford City Council	**Unsustainable**
Hawkesbury City Council	**Unsustainable**
Holroyd City Council	**Sustainable**
Hornsby Shire Council	**Sustainable**
Ku-ring-gai Council	**Vulnerable**
Liverpool City Council	**Unsustainable**
Parramatta City Council	**Vulnerable**
Penrith City Council	**Unsustainable**
Pittwater Council	**Sustainable**
Ryde City Council	**Sustainable**
Sutherland Shire Council	**Sustainable**
Warringah Council	**Sustainable**
Wollondilly Shire Council	**Unsustainable**
Wyong Shire Council	**Vulnerable**

larger NSW councils	financial sustainability rating of existing policies (a)
REGIONAL: COASTAL URBAN	
Ballina Shire Council	**Unsustainable**
Bega Valley Shire Council	**Sustainable**
Byron Shire Council	**Unsustainable**
Coffs Harbour City Council	**Vulnerable**
Eurobodalla Shire Council	**Vulnerable**
Great Lakes Council	**Unsustainable**
Greater Taree City Council	**Unsustainable**
Kempsey Shire Council	**Unsustainable**
Kiama Municipal Council	**Unsustainable**
Lake Macquarie City Council	**Sustainable**
Newcastle City Council	**Unsustainable**
Port Macquarie-Hastings Council	**Unsustainable**
Port Stephens Council	**Vulnerable**
Richmond Valley Council	**Unsustainable**
Shellharbour City Council	**Vulnerable**
Shoalhaven City Council	**Sustainable**
Tweed Shire Council	**Unsustainable**
Wollongong City Council	**Unsustainable**
REGIONAL: INLAND URBAN	
Albury City Council	**Sustainable**
Armidale Dumaresq Council	**Unsustainable**
Bathurst Regional Council	**Vulnerable**
Broken Hill City Council	**Unsustainable**
Cessnock City Council	**Unsustainable**
Dubbo City Council	**Vulnerable**
Goulburn Mulwaree Council	**Sustainable**
Griffith City Council	**Unsustainable**
Lismore City Council	**Unsustainable**
Lithgow City Council	**Vulnerable**
Maitland City Council	**Sustainable**
Orange City Council	**Sustainable**
Queanbeyan City Council	**Sustainable**
Singleton Shire Council	**Vulnerable**
Tamworth Regional Council	**Vulnerable**
Wagga Wagga City Council	**Sustainable**
Wingecarribee Shire Council	**Unsustainable**
REGIONAL: RURAL	
Bellingen Shire Council	**Unsustainable**
Cabonne Shire Council	**Unsustainable**
Clarence Valley Council	**Unsustainable**
Cooma-Monaro Shire Council	**Sustainable**
Cowra Shire Council	**Sustainable**
Forbes Shire Council	**Sustainable**
Gunnedah Shire Council	**Sustainable**
Gwydir Shire Council	**n.a.**
Leeton Shire Council	**Sustainable**
Liverpool Plains Shire Council	**Vulnerable**
Inverell Shire Council	**Sustainable**
Mid-Western Regional Council	**Sustainable**
Moree Plains Shire Council	**Vulnerable**
Muswellbrook Shire Council	**Unsustainable**
Nambucca Shire Council	**Unsustainable**
Narrabri Shire Council	**Sustainable**
Parkes Shire Council	**Sustainable**
Temora Shire Council	**Sustainable**
Tumut Shire Council	**Sustainable**
Upper Hunter Shire Council	**Sustainable**
Upper Lachlan Council	**Vulnerable**
Wellington Council	**n.a.**
Young Shire Council	**Sustainable**

Explanatory notes:

Note: All assessments exclude a council's water & sewerage operations.

[(a)] Assessment of the financial sustainability of a council's existing financial and infrastructure policies is based on the council's most recent statutory financial reports, focussing on its operating deficit, debt level and infrastructure backlog – each as reported by the council. n.a. = not assessed (the full statutory financial reports for 2005/06 and 2006/07 are not on the council's website), only three councils (Botany Bay, Gwydir and Wellington) do not publish all their financials on the internet.

A council's existing financial and infrastructure policies are assessed as financially '**unsustainable**' where substantial revenue (or expenditure) adjustments over the next few years seem unavoidable. The financial solvency of such councils is not being called into question. Rather, it is continuation of a council's present revenue-raising and spending that is financially unsustainable. In the absence of increased grants funding, the substantial rates increases and/or spending cutbacks necessary if these councils are to achieve financial and infrastructure conditions that are prudent and responsible will impose a considerable cost on ratepayers and the communities they serve.

About FiscalStar

Established in 2006, FiscalStar's sole purpose is to develop and implement a system of financial sustainability ratings applying to local government authorities in Australia and New Zealand.

FiscalStar is an initiative of its principals, based in part on the (peripheral) finding of some recent State-based financial sustainability inquiries in favour of a role for external monitoring. Feedback received from ratepayers also confirms that demand exists for regular publication of consistent and comparable assessments of council finances.

FiscalStar funds its activities solely by advising external stakeholder groups such as regulators (State departments or offices of local government), debt providers and ratepayer organisations.

FiscalStar is:

- *independent: it does not audit or advise councils; and*
- *expert: its personnel have unmatched experience in assessing the comparative financial performance/health of governments, at the national, State/regional and local levels.*

FiscalStar's analysis is a desk-top one. It is undertaken primarily using publicly-available council data. The assessments made look for warning signs based on well-tested, available metrics and the current level of public disclosure.

FiscalStar's assessments seek to distil – into an easily understandable form from the complexities of audited financial statements and notes – a council's present financial and infrastructure conditions and the implications from the ratepayer perspective of any departure from prudent and responsible conditions.

As such, FiscalStar provides an independent perspective – or second opinion – on a council's present financial and infrastructure conditions.

FiscalStar's opinions do not provide policy advice to councillors or their management teams. Instead, FiscalStar's mission is to increase awareness within local government regarding the meaning and measurement of financial sustainability, and to create incentives for associated improvements over time in local government financial reporting and governance.

To this end, FiscalStar's methodology continues to evolve, including in response to feedback from councils. FiscalStar welcomes dialogue with local government to ensure that external assessments such as its own are valid and balanced – and deserving of credibility and acceptance within local government itself.

FiscalStar particularly values its involvement in New South Wales because the information published by NSW councils is the most comprehensive, and reporting is the most standardised and transparent, across all the States and Territories in Australia. This is the best environment in which to refine external financial sustainability methods and assessments.

Glossary of Terms

All financial terms used in this Paper have the meaning given in Australian Accounting Standard AAS 27, *Financial Reporting by Local Government*, with the following additions and exceptions. All *italicised terms* used in this Glossary are defined elsewhere in the Glossary.

actual renewals capex	means, in relation to a class of *infrastructure assets*, the actual amount of *capital expenditure* on asset *renewal* that is undertaken, or planned to be undertaken, in a particular year
annual expenses growth gap	means the extent to which the actual annual % growth in a council's expenses (on a per assessment basis) in a particular year exceeds the underlying annual % increase in unit costs in that year; a (positive) gap increases any *operating deficit*, other things being equal
annual renewals gap	means the extent to which a council's *actual renewals capex* undertaken in total in a particular year falls short of the *required renewals capex* in total in that year; a (positive) gap increases any *infrastructure backlog*
asset management policy	means a council's policy settings in relation to the *maintenance*, *renewal, rehabilitation* and *enhancement* of all the council's *infrastructure assets*
broad liabilities	means the sum of a council's *long-term debt* and the cost of clearing its *infrastructure backlog*
broad liabilities ratio ("BL ratio")	means a council's *broad liabilities* expressed as a percentage of its total annual *operating revenue*
capital expenditure (or capex)	means the amounts expended in a particular year on the purchase or construction of *non-financial assets*
enhancement	means the cost associated with increasing an asset's service capacity beyond that which existed originally
existing policies	mean a council's policy settings with regard to its *funding policy*, *financing policy*, *operating expenditure policy* and *asset management policy*, as embodied in the council's most-recently published *statutory financial reports*
financial and infrastructure imbalances	mean the extent to which a council's *operating deficit*, *infrastructure backlog* and/or *long-term debt* are presently in excess of levels considered prudent and responsible over the long term
financial and infrastructure policies	means a council's *funding policy*, *financing policy*, *operating expenditure policy* and *asset management policy* considered together
financial sustainability	means the extent to which continuation of a council's *existing policies* achieve – and sustain – financial and infrastructure conditions that are prudent and responsible in the long term
financially unsustainable	means that substantial adjustments to existing revenue-raising and/or expenditure policy settings seem inevitable if a council's present *financial and infrastructure imbalances* are to be phased out over the next 5 to 10 years
financing policy	means the mix chosen by a council between (i) borrowing (debt) and (ii) internally-generated sources (ratepayer-contributed equity) when it comes to the sourcing of capital employed by the council
funding policy	means, in relation to recovering a council's operating costs, the mix chosen by the council between property rates, annual charges, fees, fines and user charges, and so the levels of and annual % changes in these various forms of council revenue raising
infrastructure assets	means all council-owned buildings, roads, water and sewerage assets, other commercial assets, stormwater drainage assets, recreational assets and natural assets

infrastructure backlog	means the estimated total cost of undertaking the required asset *maintenance* and *renewal* that the council's asset managers had programmed to occur prior to a year's end, but which had not been carried out by then (due to a lack of finance or other reasons) and is still required to be done
infrastructure backlog ratio	means a council's *infrastructure backlog* expressed as a percentage of its total annual *operating revenue*
long-term debt	means the total of a council's non-current interest-bearing liabilities
long-term debt ratio	means a council's *long-term debt* expressed as a percentage of its total annual *operating revenue*
maintenance	means the regular repair and upkeep of assets so that they do not degrade at a rate faster than was originally intended; does not include *rehabilitation* or *renewal*
no policy change (or continuation of existing policies)	means no change in future years, from the council's *existing policy* settings, to a council's *revenue-raising effort* or its *annual expenses growth gap* or its *annual renewals gap* or its *financing policy*
non-financial assets	mean a council's physical assets; besides *infrastructure assets*, also includes land, inventories, plant and equipment, and furniture and fittings
operating deficit	means the extent to which the total of a council's annual *underlying expenses* in a particular year exceeds the total of its annual *operating revenue* in that year
operating deficit ratio ("OD ratio")	means a council's *operating deficit* expressed as a percentage of its annual *revenue from rates, fees & charges*
operating expenditure policy	means a council's policy settings in relation to the level and growth of its annual expenses (other than its depreciation and interest expenses), which is particularly evident in the associated *annual expenses growth gap*
operating revenue	means total annual revenue <u>excluding</u> (i) capital contributions and asset donations, (ii) net gains from the disposal or revaluation of assets, (iii) any capital grants received specifically for the purpose of financing *enhancement capital expenditure* during the year (but not those 'capital' grants provided to finance the *maintenance* or *renewal* or *rehabilitation* of existing assets), and (iv) any other grants recognised during the year but which remain unspent at the end of the year
own-source operating revenue	means that part of *operating revenue* that is not received in the form of grants from the other tiers of government
rehabilitation	means the total cost of clearing up any backlog in asset *renewal* and *maintenance*
renewal(s)	means the total cost of restoring an asset's service capacity to that which existed originally, applying current construction standards and technology, once an asset has reached (i) the end of its economic or useful life or (ii) because it no longer provides an acceptable level of service and cannot be restored by normal *maintenance*
required renewals capex	means, in relation to a class of *infrastructure assets*, the amount of *capital expenditure* on asset *renewal* that would be necessary in a particular year (in addition to required *maintenance*) in order to keep the service capacity of those assets at a satisfactory level
revenue-raising effort	means the total of *revenue from rates, fees & charges* collected annually by a council as a proportion of aggregate annual (after-tax) ratepayer income
revenue from rates, fees & charges	means the revenue collected in a particular year from a council's property rates, annual charges, fees, fines and user charges, the levels of which are all within the council's policy discretion
statutory financial reports	mean a council's audited general purpose annual financial statements and notes, and the various special purpose financial statements and special schedules that by law each NSW council is required to prepare annually and make available to the Department of Local Government
underlying expenses	means total annual expenses <u>excluding</u> (i) any significant one-off expenses such as asset write downs expensed (or equivalent impairment amounts) and (ii) any expenses funded during the year by grants received in previous years

1. Introduction

1.1 Background

Review Today Pty Ltd ("Review Today"), on behalf of Dexia Credit Local Asia Pacific Pty Ltd ("Dexia"), has commissioned FiscalStar Services Pty Ltd ("FiscalStar") to refine and update the financial sustainability assessments published in October 2007.[1]

The methodology used and the views expressed in this report are those of FiscalStar, and are not necessarily those of Review Today or Dexia. While Review Today provided editorial assistance in the finalisation of this report, FiscalStar's analysis and assessments have been undertaken independently of both Review Today and Dexia. Nothing in this report can be interpreted as being in the nature of financial advice provided by FiscalStar, Review Today or Dexia to financial investors or to any service providers.

1.2 Coverage and scope

Of the 152 councils in New South Wales, FiscalStar only follows the finances of the largest 100. Of these 100 councils, all but three have published their 2006/07 (or 2005/06) statutory financial reports in full on their websites.[2]

As Table 1-1 shows, the **largest 100 NSW councils** are responsible for 90%+ of the State's population, local government revenues and local government assets.

TABLE 1-1
Nature of Councils Included in this Study

	%
Number	66%
Non-financial assets	90%
Resident population	95%
Rates revenue	94%

Also, FiscalStar's focus is on the non-commercial (i.e. **tax-supported**) activities of the councils surveyed, in that each council's water & sewerage operations are excluded from the assessments reported throughout this report. This focus aims to lift the veil that occurs where a council's water & sewerage operations are being relied upon to cross-subsidise its non-commercial activities (or vice versa). As regulatory oversight is more evident in relation to water & sewerage operations, it is performance in relation to a council's non-commercial (i.e. tax-supported) activities that warrants particular attention from external monitors.

1.3 Data used

FiscalStar's analysis is based primarily on publicly-available information, supplemented in the case of some councils by information provided to FiscalStar by the councils themselves.

The data used and its sources are summarised in Table 1-2 on the next page.

[1] FiscalStar, *The Financial Sustainability of NSW Councils: An Independent Assessment for Review Today*, October 2007.

[2] As at 30 June 2008, three councils (Botany Bay, Gwydir and Wellington) had not published their statutory financial reports in full on their websites for either the 2005/06 or 2006/07 financial years. It is hoped that in future these councils achieve the same level of public disclosure of their financial and infrastructure conditions as do the overwhelming majority of other councils in NSW.

On FiscalStar's behalf, in March 2008 Review Today issued an information request to all 100 councils covered in this report, limited to information not generally available publicly. In effect, direct council input was sought regarding information that otherwise would need to be estimated. Reminders were sent to all those councils that did not respond initially. 32 councils took up the invitation to fill out the FiscalStar questionnaire.

This supplementary information was particularly important in relation to the estimates of a council's infrastructure backlog and its associated annual renewals gap. It appears that the infrastructure condition data published by councils is not always comparable across councils or consistent over time. Some councils have suggested that published estimates of the cost of returning their assets to a satisfactory condition may in effect include some enhancement of these assets. In this case, the published estimates will overstate a council's present infrastructure backlog. A number of councils have also acknowledged that the basis of asset condition information published in their annual statutory reports is not well documented or tested, and that clearer guidance from the NSW Department of Local Government on compiling this information would be helpful.

TABLE 1-2
Financial Data and Sources, NSW Councils

Item	Source
Annual revenue items:	
Rates & annual charges	GPFR, Note 3(a)
User charges	GPFR, Note 3(b)
Other fees & charges	GPFR, Note 3(b)
Reimbursements & recoveries/operating contributions	GPFR, Note 3(f)
Interest & investment revenue	GPFR, Note 3(c)
All other own-source operating revenues	GPFR, Note 3(d)
All grants and transfers from other governments	GPFR, Note 3(e)
Capital grants	GPFR, Note 3(e)
Enhancement-related capital grants from other governments	**
Grants received during the year but unspent at the end of the year	GPFR, Note 3(g) **
Grants spent during the year but recognised as revenue in previous years	GPFR, Note 3(g) **
Capital contributions	GPFR, Note 3(f)
Net gain/(loss) on disposal of assets	GPFR, Note 5
Total revenue as per the Annual Operating Statement	GPFR, Operating Statement
Water & sewerage income from continuing operations	Special Schedules 3 & 5
Water & sewerage capital revenue (included in income)	Special Schedules 3 & 5
Annual expense items:	
Borrowing costs expensed	GPFR, Note 4(b)
Depreciation expense	GPFR, Note 4(d)
Water & sewerage depreciation expense	Special Schedules 3 & 5
Loss on disposal of non-financial assets (n.e.i.)	GPFR, Operating Statement
Loss on revaluations (n.e.i.)	GPFR, Operating Statement
Asset write-downs and other significant one-off expenses	GPFR, Note 4 **
Total expenses as per the Annual Operating Statement	GPFR, Operating Statement
Other operating statement items:	
Net operating surplus/(deficit) i.e. after capital revenue	GPFR, Operating Statement
Water & sewerage net operating surplus/(deficit) i.e. after capital revenue	Special Schedules 3 & 5
Potential dividend component	Special Schedules 3 & 5
Annual capital expenditure items:	
Asset additions	GPFR, Note 9a
Asset renewals	GPFR, Note 13 **
Any included donated assets	**
Balance sheet items:	
Current assets	GPFR, Balance Sheet
Current cash & investments	GPFR, Note 6a
Externally-restricted cash & investments	GPFR, Note 6c
Non-current assets	GPFR, Balance Sheet
Infrastructure, plant, property & equipment	GPFR, Note 9a
Non-current investments	GPFR, Note 6a
Externally-restricted investments	GPFR, Note 6c
Current liabilities	GPFR, Balance Sheet
Non-current interest bearing liabilities	GPFR, Balance Sheet
Estimated items:	
Estimated fair value of infrastructure, plant, property & equipment	**
Estimated total infrastructure backlog amount: buildings	Special Schedule 7 **
Estimated total infrastructure backlog amount: roads	Special Schedule 7 **
Estimated total infrastructure backlog amount: water & sewerage	Special Schedule 7 **
Estimated total infrastructure backlog amount: other	Special Schedule 7 **
Estimated annual renewals gap	**

GPFR = General Purpose Financial Report; **SPFR** = Special Purpose Financial Reports
** Indicates that, for some councils, information provided by the council is substituted for information otherwise based on published council sources or FiscalStar estimates.

2. Nature of the 'Financial Sustainability' Assessments

2.1 Ratings scale

FiscalStar's assessment of the financial sustainability of a council's existing financial and infrastructure policies uses the following scale:

- **Sustainable**, also denoted as "S";
- **Vulnerable**, also denoted as "V"; and
- **Unsustainable**, also denoted as "U".

A council's existing financial and infrastructure policies are assessed as financially **sustainable** only if any present financial and infrastructure imbalances[3] could be eliminated – and the council's financial and infrastructure conditions brought to prudent and responsible levels – without resorting to substantial revenue-raising (and/or expenditure) adjustments.

By contrast, a council's existing financial and infrastructure policies are assessed as financially **unsustainable** where substantial revenue-raising (and/or expenditure) adjustments by the council seem unavoidable over the next few years.

Whether a council's existing policies are financially 'sustainable' or 'unsustainable' therefore depends upon whether the adjustments necessary to those policies qualify as '**substantial**' or not. The meaning and measurement of 'substantial' policy adjustments, and so the methodology used by FiscalStar to operationalise the financially 'sustainable' and financially 'unsustainable' concepts, are overviewed in chapter 3 and detailed at Appendix A.

2.2 The focus is on a council's <u>policy</u> sustainability

FiscalStar's assessments focus on the financial sustainability of a council's financial and infrastructure policies – or '**policy sustainability**' for short.

Hence, what is 'unsustainable' are the council's existing **policies**, both revenue-raising and spending. A council's finances can always be corrected with substantial rates increases and/or expenditure cutbacks, but at a considerable cost to ratepayers and the community.

FiscalStar's particular focus is on a number of key aspects of a council's financial and infrastructure policies, namely:

- the council's revenue-raising effort, and so its key **funding policy** decisions (and the level and annual % growth of a council's rates, annual charges, fees, fines and user charges);
- the council's **financing policy**, and so the level and mix of borrowing (new debt) and internally-generated sources (ratepayer-contributed equity) when it comes to financing the acquisition of both additional and replacement assets (and so the sourcing of capital employed by a council);
- the council's **operating expenditure policy**, and in particular the extent to which its on-going annual % expenses growth (on a per assessment basis) matches or exceeds the underlying annual % increase in unit costs; and

[3] Financial and infrastructure imbalances involve a council's operating deficit, infrastructure backlog and/or long-term debt presently being in excess of levels considered prudent and responsible over the long term.

- the council's **asset management policy**, and in particular the extent to which the council's actual annual spending on renewals (and maintenance) matches or falls short of its required annual renewals (and maintenance) expenditure.

2.3 A council's financial solvency or creditworthiness is not being questioned

If a council's existing policies are assessed as being financially 'unsustainable', the council's financial solvency or creditworthiness is not being called into question. **A financial sustainability assessment says nothing about the extent to which a council can meet its debt service obligations and avoid bankruptcy**. Because councils possess the power to impose a tax in the form of annual property rates, and ratepayers are bound to meet all outstanding obligations under the Local Government Act, there can be no doubt that councils are able to meet their debt service obligations.

Indeed, financial sustainability represents a **higher hurdle** than financial solvency. Being financially sustainable means that the relative stability and predictability of the council's rates, fees & charges are not at risk and the council's ratings burden is being shared fairly between current and future ratepayers (i.e. today's problems are not being left largely for future ratepayers to fix).

2.4 The focus is a council's existing policy and so its current policy settings

The assessment made of a council's existing policies relates to the council's **current policy settings**, not to its planned or future policy settings.

Until policy changes are evident in a council's actual financial and infrastructure conditions, the certainty and extent of any planned policy changes remain unknown. Only the council's current policies, as embodied in its most-recent statutory financial reports, can be known for sure from public sources – and be assessed by FiscalStar for their financial sustainability.

2.5 The focus is on predicting whether necessary policy changes are 'substantial'

Finally, FiscalStar's assessments do not involve predicting what a council's financial and infrastructure conditions will be like in 5-10 years' time. FiscalStar's assessments assume that each council's finances and infrastructure will in time reach – and be maintained at – prudent and responsible levels.

Rather, the focus is on each council's **present** financial and infrastructure conditions, and so on the likely magnitude of the **adjustments necessary** to existing policies over the next 5-10 years if the council's financial and infrastructure conditions are to reach – and be maintained at – prudent and responsible levels over such a time frame.

This focus on a council's **most recent** financial and infrastructure conditions (as well as on the continuation of **existing** expenditure policy and **existing** revenue-raising effort) is not to suggest that a council, facing poor or deteriorating financial and infrastructure conditions, will neglect either to adjust its expenditure policies or to lift its revenue-raising effort. On the contrary, the 'continuation of existing policies' assumption is a standard analytical device that enables the **size of the existing policy adjustment task** (if any) facing each council to be quantified.

In fact, the financial sustainability assessments published in this report are intended to flag the likely consequences of any necessary policy adjustment (compared with continuation of existing policy). Ratepayers of councils whose existing policies are assessed as financially 'unsustainable' face substantial rates/prices hikes or drastic services cutbacks (or both) as the financial and infrastructure problems facing those councils are addressed. It is these policy adjustments – rather than any suggestion of on-going or burgeoning operating deficits or infrastructure backlogs – that will be the main symptoms in future of a council's existing policies being financially 'unsustainable'.

3. Indicators and Benchmarks

FiscalStar's assessment of the financial sustainability of a council's existing financial and infrastructure policies is based on a rigorous and transparent methodology. As a result, arriving at the financial sustainability assessments is an objective, data-driven exercise, not a subjective one based on qualitative judgments.

This chapter provides an overview of the methodology.

3.1 Key indicators

At the core of FiscalStar's financial sustainability assessment for a council are:

- whether the council has an **operating deficit**, and how large that deficit is; and
- how large the council's outstanding financial and infrastructure obligations are, encompassing both its **long-term debt** and any **infrastructure backlog**.

A council's **operating deficit ratio ("OD ratio")** summarises its operating statement performance. FiscalStar expresses the operating deficit as a % of the council's annual revenue from rates, fees & charges. The operating deficit is measured as the total of a council's annual underlying expenses less the total of its annual operating revenue.[4]

When it comes to summarising a council's balance sheet condition, FiscalStar's focus is on what it terms the **broad liabilities ratio ("BL ratio")**. FiscalStar expresses any broad liabilities as a % of the council's total annual operating revenue.[5]

Broad liabilities are measured by the sum of a council's long-term debt and an estimate of its infrastructure backlog.[6] In turn:

- **long-term debt** is measured by the council's non-current interest-bearing liabilities; and
- the **infrastructure backlog** is the estimated total cost of undertaking the required maintenance and renewal that the council's asset managers had programmed to occur during the year in question or in preceding years, but which were not carried out (due to a lack of finance or other reasons) and are still required to be done. The 'backlog' relates to buildings, roads and all other infrastructure assets (including stormwater drainage assets, recreational assets and natural assets).

FiscalStar considers an infrastructure backlog in effect to be a 'liability' facing a council much like borrowings but one that does not show up on a council's balance sheet. Hence, a council's BL ratio summarises its 'true' balance sheet condition.

---

[4] This definition of the operating deficit (which is before capital revenues are taken into account) differs from the measure sometimes headlined by councils themselves measured after capital revenues are taken into account. As has been demonstrated by Access Economics ("Local Government Finances in NSW: An Assessment", in *Independent Inquiry into the Financial Sustainability of NSW Local Government, Final Report*, Volume 2, Sydney, May 2006), any operating deficit which is measured after capital revenues are taken into account understates the council's 'true' operating deficit for the purposes of shedding light on whether the council's ratings burden is being shared fairly between current and future ratepayers.

[5] The different revenue denominators in the OD and BL ratios can be explained as follows. The denominator chosen for the OD ratio (annual revenue from rates, fees & charges) involves only the operating revenue that is under a council's direct control, so that the resultant ratio provides an indication of the % change necessary in such revenues were any deficit to be eliminated. By contrast, the denominator chosen for the BL ratio encompasses all operating revenue (i.e. not only annual revenue from rates, fees & charges but also grants from other governments) because the source of a council's revenue – whether by its own effort or from other governments – is immaterial when it comes to assessing the 'burden' imposed by the council's outstanding financial and infrastructure obligations.

[6] FiscalStar does not include long-term employee liabilities such as superannuation on the basis that such liabilities generally are fully funded in the local government sector.

3.2 Core assumptions

To evaluate a council's OD and BL ratios, FiscalStar makes two sets of judgments.

First, for a council's financial and infrastructure conditions to be considered **prudent and responsible**, FiscalStar assumes that the council must be running a slight operating surplus,[7] have a zero infrastructure backlog and its long-term debt levels must be no more than would assure at least a single-A stand-alone credit rating.[8] The further away a council's present financial and infrastructure conditions are from these prudent and responsible conditions, the greater the adjustments necessary to the council's existing policies.

Secondly, to judge whether any policy adjustments qualify as '**substantial**' in nature, FiscalStar focuses on the annual % increases necessary in a council's rates, fees & charges (per assessment) were any present financial and infrastructure imbalances to be phased out over a 10 year period. If the annual % increase in a council's rates, fees & charges necessary on average for 10 years is more than **double the annual inflation rate**, the associated policy adjustments are judged to be 'substantial'.[9] Any average annual % increase necessary over 10 years that is below this threshold but is still **greater than 1⅔ times the annual inflation rate** is judged to run the risk of becoming substantial were unexpected developments to occur. On this basis, in FiscalStar's judgment:

- a council's existing policies are considered to be financially **unsustainable** if the council's present financial and infrastructure imbalances could be eliminated only by 10 years' worth of annual % increases in rates, fees & charges of in **excess of 2 times annual inflation** on average;
- a council's existing policies are considered to be financially **sustainable** if the council's present financial and infrastructure imbalances could be eliminated by 10 years' worth of annual % increases in rates, fees & charges at **less than 1⅔ times annual inflation** on average;[10] and
- if a council's existing policies are somewhere between financially 'sustainable' and financially 'unsustainable', they are considered to be financially **vulnerable**.[11]

3.3 Benchmarks

FiscalStar shows its benchmark OD and BL ratios for a council using a **criteria chart**. Chart 3-1 provides an illustrative criteria chart. Such charts provide an indication of FiscalStar's estimates of the various OD and BL ratio combinations for a council that would fall into each of the financial sustainability categories.

FiscalStar's criteria chart has:

- two **axes**, one for each of the two summary indicators of a council's present financial and infrastructure conditions, namely the council's OD ratio and its BL ratio; and
- a number of **zones**, each indicating OD and BL ratio combinations which FiscalStar assesses to be of similar merit from a financial sustainability perspective.[12]

---

[7] A minimum 2½% operating surplus is considered necessary otherwise infrastructure enhancements will have to be financed largely by debt which has the effect of shifting too much of the funding burden onto future taxpayers to the detriment of intergenerational equity.

[8] FiscalStar assumes that NSW councils would generally be assured of at least a single-A credit rating on a 'stand-alone' basis (i.e. a credit rating that discounts any implied State government guarantee) provided a council's long-term debt ratio does not exceed 60% or so of its annual operating revenue. For most councils, their present long-term debt ratios are 20% or less.

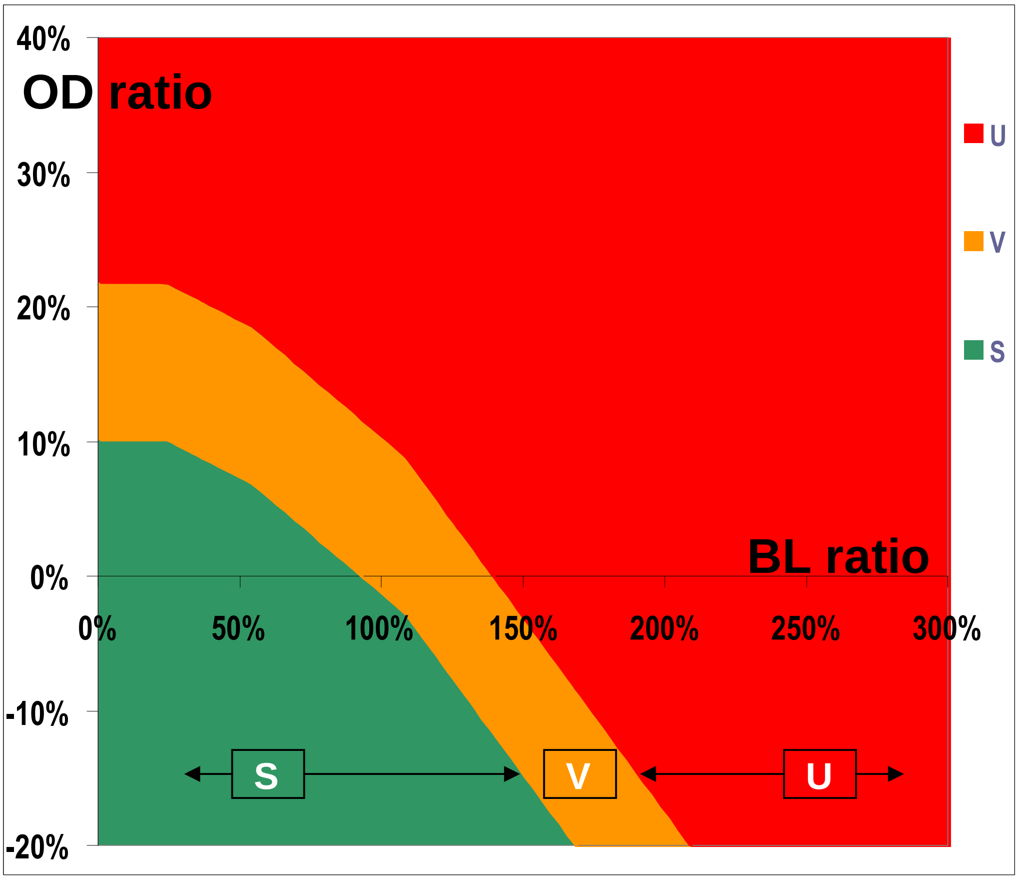
[9] If annual inflation were to average 3%, this would involve annual increases in a council's (per assessment) rates, fees & charges averaging at least 6%.

[10] This would involve annual increases averaging less than 5% were annual inflation around 3%.

[11] These are councils whose present financial and infrastructure imbalances could be eliminated by 10 years' worth of annual increases in rates, fees & charges averaging between 1⅔ and 2 times annual inflation.

[12] More specifically, each zone contains all OD and BL ratio combinations where the annual % increases in rates, fees & charges necessary on average over a 10 year period, in order to eliminate present financial and infrastructure imbalances, are within a specified range of increases.

CHART 3-1
Illustrative Criteria Chart**



OD ratio = a council's operating deficit as a % of its annual revenue from rates, fees & charges.
BL ratio = the sum of a council's long-term debt and an estimate of its infrastructure backlog, both at the end of the year, as a % of its total annual operating revenue.
**This particular chart applies only to councils with (i) financial characteristics (other than their OD and BL ratios) at about the State-wide average, (ii) existing operating expenditure and asset management policies that neither increase nor decrease the council's present OD and BL ratios (other things being equal), and (iii) depreciable assets that are valued on a current cost – rather than historical cost – basis.

Specifically, the coloured zones in the criteria chart distinguish between:

- all OD and BL ratio combinations deemed to be financially **sustainable** – the **green (or S) zone**;
- all OD and BL ratio combinations deemed to be financially **vulnerable** – the **amber (or V) zone**; and
- all OD and BL ratio combinations deemed to be financially **unsustainable** – the **red (or U) zone**.

A closer look at Chart 3-1 shows that if a council (with characteristics similar to those underlying that chart) has a **zero BL ratio**, other things being equal its existing policies would be assessed as being:

- financially 'sustainable' if its most-recent OD ratio was below 10%;
- financially 'vulnerable' if its OD ratio was between about 10% and 22%; and
- financially 'unsustainable' if its OD ratio was above 22%.

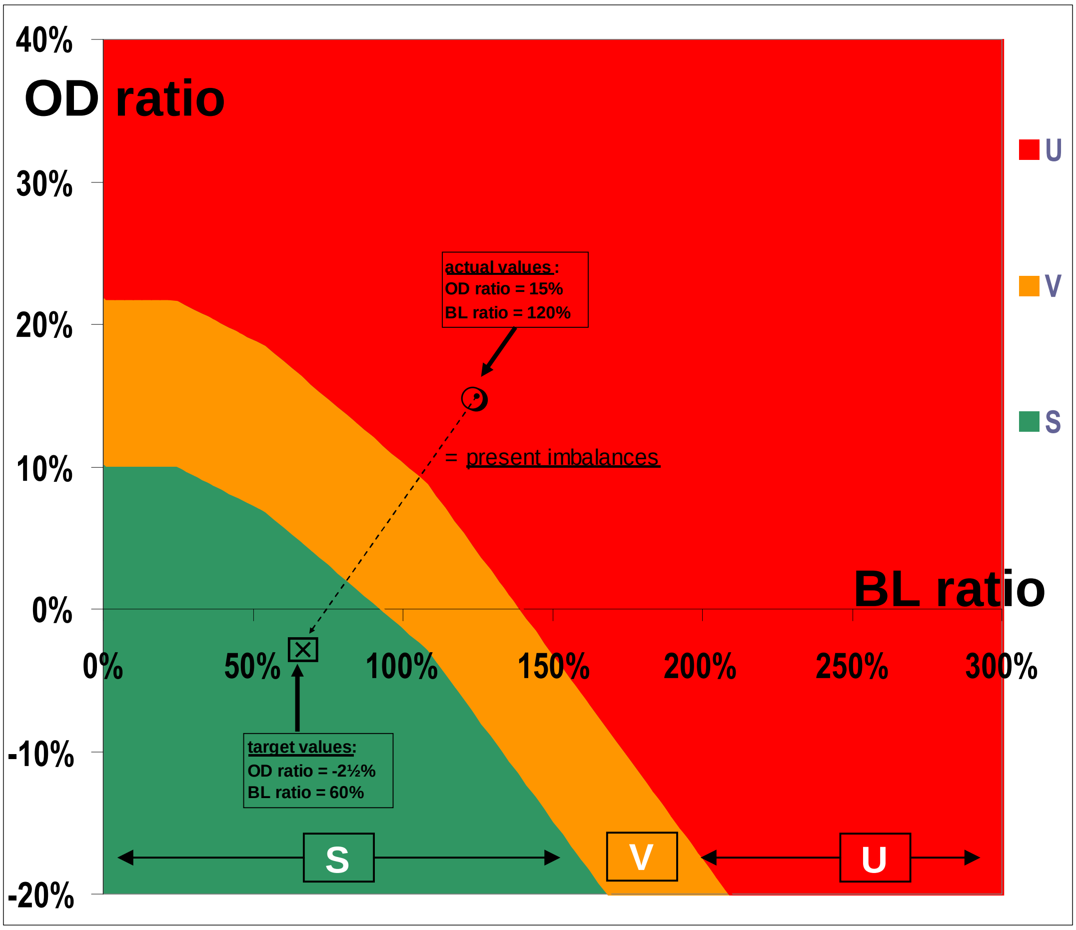
However, these particular OD ratio benchmark values apply only to a council with a zero BL ratio.

As the criteria chart also shows, each of these benchmark values are reduced in value if a council's BL ratio is greater than zero. Moreover, the higher a council's BL ratio, the greater is the reduction necessary to each of these benchmark values.[13]

The use made of the criteria chart can be illustrated further with an example. Consider the example shown in Chart 3-2 below involving a council with:

- a **present** (or "actual") combination of an OD ratio of 15% and a BL ratio of 120%; and
- a **target** combination of OD and BL ratios involving a 2½% operating surplus (i.e. an OD ratio = -2½%) and a BL ratio of 60%.

CHART 3-2
Illustrative Criteria Chart; Example Council**



OD ratio = a council's operating deficit as a % of its annual revenue from rates, fees & charges.
BL ratio = the sum of a council's long-term debt and an estimate of its infrastructure backlog, both at the end of the year, as a % of its total annual operating revenue.
**This particular chart applies only to councils with (i) financial characteristics (other than their OD and BL ratios) at about the State-wide average, (ii) existing operating expenditure and asset management policies that neither increase nor decrease the council's present OD and BL ratios (other things being equal), and (iii) depreciable assets that are valued on a current cost – rather than historical cost – basis.

The chart puts this illustrative council in the red zone, meaning that the council's existing policies would be assessed by FiscalStar as being financially 'unsustainable' (or "U").

This indicates that, in order to move the council's financial and infrastructure conditions from (i) its present combination of OD and BL ratios (15% OD and 120% BL) to (ii) the target OD and BL ratios (-2½% OD ratio and 60% BL ratio), '**substantial**' annual % increases in the council's rates, fees & charges would be necessary.

[13] For example, if a council (with characteristics similar to those underlying the chart) has a BL ratio of 100% (other things being equal), its existing policies would be assessed as financially 'sustainable' if its most-recent OD ratio was below -2% (i.e. an operating surplus ratio greater than 2%); its policies would be assessed as financially 'vulnerable' if its most-recent OD ratio was between about -2% and 11%; and its policies would be assessed as financially 'unsustainable' if its most-recent OD ratio was above 11%.

In effect, these criteria charts show that FiscalStar's financial sustainability assessment is primarily about obtaining the most accurate and up-to-date measurement, for each council, of a council's OD ratio and its BL ratio.

Once these two ratios are appropriately measured, the assessment of the financial sustainability of a council's existing policies is a matter of plotting the corresponding point (being the council's most-recently observed combination of OD and BL ratios) on the relevant criteria chart, and reading off the financial sustainability assessment (S or V or U) by reference to the corresponding zone.

3.4 Role of a council's other financial characteristics

The positioning of the various colour zones in the criteria charts used by FiscalStar, and so FiscalStar's benchmarks for each council, differs according to (i) a council's financial characteristics (other than their OD and BL ratios), (ii) the council's existing expenditure policies, and (iii) whether the council's depreciable assets are presently valued on a 'current cost' versus 'historical cost' basis.[14]

What this means is that even if two councils presently have identical OD and BL ratios, the revenue and spending adjustments that each might need to apply over time in order to eliminate any present financial and infrastructure imbalances will differ depending on, most notably:

- the council's relative revenue discretion (or, put conversely, its **grants dependency**), as measured by its annual revenues from rates, fees & charges as a % of its total annual operating revenue,
- the council's **spare cash balances**[15] as a % of its total annual operating revenue;
- the council's present **annual expenses growth gap**, being the gap between (i) its actual annual % expenses growth (on a per assessment basis) and (ii) the underlying annual % increase in unit costs;
- the council's present **annual renewals gap**, being the gap between (i) its **required** annual renewals expenditure and (ii) the council's **actual** annual spending on renewals; and
- the proportion of the council's depreciable assets presently valued on an historical cost – rather than a **'fair value'** – basis.

A council has **more degrees of financial freedom** (and so can tolerate higher OD and BL ratios, other things being equal):

- the **lower** is its grants dependency;[16]
- the **greater** are its spare cash balances;[17]
- the **lower** is the on-going annual % growth in its expenses (on a per assessment basis) inherent in its existing policy;[18]

[14] Planned revenue policy changes are not factored-in to FiscalStar's assessments because the whole aim of the exercise is to establish the extent to which revenue-raising effort adjustments – whether <u>planned or unplanned</u> – are necessary in future if a council is to achieve prudent and responsible outcomes for its operating deficit, infrastructure backlog and long-term debt.

[15] FiscalStar measures a council's spare cash balances as the amount by which the council's (i) unrestricted cash and investments exceed (ii) a minimum prudent level for working capital purposes. A council's unrestricted cash and investments are defined as the council's total cash and investments (current or non-current) <u>less</u> any cash and investments subject to external restrictions. A minimum prudent level of cash and investments is assumed by FiscalStar to be an amount equal to 1½ times a council's current liabilities net of any non-cash current assets.

[16] The lower is a council's grants dependency, the more the amount of revenue that will be generated by a given annual % increase in its rates, fees & charges, and so the more significant the inroads possible into any present financial and infrastructure imbalances. Alternatively, the greater a council's grants dependency (other things being equal), the greater the annual % increase that will be needed in its rates, fees & charges in order to eliminate any present financial and infrastructure imbalances.

[17] The greater are a council's spare cash balances, the less the need for (more expensive) new borrowings to address any infrastructure backlog. Alternatively, the lower are a council's spare cash balances (other things being equal), the greater the need for (more expensive) new borrowings to address any infrastructure backlog.

[18] The greater the amount by which a council's on-going annual % expenses growth (on a per assessment basis) under existing policy falls short of the underlying annual % increase in unit costs, the more likely the council's OD ratio will fall over time under continuation of existing policy. Alternatively, the more a council's annual % expenses growth (on a per assessment basis) under existing policy exceeds the underlying annual % increase in unit costs (other things being equal), the more likely the council's OD ratio will rise over time under continuation of existing policy.

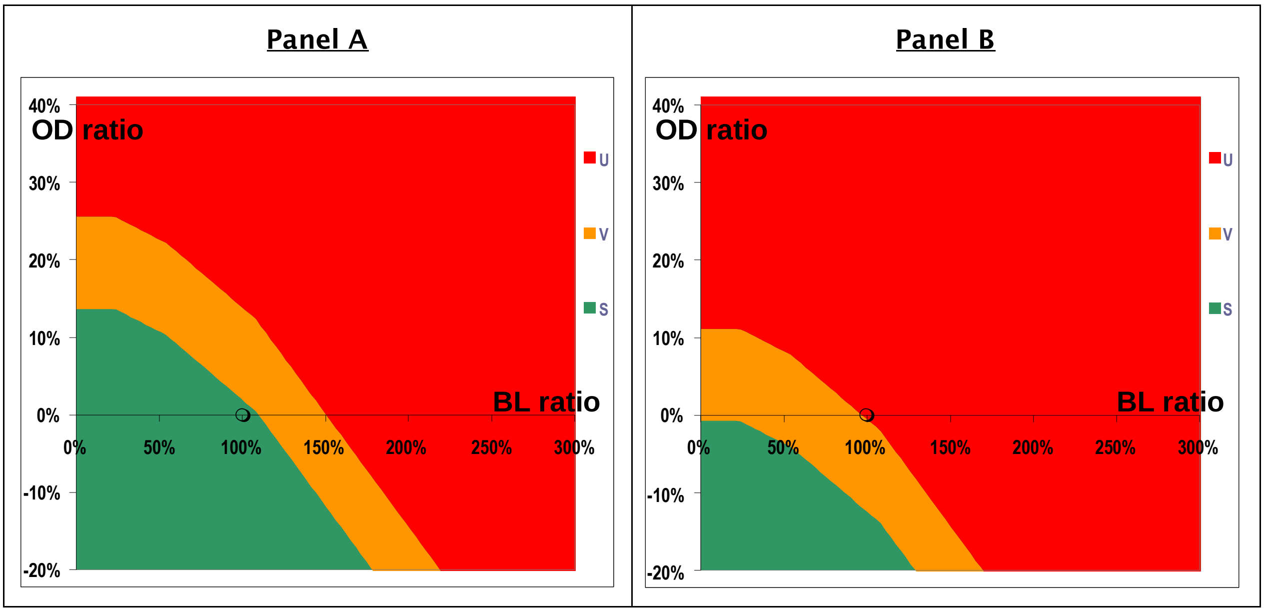
- the **greater** is the actual annual spending on renewals (and rehabilitation) inherent in its existing policy;[19] and
- the **higher** is the proportion of its depreciable assets valued on a 'fair value' – rather than historical cost – basis.[20]

Put in terms of the criteria charts, the lesser are a council's degrees of financial freedom (for example, the relatively greater is its grants dependency or the relatively greater the annual % growth in its expenses), the larger the red (or U) zone and the smaller the green (or S) zone.

In cases where a council's present combination of OD and BL ratios is close to the boundary between two of the zones shown in the criteria chart, this shift may be enough to tip the council either (i) from the green (or S) zone into the amber (or V) zone, or (ii) from the amber (or V) zone into the red (or U) zone.

For example, compare the charts in each panel of Chart 3-3 below. Panel A illustrates the positioning of the various zones for a council with very favourable characteristics apart from its OD and BL ratios, whereas Panel B illustrates the positioning of the zones typical for a council with much less favourable other financial characteristics.

CHART 3-3
Illustrative Criteria Charts: Effect of Other Financial Characteristics



Consider a council presently exhibiting a 0% OD ratio and a 100% BL ratio. If the council's other financial circumstances were as illustrated in Panel A, its existing policies would be assessed as being financially 'sustainable'. If, on the other hand, the council's other financial circumstances were as illustrated in Panel B, its existing policies would be assessed as being financially 'unsustainable'.

Each council therefore has a unique criteria chart based on its own financial characteristics. Councils have been provided with their own criteria chart. They are available for downloading individually from the FiscalStar website (http://fiscalstar.com.au/content/category/15/72/). An example is provided at Appendix C.

[19] The greater the amount by which a council's actual annual spending on renewals and rehabilitation exceeds the required level of annual spending, the more likely the council's BL ratio will fall over time under continuation of existing policy. Alternatively, the more a council's required level of annual spending on renewals exceeds its actual annual spending (other things being equal), the more likely the council's BL ratio will rise over time under continuation of existing policy.

[20] The higher the proportion of a council's depreciable assets which are valued on a 'fair value' – rather than historical cost – basis, the less the council's OD ratio will rise over time as a result of its assets being increasingly valued on a 'fair value' basis and annual depreciation charges increase as a result (other things being equal). Alternatively, the more that a council's depreciable assets are presently valued on an historical cost basis, the more the council's present OD ratio is likely to underestimate the OD ratio expected as 'fair value' asset valuation is rolled out across local government in NSW.

4. Findings

Based mainly on the latest statutory financial reports for each council, FiscalStar has assessed the financial sustainability of each council's existing financial and infrastructure policies. [As explained in chapter 1, all assessments in this report relate to a council's activities other than its water & sewerage operations.]

4.1 Financial sustainability of existing policies

The latest-observed OD and BL ratios for each of the largest 100 NSW councils as measured by FiscalStar are shown in Appendix B.

Based on these ratios, and applying the framework and methodology outlined in chapters 2 and 3 (and at Appendix A), the resultant assessments of the financial sustainability of the existing financial and infrastructure policies of the largest 100 NSW councils are summarised in Table 4-1.

TABLE 4-1
Financial Sustainability of Existing Policies, Largest 100 NSW Councils, 2006/07

	total number	Metropolitan		Regional		
		inner	outer	coastal urban	inland urban	rural
Sustainable	43	55%	45%	17%	35%	57%
Vulnerable	19	15%	18%	22%	29%	13%
Unsustainable	35	25%	36%	61%	35%	22%
not assessed**	3	5%	0%	0%	0%	9%
	100	**20**	**22**	**18**	**17**	**23**

** 3 councils do not publish their 2006/07 (or 2005/06) statutory financial reports in full on their websites

The assessment for each individual council is shown at Appendix B.

FiscalStar's assessment is that the existing financial and infrastructure policies of about 40% of the 100 largest NSW councils can be rated as financially 'sustainable'.

The existing policies of a further 20% or so of the largest 100 NSW councils are financially 'vulnerable', and so fall short of being sustainable.

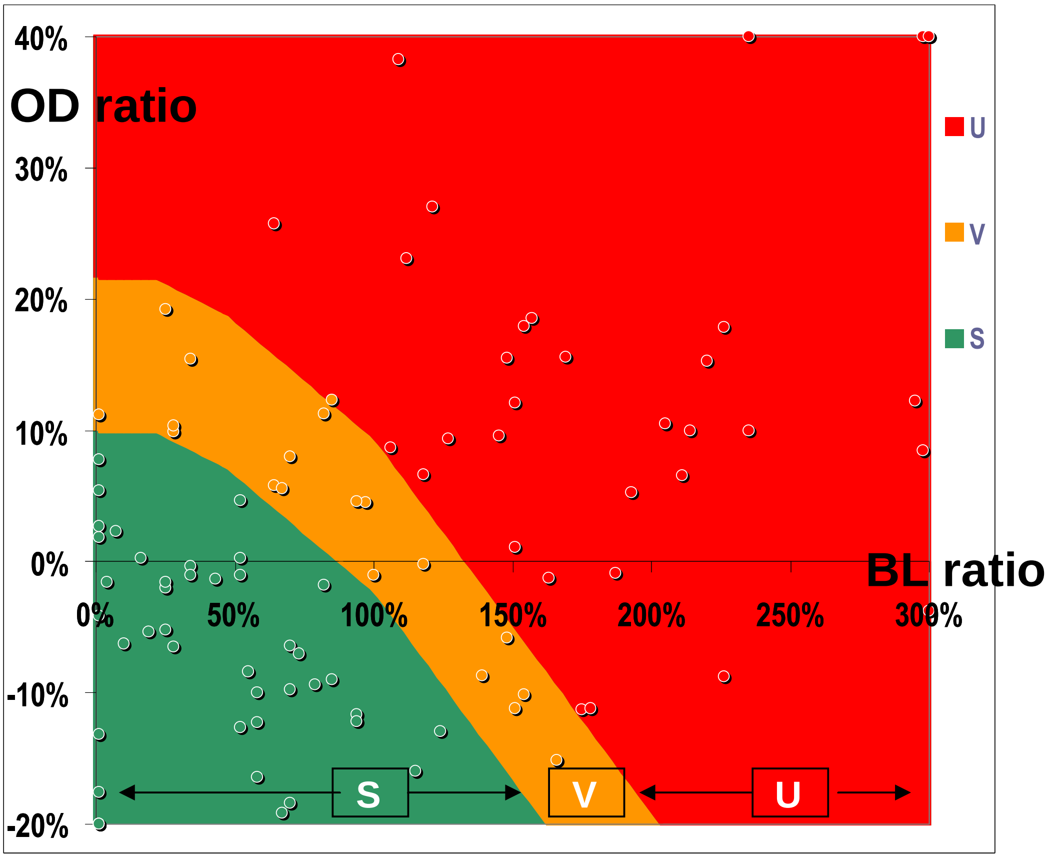
Finally, the existing financial and infrastructure policies of around one in every three councils surveyed are assessed as financially 'unsustainable'.

Overall, the biggest challenges seem to be facing those councils outside the greater metropolitan area that are predominately urban in nature and located on the coast ("regional coastal urban" councils), for whom the existing policies of nearly two in every three are assessed as financially 'unsustainable'. Of the metropolitan councils, most pressure seems to be on councils in the outer areas ("outer metropolitan" councils). Both of these types of councils are often the fastest growing councils in the State.

Different councils' OD and BL ratios can be directly compared only <u>after</u> allowance is made for differences in their other financial characteristics. The resultant comparison is illustrated in Chart 4-1.[21]

[21] There are 97 observations on Chart 4-1, being limited to those councils that have published their 2006/07 (or 2005/06) statutory financial reports in full. There are 43 observations in the green (S) zone, 19 in the amber (V) zone and 35 in the red (U) zone.

CHART 4-1
Financial Sustainability of Existing Policies
Largest 100 NSW Councils, 2006/07



Note: all the OD and BL ratios shown have been adjusted to exclude the effect of differences among councils in (i) their existing expenditure policies, (ii) the basis of their asset valuation and (iii) their other key financial characteristics. Accordingly, this chart cannot be applied solely in conjunction with the unadjusted OD and BL ratios reported in Appendix B.

4.2 Comparison with the 2007 assessments

Table 4-2 summarises FiscalStar's assessments of the financial sustainability of the existing policies of the larger NSW councils which were published in October 2007 and which are subject to update and refinement in this report.

TABLE 4-2
Financial Sustainability of Existing Policies, October 2007 Assessments, Largest 100 NSW Councils

	October 2007 (a)	July 2008 (b)	increase/(decrease) in the July 2008 assessments
Sustainable	27	42	+15
Vulnerable	11	18	+7
Unsustainable	55	33	-22
Not assessed**	3	3	..
	96	**96**	

(a) Shown are the findings regarding "long-term" financial & infrastructure conditions (from Table 5, page 12 of the 2007 review). The 2007 review also reported findings on "present" financial & infrastructure conditions (Table 4, page 11). The 2008 review does not make the "present" versus "long-term" distinction. As the latest methodology take into account the likely impact of on-going annual expenses growth gaps and annual renewals gaps, it is most closely related to the 2007 review's "long-term" findings.
(b) Excludes the results for the four councils assessed only in the latest (July 2008) update. The October 2007 assessments only covered 96 councils.

The figures in the last column of Table 4-2 are net figures concealing the number of entries and exits into each assessment category. Table 4-3 provides the relevant breakdown.

TABLE 4-3
Financial Sustainability of Existing Policies, July 2008 Assessments, (change from the October 2007 assessments), Largest 100 NSW Councils

	number of entering councils*	number of exiting councils*
Sustainable	20	5
Vulnerable	15	8
Unsustainable	2	24

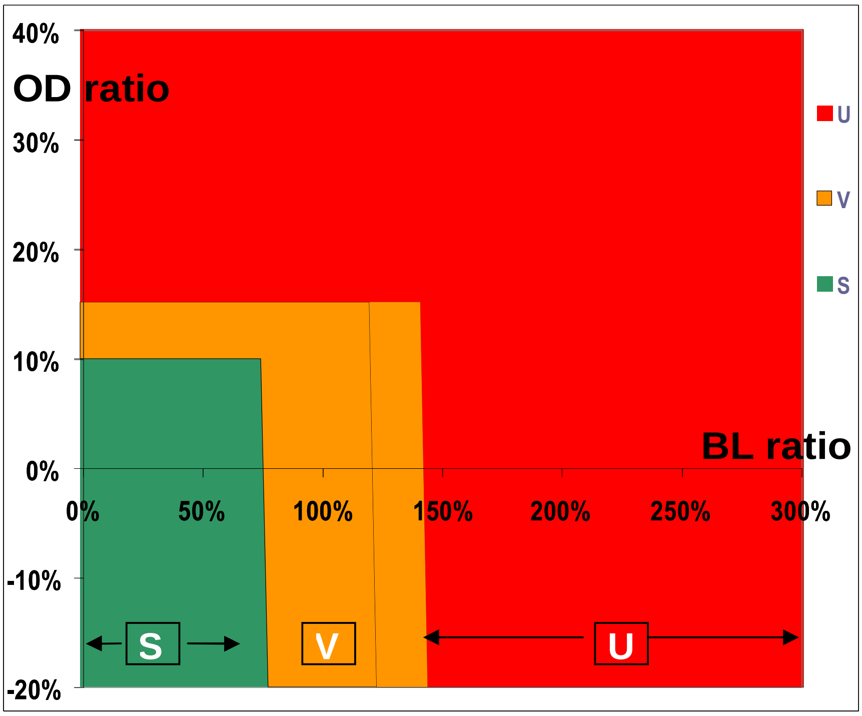
* excludes 'not assessed' councils

All up, the latest (July 2008) financial sustainability assessments involve changes on the October 2007 assessments for 37 councils.

Two sets of changes are evident since the October 2007 assessments.

- First, the changes reflect a range of **data** revisions. Most obviously, the council data used has been updated from the 2005/06 financial year to the 2006/07 financial year. In addition, some of the data otherwise used by FiscalStar has been modified by councils responding to FiscalStar's data request. In particular, a number of councils have highlighted limitations in data drawn from their statutory financial reports regarding infrastructure backlogs, preferring to substitute alternative estimates. Responding councils have also substituted data in relation to estimates made by FiscalStar regarding capital grants provided for enhancement/growth purposes, any non-recurring expenses, the on-going real-terms growth in their expenses and their expected annual renewals gap.
- Secondly, some assessments have also been affected by **methodology** improvements made by FiscalStar, most notably involving revisions to the OD and BL benchmarks being used. As the above criteria charts show, the latest methodology involves OD ratio benchmarks that vary according to the level of a council's debt and infrastructure backlog obligations (i.e. its BL ratio) – and vice versa. Also, the criteria chart for each council takes into account the council's own financial characteristics. By contrast, in terms of the criteria chart framework, the 2007 methodology broadly applied OD benchmarks (as in Chart 4-2) that were set independently of – and so invariant to – the level of a council's debt and infrastructure backlog obligations or other financial characteristics.

CHART 4-2
October 2007 Benchmarks



Simulations undertaken by FiscalStar indicate that the respective contributions made, by (i) all data revisions on the one hand and (ii) all methodology improvements on the other, to the changes evident in the latest financial sustainability assessments are as follows:

TABLE 4-4
Financial Sustainability of Existing Policies, July 2008 Assessments,
(net number of councils affected by changes from the October 2007 assessments),
Largest 100 NSW Councils

	data revisions*	methodology improvements*
Sustainable	+8	+7
Vulnerable	+5	+2
Unsustainable	-13	-9

* excludes 'not assessed' councils

Both the **data revisions** and the **methodology improvements** on balance have resulted in an overall more encouraging picture regarding the financial sustainability of existing policies of NSW councils compared with last year's assessments.

4.3 Caveats and qualifications

FiscalStar's assessments rely on the accuracy, consistency and comparability of the data that each council has put into the public arena. In addition, where important information is not routinely published (and FiscalStar finds it necessary to make its own estimates in order to arrive at an assessment), the accuracy of the resultant assessments can depend on whether councils have been prepared to volunteer such information. FiscalStar expects that both the quality and scope of the information available regarding each council's financial and infrastructure conditions will continue to improve over time.

For example, FiscalStar has included an allowance for the extent to which OD ratios are presently underestimated because NSW councils still value their (non-water and sewerage) building and infrastructure assets mainly on an historical cost basis rather than a 'fair value' (or current cost) basis. Councils are required to move the valuation of these assets onto a 'fair value' basis over the next year or two, and this will increase annual depreciation charges. FiscalStar's allowance in this regard could prove conservative.[22]

But perhaps the most problematic element of the data used by FiscalStar relates to the infrastructure backlog estimates published by councils, and to the associated annual renewals gap estimates. NSW leads Australia when it comes to publishing infrastructure condition data, thanks mainly to the foresight of the NSW Department of Local Government (DLG) and its requirement that councils prepare and publish *Special Schedule No. 7: Condition of Public Works* ("SS7") which includes "the estimated cost to bring [the council's existing assets] up to a satisfactory condition standard". However, it appears that the infrastructure condition data published by councils is not always comparable across councils or consistent over time. Some councils have suggested to us that published estimates of the cost of returning their assets to a satisfactory condition may in effect include some enhancement of these assets. Other councils acknowledge that the basis of previous SS7's has not been well documented or tested. All this confirms that further improvements in the quality of published infrastructure condition data can and should be expected over coming years. The DLG will need to play a role in this regard by requiring councils to confine their SS7 estimates to the total cost of restoring assets to a satisfactory (not necessarily new) condition, thereby excluding the cost of any proposed enhancements of an asset beyond its original service capacity.

Finally, FiscalStar's assessments do not take account of any developments which may have occurred during the most current financial year (2007/08), and as such involve a slight lag due to the use of the most-recent audited financial data (generally relating to the 2006/07 financial year and which are now 12 months old). Developments since 2006/07 will however be reflected in next year's assessments.

[22] This allowance – which FiscalStar has applied in respect of building and infrastructure assets only – has the effect of increasing annual depreciation charges in 2006/07 ranging from 1% to 11% across the 100 largest NSW councils, with the average increase being around 4%.

Appendix A

Deriving the Criteria Charts

FiscalStar shows its benchmarks for the key operating deficit ratio ("OD ratio") and broad liabilities ratio ("BL ratio") for a council by using a **criteria chart**. These charts provide an indication of FiscalStar's estimates of the various OD and BL ratio combinations for a council that would fall into each of the financial sustainability categories.

Each council has a unique criteria chart based on its own financial characteristics. Councils have been provided with their own criteria chart. This appendix explains in technical terms how FiscalStar has gone about deriving these criteria charts.

1. Preferred indicator of the average annual % increase in rates, fees & charges

Unless explicitly qualified by the words "annual revenue", references to 'rates, fees & charges' in this Appendix are to a council's rates, fees & charges revenue on a **per-assessment (or rateable property) basis**. This strips out the 'growth' component of movements over time in annual revenue from rates, fees & charges.

In order to isolate the 'inflation' component of movements over time in rates, fees & charges, many analysts focus on the annual percentage-point increases in rates, fees & charges calculated on a 'real-terms' basis (i.e. deflated using a price index). Both the real-terms and percentage points elements of such an indicator are often a source of confusion for the layperson (ratepayer).

FiscalStar's preference instead is to use an indicator which can be explained to the layperson relatively simply. FiscalStar prefers to measure a council's (nominal-terms) annual % increase in rates, fees & charges (Δr) as a multiple of inflation (Δp), that is:

$$\Delta r / \Delta p = ({R_1}/{R_0} - {Q_1}/{Q_0}) / ({P_1}/{P_0} - 1) \qquad \text{...[1]}$$

where:

R = the council's annual revenue from rates, fees & charges

Q = number of rateable properties (or assessments) for the council

P = the State capital's general price index on average for the year in question

and subscripts:

"1" denotes the latest year being compared

"0" denotes the earlier year being compared.

The numerical value derived using equation [1] is the number of times the average annual % increase in a council's rates, fees & charges is a multiple of annual inflation.

Equation [1], as is the case for all the equations in this Appendix, is expressed in annualised terms. Where the difference between the years being compared is greater than one year, this requires each ratio that is expressed in the form $\text{Variable}_1/\text{Variable}_0$ to be calculated to the n^{th} root, where n is the difference in years between the years being compared, that is:

$$(\text{Variable}_1/\text{Variable}_0)^{1/n}.$$

2. Required (future) annual % increases in rates, fees & charges

The average annual % increase in rates, fees & charges required in future ($\Delta r^{\#}_2$) can be considered as comprising two components, namely:

- the expected no-policy-change annual % increase in a council's rates, fees & charges (Δr_2)
- and the additional annual % increase in rates, fees & charges necessary in future to phase out any present financial and infrastructure imbalances over a reasonable period (Δr^*_1).

where:

the "1" subscript denotes a value in the present period/year

and the "2" subscript denotes a value in the future period/year.

The implications of a council's present financial and infrastructure imbalances for its annual revenue from rates, fees & charges ($\Delta R^*/R_1$) are indicated by:

$$\Delta R^*/R_1 = (R^* - R_1)/R_1 \qquad \text{...[2]}$$

where:

R = the council's annual revenue from rates, fees & charges

and the "*" superscript denotes 'ideal' or 'equilibrium' annual amounts (and the absence of a "*" superscript denotes actual or planned amounts)

The additional annual % increase in a council's rates, fees & charges necessary on average over future years in order to phase out any financial and infrastructure imbalances over a reasonable period (Δr^*_2) can be represented as:

$$\Delta r^*_2 = s.(\Delta R^*/R_1) \qquad \text{...[3]}$$

where:

$s = 1/S$

where S = a reasonable phase-out period (in years).

The required (future) average annual % increase in a council's rates, fees & charges relative to inflation ($\Delta r^{\#}/\Delta p$) can then be expressed as follows:

$$(\Delta r^{\#}/\Delta p)_2 = (\Delta r/\Delta p)_2 + \Delta r^*_1/\Delta p_2$$

$$= [\Delta r_2 + s.(\Delta R^*/R)_1] / \Delta p_2 \qquad \text{...[4]}$$

3. No-policy-change annual % increases in rates, fees & charges

No-policy-change annual % increases in a council's rates, fees & charges mainly reflect underlying movements in the council's cost structure.

FiscalStar assumes a standard **no-policy-change** annual % increase in a council's rates, fees & charges across councils of **1⅓ times** inflation, being sufficient to match underlying movements in council unit costs.

4. Measuring a council's financial and infrastructure imbalances

FiscalStar distinguishes between alternative prospects for annual % increases in rates, fees & charges by reference to differences between councils in the imbalances evident in their present financial and infrastructure conditions.

Any financial and infrastructure imbalances give rise to a present gap between, based upon the latest information:

- a council's required (or equilibrium) annual revenue from rates, fees & charges
- the council's actual annual collections of such revenue under existing revenue policies.

The larger this present gap, the greater is the required % increase in rates, fees & charges in order to eliminate the council's financial and infrastructure imbalances.

4.1 Initial equations

Fundamental to this part of the FiscalStar's methodology is the proposition that a council's annual revenue from:

- rates, fees & charges
- operating grants from other levels of government, and the component of capital grants from other levels of government intended to finance asset maintenance and renewals expenditure
- and all other own-source operating revenue (including interest and other investment income including any dividends received (or their equivalent) from the council's water & sewerage operations available to finance the council's non-commercial activities, but excluding any net gains from the disposal or revaluation of assets, and capital contributions and asset donations)

in any year can be thought of as funding, for that year and in their entirety:

- the council's spending on services
- its maintenance expense
- its interest expense
- its spending on asset renewals/replacement ("renewals capex") up to the maximum of the funded portion of the annual depreciation charge
- the contribution by current ratepayers to debt principal repayment
- the contribution by current ratepayers to the funding of enhancement capex
- and the portion of future years' renewals capex funded by the current year's annual depreciation charge.

Expressing all this in equation form, and solving for a council's actual annual revenue from rates, fees & charges (R), gives:

$$\mathbf{R = (E-M-D-I) + M + I + L' + F^d + F^e + ((D-X) - L') - G - V} \qquad \textbf{...[5]}$$

where:

$E-M-D-I$ = annual spending on services

where E = total annual expenses

M = annual maintenance expense

D = annual depreciation charge

I = annual interest expense

L' = the rates-funded portion of the current year's annual renewals capex, being the actual annual renewals capex amount up to the maximum of the funded portion of the annual depreciation charge (with any greater amount being funded by additional borrowings rather than rates, fees & charges)

$= \ell L$ where L = annual renewals capex and $\ell \leq 1$

F^d = the rates-sourced internal funding of the current year's annual debt principal repayment

F^e = the rates-sourced internal funding of the current year's enhancement capex

$(D-X) - L'$ = the rates-funded portion of future years' annual renewals capex, being any amount by which the funded portion of the annual depreciation charge exceeds actual annual renewals capex for the year

where:

$X = E + F^d + F^e - O$

$= Z + F^d + F^e$, where Z = underlying operating deficit (= $E - O$)

where $O = R + G + V$

G = annual grants from other levels of government (both operating grants and the component of capital grants intended to finance asset maintenance and renewals expenditure)

V = all other own-source operating revenue (including interest and other investment incomes including any dividends received (or their equivalent) from the council's water & sewerage operations available to finance the council's non-commercial activities), but excluding any net gains from the disposal or revaluation of assets, and capital contributions and asset donations.

Likewise, based on equation [5], FiscalStar accepts that a council's required or equilibrium annual revenue from rates, fees & charges (R*) can be specified as follows, assuming X* = 0 (i.e. where annual depreciation is fully funded):

$$\mathbf{R^* = (E-M-D-I)^* + M^* + I^* + L'^* + F^{d*} + F^{e*} + (D^*-L'^*) - G^* - V^*} \qquad \ldots[6]$$

Further, FiscalStar is prepared to assume that, approximately:

$(E-M-D-I)^* = E-M-D-I$

$G^* = G$

$V^* = V$

$D^* = D$

$L'^* = j.D^*$ (where $j \leq 1$, with any required renewals capex amounts greater that D* being funded by additional borrowings rather than by this year's rates, fees & charges)

$M^* = M$ (implying that the reduction in a council's maintenance expense were the current infrastructure backlog eliminated is not a material amount).

Substituting these simplifying assumptions into equation [6], and rearranging gives:

$$\mathbf{R^* - R_1 = Z_1 + (I^*-I)_1 + F^{d*}_1 + F^{e*}_1} \qquad \ldots[7]$$

The following sub-sections examine the various components of equation [7] in detail.

4.2 Measuring Z

This term is a council's underlying operating deficit. It basically indicates the unfunded portion of the current year's required renewals capex.

As indicated above, FiscalStar prefers to headline an operating deficit ratio (OD) that is measured by expressing the operating deficit amount (Z) as a % of a council's annual revenue from (non-water & sewerage) rates, fees & charges.

However, for councils with water & sewerage operations, which can be funded by rates, fees & charges linked to the rates, fees & charges that finance a council's tax-supported activities (FiscalStar's focus), an increase in the council's (overall) rates, fees & charges can also result in an increase in the dividend (or equivalent) revenue received by the council's tax-supported activities from its water & sewerage operations. This means that the % increase in a council's rates, fees & charges required to eliminate any financial and infrastructure imbalances can be less than the headline OD ratio.

To allow for this, and only for the purpose of estimating the required (future) annual % increase in a council's rates, fees & charges, the OD ratio is adjusted to take into account this possible water & sewerage dividend flow-on effect. The adjusted operating deficit ratio is termed the z ratio, and it is calculated as follows:

$$\mathbf{z_1 = OD_1.[{}^1/(1+\mathit{v}.w_1)]} \qquad \ldots[8]$$

where:

v = the effective dividend payout ratio (or equivalent) on a council's water & sewerage operating surplus

w = annual revenue from a council's water & sewerage-related rates, fees & charges ($R_{w\&s}$) as a % of annual revenue from its (non-water & sewerage) rates, fees & charges (R)

OD = the operating deficit amount (Z) as a % of revenue from rates, fees & charges (= $^{(E-O)}/R$).

FiscalStar adjusts a council's present OD ratio (OD) for the understatement of the council's annual depreciation charge associated with assets not yet being valued on a 'fair value' basis. Based on the average lives of a council's assets to date, the proportion of a council's assets still valued on an historical cost basis and past general inflation rates, FiscalStar derives estimates of a council's fair value asset valuation uplift factor (*h*).

FiscalStar also adjusts a council's present OD ratio to account for possible increases (decreases) in the ratio even under continuation of existing expenditure policy. Such increases depend in the main upon the council's present annual expenses growth gap (*e*).

4.3 Measuring I*– I

I*– I depends upon the additional debt, at the end of a period of years (with the number of years being denoted as S), were a council to undertake the borrowing necessary to:

- eliminate any infrastructure backlog (= B–B*–U)
- fully fund the required level of annual renewals capex, being any amount not funded sufficiently by the annual depreciation charge (= S.(L*– D), where L*= *j*.D)
- finance any required increase in infrastructure assets, being the required level of annual enhancement capex (ΔA*) less the actual level of enhancement capex (ΔA) (= S.(ΔA*–ΔA))

where:

B = the present infrastructure backlog amount

B* = target infrastructure backlog amount

U = spare cash balances.

This additional debt in total is denoted as $\Delta N'_2$, where the "2" subscript denotes the future period/year.

Long-term debt is assumed to remain at or below the ceiling debt level (N*), where:

$$N^*_1 = n^*.O_1$$

where n^* = a (target) debt ceiling ratio.

If above-ceiling debt was in principle required, a council's operating surplus would need to be increased to offset this.

The resultant additional annual borrowing necessary ($\Delta N'_2$) can therefore be approximated as the sum of:

- $B_1 - b^*.A_1 - U_1$, where positive (where b^* = a target backlog ratio expressed as a % of the replacement value of infrastructure assets (A))
- $S.(L^*_1 - D_1)$, where positive
- $S.(\Delta A^*_1 - \Delta A_1)$, where positive

constrained to the scope available to increase the council's debt without breaching the debt ceiling (= $N^* - N_1$).

The resultant average level of additional debt over the period of S years would be:

$$k.\Delta N'_2$$

where $k = ({}^1/S + {}^2/S + \ldots + {}^S/S)/_S$.

For example, if S = 10 years, k = 55%.

Also, the resultant additional interest paid (I*–I) would be:

$$\boxed{(I^* - I)_1 = i^*.k.\Delta N'_2 \qquad \ldots[9]}$$

where i^* = the average rate of interest paid on borrowing and interest forgone on cash and securities.

The actual enhancement capex on infrastructure assets (ΔA_1) can be represented as follows:

$$\Delta A_1 = g.({}^{\Delta Q}/_Q)_1.A_1$$

where:

Q_1 = the number of assessments (or rateable properties)

A_1 = the replacement value of infrastructure assets

g = an asset growth elasticity factor.

The required enhancement capex on infrastructure assets (ΔA^*_1) can be represented as follows:

$$\Delta A^*_1 = a.\Delta A_1$$

$$= a.g.({}^{\Delta Q}/_Q)_1.A_1$$

where a = a council's required-to-actual asset growth multiple (a>1).

Combined these give:

$$\Delta A^*_1 - \Delta A_1 = (a-1).g.q_1.A_1$$

where $q_1 = (^{\Delta Q}/_{Q})_1$. = the annual % increase in the number of rateable properties (or assessments) for the council.

Key to quantifying I*–I is the measurement of the infrastructure backlog amount (and ratio).

FiscalStar adjusts a council's present infrastructure backlog (B) to account for possible increases (decreases) in the backlog even under continuation of existing expenditure policy. Such increases depend in the main upon the council's present annual renewals gap ($y = {}^{(L^*-L)}/_{L^*}$).

4.4 Measuring F^{d*}

The ideal rates-sourced internal funding of the current year's annual debt principal repayment (F^{d*}) can be regarded as being equal to the sum of the principal repayment amounts necessary:

- on present debt (= $(^1/_T).N_1$)
- on the additional debt necessary to eliminate any infrastructure backlog, to fully fund the required level of annual renewals capex, and to finance the required level of annual enhancement capex (= $(^1/_T).k.\Delta N'_2$)
- to keep (future) debt levels below ceiling levels (= $(^1/_S).\Delta N''_2$)

where:

T = the average life of infrastructure assets

$\Delta N''_2$ = the amount by which a council's debt exceeds a ceiling level.

That is:

$$\mathbf{F^{d*}_1 = t.N_1 + t.k.\Delta N'_2 + s.\Delta N''_2} \qquad \text{...[10]}$$

where:

$t = (^1/_T)$

$s = (^1/_S)$.

$\Delta N''_2$ is calculated as the amount (if any) by which the sum of the following amounts exceeds the scope available to increase the council's present debt without breaching the debt ceiling (= $N^*_1 - N_1$).

- $B_1 - b^*.A_1 - U_1$, where positive
- $S.(L^*_1 - D_1)$, where positive
- $S.(a-1).g.q_1.A_1$, where positive.

4.5 Measuring F^{e*}

The ideal rates-sourced internal funding of the current year's enhancement capex (Fe^*_1) can be approximated by:

$$t.\Delta A^*_1$$

Substituting for ΔA^*_1 gives:

$$\mathbf{F^{e*}_1 = t.a.g.q_1.A_1} \qquad \text{...[11]}$$

4.6 Deriving R*– R

Assuming, for simplicity, that:

- k = 1 (i.e. that the phase-out period for any infrastructure backlog is one year)
- j = 1
- a = 1

and substituting equations [9], [10] and [11] and associated definitions into equation [7], and rearranging gives:

$$
\begin{aligned}
R^* - R_1 = {} & t.g.q_1.A_1 + Z_1 + i^*.(B_1 - b^*.A_1) - (t+s).U_1 \\
& + t.\,[\underline{\mathrm{MIN}}(N_1 + (B_1 - b^*.A_1), N^*_1 + U_1)] \\
& + s.\,[\underline{\mathrm{MAX}}(U_1, (N_1 + B_1) - (b^*.A) - N^*_1)] \qquad \ldots[12]
\end{aligned}
$$

4.7 Final equation

Substituting equation [12] into equation [4] and re-arranging gives:

$$
\begin{aligned}
\Delta r^{\#}_1/\Delta p_2 = {} & \Delta r_2/\Delta p_2 \\
& + [(t.g).(q_1.{}^{A_1}/O_1)].({}^{O_1}/R_1).({}^{s}/\Delta p_2) \\
& + [z_1.({}^{R_1}/O_1)].({}^{O_1}/R_1).({}^{s}/\Delta p_2) \\
& + [\, i^*.[b_1 - b^*.{}^{A_1}/O_1] - (t+s).u_1 + [t.\underline{\mathrm{MIN}}((n_1+b_1) - (b^*.{}^{A_1}/O_1)), n^*+u_1) \\
& \qquad + s.(\underline{\mathrm{MAX}}(u_1, ((n_1+b_1) - (b^*.{}^{A_1}/O_1)) - n^*))]].({}^{O_1}/R_1).({}^{s}/\Delta p_2) \qquad \ldots[13]
\end{aligned}
$$

where

$\Delta r_2/\Delta p_2$ = required (future) no-policy-change annual % increases in rates, fees & charges

t = ($^1/T$) where T = the average life of infrastructure assets

g = an asset growth elasticity factor

q = the average annual % growth in assessments (rateable properties) = $^{\Delta Q}/Q$

$^A/O$ = the ratio between the replacement value of a council's physical assets (A) and its total annual operating revenue (O)

$^O/R$ = the ratio between a council's total annual operating revenue (O) and its annual revenue from rates, fees & charges (R)

s = ($^1/S$) where S = phase-out period of overall financial and infrastructure imbalances

z = OD.[$^1/(1+v.w)$]

where:

OD = $^{(E-O)}/R$

v = the effective dividend payout ratio (or equivalent) on a council's water & sewerage operating surplus

w = annual revenue from water & sewerage-related rates, fees & charges ($^{Rw\&s}$) as a % of annual revenue from (tax-supported sector) rates, fees & charges (= $^{Rw\&s}/R$)

i^* = the average rate of interest paid on borrowing and interest forgone on cash and securities

b = the actual infrastructure backlog ratio (expressed as % of total annual operating revenue (O))

b^* = the target infrastructure backlog (expressed as a % of the replacement value of the relevant existing assets (A))

u = the spare cash balances ratio (expressed as % of total annual operating revenue (O))

n = the actual long-term debt ratio (expressed as a % of total annual operating revenue (O))

n^* = a (target) debt ceiling ratio.

Equation [13] is the estimating equation used by FiscalStar to estimate the (future) annual % increase in a council's rates, fees & charges necessary to eliminate a council's present financial and infrastructure imbalances.

5. Equal-sustainability lines

Each line on the FiscalStar criteria chart joins OD and BL combinations where eliminating the present gap with the target OD and BL combination would require the same annual % increase in rates, fees & charges on average over a 10 year period.

FiscalStar derives these 'equal-sustainability' lines by manipulating equation [13].

Putting:

$$b''_1 = b_1/(n_1+b_1) = 1 - n_1/(n_1+b_1)$$

$$q''_1 = q_1.A_1/R_1$$

$$z_1 = OD_1.w''_1 \text{, where } w''_1 = [1/(1+v.w_1)]$$

and re-arranging to highlight the role of both OD and BL gives:

$$\mathbf{\Delta r^{\#}{}_1/\Delta p_2 = \alpha_1 + \beta.w''_1.OD_1 + \lambda_1.BL_1} \qquad \text{...[14]}$$

where

$$OD_1 = (E_1-O_1)/R_1$$

$$BL_1 = n_1+b_1$$

$$\alpha_1 = \Delta r_2/\Delta p_2 + (t.g.q''_1).(S/\Delta p_2) - (t+s).u_1.(O_1/R_1).(S/\Delta p_2)$$

$$\beta = S/\Delta p_2$$

$$w''_1 = 1/(1+v.w_1)$$

$$\lambda_1 = \Big[[i^*.b''_1 - b^*.(A_1/O_1)/BL_1] + t.\underline{MIN}(n^{\#}{}_1,n^*+u_1)/BL_1 + s.\underline{MAX}(u_1,n^{\#}{}_1-n^*)/BL_1\Big].(O_1/R_1).(S/\Delta p_2)$$

$$\text{where } n^{\#}{}_1 = BL_1 - (b^*.A_1/O_1) = [1 - (b^*/BL_1).(A_1/O_1)].BL_1$$

Finally, by defining:

$$\beta''_1 = 1/(\beta.w''_1) = 1/(S/\Delta p_2).w''_1$$

$$\alpha''_1 = \alpha_1/(\beta.w''_1) = (\Delta r^{\#}{}_1/\Delta p_2)/((S/\Delta p_2).w''_1) + (t.g.q''_1)/w''_1 - (t+s).u_1.(O_1/R_1)/w''_1$$

$$\lambda''_1 = \lambda_1/(\beta.w''_1) = [(O_1/R_1)/w''_1].\Big[i^*.(1-n''_1) - (b^*/BL_1).(A_1/O_1) + t.\underline{MIN}(n^{\#}{}_1,n^*+u_1)/BL_1 + s.\underline{MAX}(u_1,n^{\#}{}_1-n^*)/BL_1\Big]$$

$$\text{where } n''_1 = n_1/BL_1$$

and by using a nominated value in respect of $(\Delta r^{\#}{}_1/\Delta p_2)$, equation [14] can be re-arranged to give:

$$\mathbf{OD_1 = \beta''_1.(\Delta r/\Delta p)^* - \alpha''_1 - \lambda''_1.BL_1} \qquad \text{...[15]}$$

Equation [15] is the estimating equation used by FiscalStar to derive the 'equal-sustainability' lines underlying each council's criteria chart.

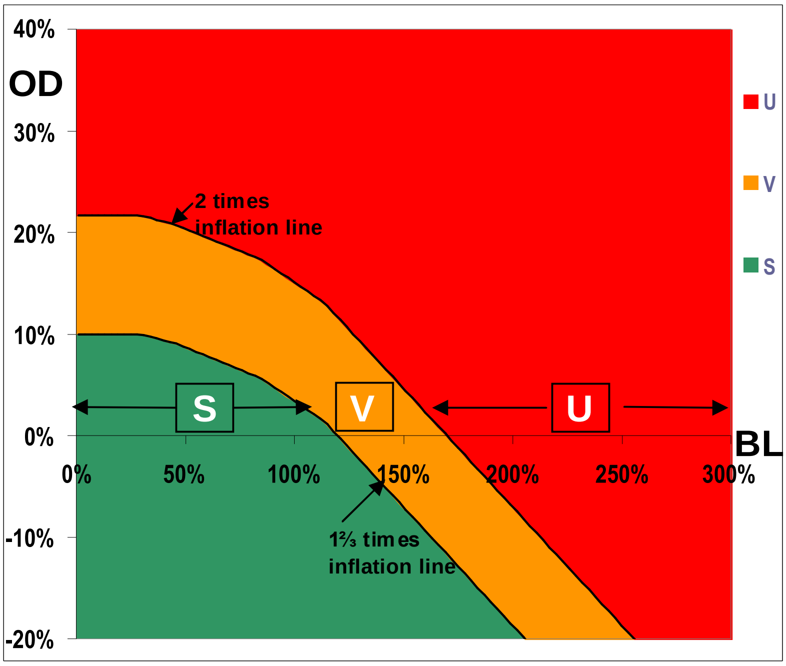
In fact, the equal-sustainability lines in the FiscalStar criteria chart shows all OD and BL combinations for a council calculated separately for each of the following nominated values for the required (future) average annual % increase in the council's rates, fees & charges relative to inflation $((\Delta r/\Delta p)^*$ in equation [15]):

- 1⅔ ; and
- 2 .

6. Criteria charts

With council-specific estimates of the β", α" and λ" composite parameters, and for each nominated value of the required (future) annual % increase in rates, fees & charges relative to inflation $((^{\Delta r}/\Delta p)^*)$, equation [15] can be used for each council to calculate an OD ratio that corresponds with each possible BL ratio.

On this basis, the following criteria chart is derived:



FiscalStar's criteria chart has a number of zones, separated by lines joining OD and BL combinations which FiscalStar assesses to be of equal merit from a financial sustainability perspective. More specifically, each line joins all OD and BL combinations where eliminating the present gap with the target OD and BL combination would require the same annual % increase in rates, fees & charges on average over a 10 year period.

It is noteworthy that each of the β", α" and λ" composite parameters in the estimating equation [15] are time dependent, that is they can vary from one year to the next and so are not constants.

These composite parameters also vary across councils.

Hence, the positioning of the various colour zones in the criteria chart, and so FiscalStar's benchmarks for each council, differs slightly depending upon the following financial characteristics (listed in approximate order of importance):

$^{O}/R$ = the ratio between a council's total annual operating revenue (O) and its annual revenue from rates, fees & charges (R)

u = the spare cash balances ratio (expressed as % of total annual operating revenue (O))

e = annual expenses growth gap

y = annual renewals gap

h = fair value asset valuation uplift factor

$^{n}/BL$ = the debt intensity of a council's BL ratio

v = the effective dividend payout ratio (or equivalent) on a council's water & sewerage operating surplus

w = annual revenue from water & sewerage-related rates, fees & charges $(^{Rw\&s})$ as a % of annual revenue from (tax-supported sector) rates, fees & charges (= $^{Rw\&s}/R$)

$^{A}/O$ = the ratio between the replacement value of a council's physical assets (A) and its total annual operating revenue (O).

On this basis, each council has a unique criteria chart based on its own financial characteristics. Councils have been provided with their own criteria chart.

7. Symbols used in this Appendix

A	replacement value of infrastructure assets	***a***	a council's required-to-actual asset growth multiple ($=\Delta A/\Delta A^*$)
B	infrastructure backlog	***b***	infrastructure backlog ratio
C		***c***	
D	annual depreciation charge	***d***	
E	total annual expenses	***e***	annual expenses growth gap
F	rates-sourced internal funding of capital transactions	***f***	
G	annual grants from other levels of government (excluding grants financing annual enhancement capex)	***g***	an asset growth elasticity factor ($=\Delta A^*/[{}^{\Delta Q}/_{Q}.A]$)
H		***h***	'fair value' asset valuation uplift factor
I	annual interest expense	***i***	rate of interest paid
J		***j***	the required renewals capex to depreciation charge ratio ($= L^*/D^*$)
K		***k***	period multiple
L	annual renewals capex	***l***	$= L'/L$
M	annual maintenance expense	***m***	
N	long-term debt	***n***	long-term debt ratio ($= N/O$)
O	total annual operating revenue = R + G + V	***o***	
P	general price index value	***p***	annual inflation rate (%)
Q	number of assessments (or rateable properties)	***q***	$= \Delta Q/Q$
R	annual revenue from rates, fees & charges	***r***	annual per-assessment rates, fees & charges
S	reasonable phase-out period	***s***	$= 1/S$
T	average life of infrastructure assets	***t***	$= 1/T$
U	spare cash balances	***u***	spare cash balances as a % of total annual operating revenue
V	all other own-source operating revenue (including all investment income)	***v***	water & sewerage dividend payout ratio
W		***w***	$= R_{w\&s}/R$ (where the w&s subscript indicates water and sewerage-related amounts)
X	Z + F	***x***	
Y		***y***	annual renewals gap ($= (L^*-L)/L^*$)
Z	underlying operating deficit (=E – O)	***z***	underlying operating deficit as % of annual revenue from rates, fees & charges

Appendix B

Individual Council Results and Key Ratios

This Appendix reports the results for individual councils, along with the key ratios underlying these assessments.

Councils are listed in alphabetical order within the following five groups of councils: inner metropolitan, outer metropolitan, coastal urban regional, inland urban regional, and rural regional.

The footnotes explaining in detail the meaning of the table's column headers are as follows:

[a] "**S**" = financially 'sustainable', "**V**" = financially 'vulnerable', "**U**" = financially 'unsustainable', "**N**" = not assessed (the full statutory financial reports for 2005/06 and 2006/07 are not on the council's website), only three councils (Botany Bay, Gwydir and Wellington) do not publish all their financials on the internet.

[b] The **operating deficit ratio** is the amount by which a council's annual underlying expenses in the year in question exceeds its annual operating revenue in that year, expressed as a % of annual revenue from rates, fees & charges. The ratio is measured excluding any relevant water & sewerage amounts. A negative value implies an operating surplus.

[c] The **broad liabilities ratio** is the sum of a council's long-term debt and the estimated cost of clearing any infrastructure backlog at the end of the year in question, expressed as a % of total annual operating revenue. The ratio is measured excluding any relevant water & sewerage amounts.

[d] The **long-term debt ratio** is the total of a council's non-current interest-bearing liabilities at the end of the year in question expressed as a % of total annual operating revenue. Use of this ratio effectively allocates a council's long-term debt across its water & sewerage activities on the one hand and its non-water & sewerage activities on the other in proportion to the total annual operating revenue attributable to each of these activities, implying the long-term debt ratios for a council are the same between the two sets of activities.

[e] The **infrastructure backlog ratio** is the estimated total cost, at the end of the year in question, of all required capital expenditure on the rehabilitation of a council's infrastructure assets expressed as a % of total annual operating revenue; excludes any relevant water & sewerage amounts; sourced from the council's Special Schedule No. 7 (unless advised otherwise by the council).

[f] The **revenue discretion ratio** is measured for the year in question by a council's annual revenues from rates, fees & charges expressed as a % of its total annual operating revenue.

[g] The **spare cash ratio** is FiscalStar's estimate of the amount by which a council's (i) unrestricted cash and investments exceed (ii) a minimum prudent level for working capital purposes, expressed as a % of its total annual operating revenue. A council's unrestricted cash and investments are defined as the council's total cash and investments (current or non-current) less any cash and investments subject to external restrictions. A minimum prudent level of cash and investments is assumed by FiscalStar to be an amount equal to 1½ times a council's current liabilities net of any non-cash current assets). This approach effectively allocates a council's spare cash balances across its water & sewerage and non-water & sewerage activities in proportion to the total annual operating revenue attributable to each of these activities, implying the spare cash ratios for a council are the same between the two sets of activities.

[h] The **annual expenses growth gap** is FiscalStar's estimate of the percentage point difference between (i) a council's annual % growth (on a per assessment basis) in underlying expenses under continuation of existing policy and (ii) the annual % increase in underlying unit costs (assumed by FiscalStar to be an average annual real-terms % increase of 1%). The ratio is measured excluding any relevant water & sewerage amounts. A negative value indicates that a council's expenses would grow less rapidly than underlying unit costs, thereby decreasing the council's operating deficit (other things being equal). A positive value indicates that the council's operating deficit would increase.

[i] The **annual renewals gap** is FiscalStar's estimate of the amount by which (i) a council's required annual renewals expenditure would exceed (ii) its actual annual spending on renewals (and maintenance) under continuation of existing policy, expressed as a % of the council's required annual renewals expenditure. The ratio is measured excluding any water & sewerage amounts. A negative value implies that a council's infrastructure backlog would fall (other things being equal). A positive value implies that the council's infrastructure backlog would rise.

Appendix B: Table

Present Financial and Infrastructure Conditions

Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising: long-term debt ratio (d)	BL ratio comprising: infrastructure backlog ratio (e)	other key financial characteristics: revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
METROPOLITAN: INNER									
Ashfield Municipal Council	**U**	**5%**	**208%**	1%	207%	86%	0%	1.0%	50%
Botany Bay City Council	N	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Burwood Council	**U**	**18%**	**100%**	16%	84%	84%	0%	1.0%	50%
Canada Bay City Council	**U**	**8%**	**115%**	9%	106%	82%	0%	1.0%	43%
Canterbury City Council	**S**	**-4%**	**42%**	1%	41%	78%	0%	0.7%	-24%
Hurstville City Council	**S**	**3%**	**9%**	5%	5%	81%	8%	-0.8%	2%
Kogarah Municipal Council	**S**	**-2%**	**0%**	0%	0%	82%	0%	0.0%	0%
Lane Cove Municipal Council	**S**	**-4%**	**4%**	0%	4%	84%	35%	0.0%	0%
Leichhardt Municipal Council	**S**	**-13%**	**52%**	9%	43%	84%	5%	0.7%	-34%
Manly Council	**V**	**2%**	**23%**	10%	12%	85%	0%	1.0%	26%
Marrickville Council	**U**	**3%**	**99%**	23%	76%	80%	0%	1.0%	40%
Mosman Municipal Council	**U**	**5%**	**98%**	22%	77%	82%	0%	-0.8%	25%
North Sydney Council	**S**	**1%**	**0%**	0%	0%	89%	14%	0.3%	0%
Randwick City Council	**V**	**0%**	**79%**	0%	79%	85%	0%	0.4%	2%
Rockdale City Council	**S**	**-6%**	**26%**	8%	18%	77%	0%	0.5%	0%
Strathfield Municipal Council	**S**	**1%**	**30%**	3%	27%	83%	38%	-1.0%	-16%
Sydney City Council	**S**	**-22%**	**14%**	0%	14%	80%	74%	1.0%	-11%
Waverley Council	**S**	**-8%**	**70%**	11%	59%	85%	10%	0.0%	3%
Willoughby City Council	**V**	**-2%**	**99%**	7%	92%	87%	38%	-0.4%	-10%
Woollahra Municipal Council	**S**	**0%**	**45%**	5%	41%	80%	0%	0.0%	0%

"n.p." = the council's full statutory financial reports for 2005/06 and 2006/07 are not published on the council's website; all footnotes are listed at the front of the Appendix

Appendix B: Table

Present Financial and Infrastructure Conditions
Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising: long-term debt ratio (d)	BL ratio comprising: infrastructure backlog ratio (e)	other key financial characteristics: revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
METROPOLITAN: OUTER									
Auburn Council	**U**	**-2%**	**133%**	23%	111%	81%	17%	1.0%	18%
Bankstown City Council	**S**	**-6%**	**106%**	21%	85%	79%	0%	-0.5%	-43%
Baulkham Hills Shire Council	**S**	**-11%**	**73%**	0%	73%	80%	34%	-0.2%	0%
Blacktown City Council	**S**	**-6%**	**69%**	0%	69%	70%	28%	-1.0%	-40%
Blue Mountains City Council	**U**	**7%**	**288%**	39%	249%	75%	0%	-1.0%	24%
Camden Council	**U**	**10%**	**44%**	22%	22%	77%	0%	1.0%	50%
Campbelltown City Council	**V**	**-5%**	**63%**	18%	45%	74%	2%	1.0%	50%
Fairfield City Council	**S**	**-9%**	**10%**	8%	2%	76%	0%	0.0%	-2%
Gosford City Council	**U**	**7%**	**165%**	41%	124%	68%	0%	0.7%	50%
Hawkesbury City Council	**U**	**-10%**	**204%**	0%	204%	71%	13%	-1.0%	-50%
Holroyd City Council	**S**	**0%**	**37%**	3%	34%	79%	0%	-0.7%	-22%
Hornsby Shire Council	**S**	**1%**	**50%**	23%	27%	84%	0%	-1.0%	-10%
Ku-ring-gai Council	**V**	**-9%**	**176%**	11%	164%	88%	0%	-0.1%	-50%
Liverpool City Council	**U**	**-2%**	**188%**	41%	147%	75%	0%	0.1%	-12%
Parramatta City Council	**V**	**-1%**	**50%**	26%	24%	81%	0%	1.0%	3%
Penrith City Council	**U**	**3%**	**116%**	40%	75%	78%	0%	1.0%	35%
Pittwater Council	**S**	**-4%**	**48%**	6%	42%	88%	4%	-0.9%	34%
Ryde City Council	**S**	**-5%**	**89%**	8%	81%	85%	16%	-1.0%	-37%
Sutherland Shire Council	**S**	**-7%**	**73%**	19%	55%	81%	0%	0.4%	-37%
Warringah Council	**S**	**-10%**	**24%**	6%	18%	85%	26%	0.7%	-16%
Wollondilly Shire Council	**U**	**8%**	**140%**	23%	117%	66%	7%	-1.0%	23%
Wyong Shire Council	**V**	**-10%**	**176%**	51%	125%	72%	0%	0.7%	-50%

"n.p." = the council's full statutory financial reports for 2005/06 and 2006/07 are not published on the council's website; all footnotes are listed at the front of the Appendix

Appendix B: Table

Present Financial and Infrastructure Conditions

Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising: long-term debt ratio (d)	infrastructure backlog ratio (e)	other key financial characteristics: revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
REGIONAL: COASTAL URBAN									
Ballina Shire Council	**U**	**2%**	**166%**	32%	135%	67%	46%	1.0%	17%
Bega Valley Shire Council	**S**	**-31%**	**191%**	71%	120%	51%	0%	0.7%	-50%
Byron Shire Council	**U**	**0%**	**162%**	74%	88%	65%	22%	-1.0%	50%
Coffs Harbour City Council	**V**	**-9%**	**142%**	105%	37%	52%	0%	-1.0%	-11%
Eurobodalla Shire Council	**V**	**-15%**	**176%**	50%	126%	61%	3%	0.4%	-50%
Great Lakes Council	**U**	**-6%**	**273%**	29%	244%	64%	8%	1.0%	-17%
Greater Taree City Council	**U**	**18%**	**510%**	34%	476%	64%	0%	0.1%	49%
Kempsey Shire Council	**U**	**5%**	**173%**	68%	105%	58%	0%	-1.0%	8%
Kiama Municipal Council	**U**	**12%**	**132%**	98%	34%	67%	6%	0.7%	50%
Lake Macquarie City Council	**S**	**-8%**	**23%**	23%	0%	70%	0%	-0.5%	0%
Newcastle City Council	**U**	**3%**	**102%**	23%	79%	80%	43%	1.0%	21%
Port Macquarie-Hastings Council	**U**	**-2%**	**165%**	65%	99%	63%	7%	-1.0%	-10%
Port Stephens Council	**V**	**0%**	**52%**	33%	19%	79%	0%	1.0%	16%
Richmond Valley Council	**U**	**24%**	**396%**	41%	355%	60%	19%	1.0%	50%
Shellharbour City Council	**V**	**7%**	**27%**	0%	27%	74%	13%	-0.7%	5%
Shoalhaven City Council	**S**	**-28%**	**74%**	43%	31%	60%	8%	-0.7%	40%
Tweed Shire Council	**U**	**5%**	**235%**	44%	190%	62%	0%	-1.0%	28%
Wollongong City Council	**U**	**8%**	**118%**	3%	115%	82%	0%	0.2%	28%

"n.p." = the council's full statutory financial reports for 2005/06 and 2006/07 are not published on the council's website; all footnotes are listed at the front of the Appendix

Appendix B: Table

Present Financial and Infrastructure Conditions
Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising: long-term debt ratio (d)	BL ratio comprising: infrastructure backlog ratio (e)	other key financial characteristics: revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
REGIONAL: INLAND URBAN									
Albury City Council	**S**	**-6%**	**64%**	30%	34%	78%	0%	0.3%	20%
Armidale Dumaresq Council	**U**	**4%**	**174%**	66%	108%	70%	15%	1.0%	41%
Bathurst Regional Council	**V**	**0%**	**53%**	18%	35%	62%	0%	1.0%	15%
Broken Hill City Council	**U**	**18%**	**360%**	0%	360%	60%	22%	-0.9%	45%
Cessnock City Council	**U**	**4%**	**116%**	9%	107%	72%	0%	0.4%	18%
Dubbo City Council	**V**	**-3%**	**181%**	57%	124%	72%	9%	-1.0%	-29%
Goulburn Mulwaree Council ***	**S**	**-15%**	**184%**	66%	118%	54%	46%	-0.6%	-45%
Griffith City Council	**U**	**-14%**	**117%**	17%	99%	65%	0%	0.0%	50%
Lismore City Council	**U**	**-8%**	**239%**	37%	202%	73%	14%	1.0%	-36%
Lithgow City Council	**V**	**-39%**	**233%**	25%	209%	58%	0%	-1.0%	-50%
Maitland City Council	**S**	**-13%**	**86%**	20%	66%	77%	4%	1.0%	-40%
Orange City Council	**S**	**-23%**	**31%**	29%	2%	62%	23%	-1.0%	0%
Queanbeyan City Council	**S**	**-33%**	**16%**	1%	15%	52%	21%	-1.0%	-13%
Singleton Shire Council	**V**	**9%**	**29%**	14%	15%	59%	12%	-0.5%	3%
Tamworth Regional Council	**V**	**0%**	**120%**	41%	79%	54%	18%	-1.0%	-20%
Wagga Wagga City Council	**S**	**-15%**	**85%**	0%	84%	66%	35%	-1.0%	-50%
Wingecarribee Shire Council ***	**U**	**24%**	**85%**	33%	52%	59%	76%	0.7%	50%

*** data available only for the 2005/06 financial year; "n.p." = the council's full statutory financial reports for 2005/06 and 2006/07 are not published on the council's website
all other footnotes are listed at the front of the Appendix

Appendix B: Table

Present Financial and Infrastructure Conditions

Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising: long-term debt ratio (d)	BL ratio comprising: infrastructure backlog ratio (e)	other key financial characteristics: revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
REGIONAL: RURAL									
Bellingen Shire Council	**U**	**6%**	**70%**	6%	64%	54%	28%	1.0%	31%
Cabonne Shire Council	**U**	**-11%**	**528%**	4%	524%	49%	51%	0.7%	-29%
Clarence Valley Council	**U**	**39%**	**159%**	66%	93%	51%	12%	-1.0%	50%
Cooma-Monaro Shire Council	**S**	**-28%**	**65%**	5%	60%	50%	7%	0.0%	23%
Cowra Shire Council	**S**	**-14%**	**46%**	34%	11%	41%	5%	-0.6%	-7%
Forbes Shire Council	**S**	**-12%**	**94%**	42%	52%	61%	50%	1.0%	-33%
Gunnedah Shire Council	**S**	**-9%**	**18%**	11%	7%	53%	26%	1.0%	-4%
Gwydir Shire Council	N	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Leeton Shire Council	**S**	**-32%**	**4%**	4%	0%	56%	2%	0.0%	0%
Liverpool Plains Shire Council	**V**	**9%**	**20%**	10%	10%	50%	21%	-0.3%	5%
Inverell Shire Council	**S**	**-7%**	**12%**	5%	6%	51%	58%	0.0%	0%
Mid-Western Regional Council	**S**	**-13%**	**139%**	19%	120%	68%	24%	1.0%	-50%
Moree Plains Shire Council ***	**V**	**-3%**	**45%**	27%	18%	55%	25%	1.0%	26%
Muswellbrook Shire Council	**U**	**6%**	**165%**	26%	139%	52%	45%	0.9%	28%
Nambucca Shire Council ***	**U**	**28%**	**218%**	25%	193%	56%	87%	1.0%	50%
Narrabri Shire Council	**S**	**-19%**	**101%**	31%	70%	46%	26%	-1.0%	-39%
Parkes Shire Council	**S**	**-14%**	**42%**	0%	42%	43%	42%	1.0%	-20%
Temora Shire Council	**S**	**-20%**	**16%**	0%	16%	48%	0%	0.6%	0%
Tumut Shire Council	**S**	**0%**	**3%**	0%	3%	26%	25%	0.0%	0%
Upper Hunter Shire Council	**S**	**-8%**	**16%**	6%	10%	51%	25%	-1.0%	-4%
Upper Lachlan Council	**V**	**1%**	**58%**	16%	41%	54%	21%	1.0%	13%
Wellington Council	N	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Young Shire Council	**S**	**-40%**	**78%**	23%	55%	47%	24%	-1.0%	-28%

*** data available only for the 2005/06 financial year; "n.p." = the council's full statutory financial reports for 2005/06 and 2006/07 are not published on the council's website
all other footnotes are listed at the front of the Appendix

Appendix C
Example Council Chart & Tables

fiscal★star

FiscalStar Services Pty Ltd
www.fiscalstar.com.au
PO Box 6197, HALIFAX ST, SA 5000
Email: inquiries@fiscalstar.com.au

Example
Council

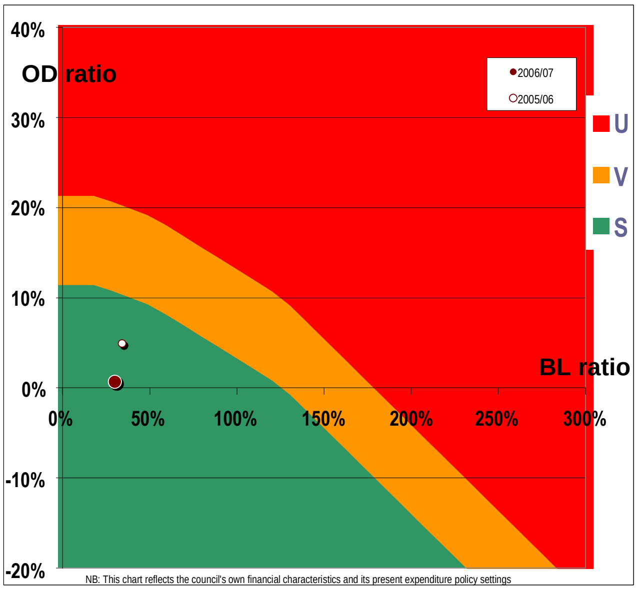
New South Wales

S

Ratings description:

The council's existing policies are assessed as financially 'sustainable'. Any operating deficit, infrastructure backlog or excessive debt that presently exists together are capable of being corrected without the council having to resort in future to 'substantial' adjustments to existing revenue-raising and/or expenditure policy settings. The stability and predictability of the council's rates, fees & charges are therefore not at risk, and its ratings burden presently seems to be shared fairly between the council's present and future ratepayers.

Financial Sustainability Map [(a)]



Explanation:
FiscalStar's estimates of the latest OD and BL ratios (see Table below) put the council in the green (or financially sustainable) zone.

Footnote (a):
This chart summarises FiscalStar's estimates of the various operating deficit (OD) ratio and broad liabilities (BL) ratio combinations for a council that fall into each of the financial sustainability categories. Where a council's latest OD and BL ratios puts it in the green (or S) zone, the council's existing policies are assessed as being financially 'sustainable'; if these ratios put the council in the amber (or V) zone, the assessment is financially 'vulnerable': and if these ratios put the council in the red (or U) zone, the assessment is financially 'unsustainable'.

Example Council

		2005/06 actual	2006/07 actual	information source:
OPERATING DEFICIT RATIO ("OD ratio") {NB: excl water & sewerage}		**5%**	**1%**	
Net operating result for the year as published (but with sign reversed)	$M	**-2.171**	**-1.711**	published accounts
plus Below-the-line revenue	$M	3.017	1.835	(calculated on page 2)
less Below-the-line expenses	$M	0.000	0.000	(calculated on page 2)
plus Estimated water & sewerage operating surplus/(deficit) retained in water & sewerage ops	$M	0.000	0.000	(calculated on page 2)
equals **Underlying operating deficit/(surplus) (excluding water & sewerage)**	**$M**	**0.846**	**0.124**	
comprising:				
Underlying expenses (excluding water & sewerage)	$M	21.249	21.938	(calculated on page 2)
less Revenue from rates, fees & charges (excluding water & sewerage)	$M	17.191	18.154	(calculated on page 2)
less Own-source income other than rates, fees & charges (excluding water & sewerage)	$M	1.796	2.095	(calculated on page 2)
less Above-the-line grants from other governments	$M	1.416	1.565	(calculated on page 2)
divided by **Revenue from rates, fees & charges (excluding water & sewerage)**	**$M**	**17.191**	**18.154**	(calculated on page 2)
BROAD LIABILITIES RATIO ("BL ratio") {NB: excl water & sewerage}		**34%**	**30%**	
Long-term debt ratio		**5%**	**3%**	assumed equal for W&S and non-W&S
Non-current borrowings	$M	1.074	0.640	published accounts
divided by Total operating revenue {includes water & sewerage}	$M	20.403	21.814	(calculated on page 2)
plus **Infrastructure backlog ratio**		**29%**	**27%**	
Estimated total infrastructure backlog amount (excluding water & sewerage)	$M	5.887	5.887	sum of components below
comprising:				
Buildings	$M	0.940	0.940	Special Schedule No.7
Roads	$M	2.776	2.776	Special Schedule No.7
Other infrastructure (excluding water & sewerage)	$M	2.171	2.171	Special Schedule No.7
divided by Total operating revenue (excluding water & sewerage)	$M	20.403	21.814	(sum of items on page 2)

The **operating deficit ratio** is the amount by which a council's annual underlying expenses in the year in question exceeds its annual operating revenue in that year, expressed as a % of annual revenue from rates, fees & charges. The ratio is measured excluding any relevant water & sewerage amounts. A negative value implies an operating surplus.
The **broad liabilities ratio** is the sum of a council's long-term debt ratio and its infrastructure backlog ratio, both measured at the end of the year in question.
The **long-term debt ratio** is the total of a council's non-current interest-bearing liabilities at the end of the year in question expressed as a % of total annual operating revenue. Use of this ratio effectively allocates a council's long-term debt across its water & sewerage activities on the one hand and its non-water & sewerage activities on the other in proportion to the total annual operating revenue attributable to each of these activities, implying the long-term debt ratios for a council are the same between the two sets of activities.
The **infrastructure backlog ratio** is the estimated total cost, at the end of the year in question, of clearing any infrastructure backlog expressed as a % of total annual operating revenue; excludes any relevant water & sewerage amounts; sourced from the council's Special Schedule No. 7 (unless advised otherwise by the council).

Example Council

		2005/06 actual	2006/07 actual	information source:
Operating revenue discretion ratio		**84%**	**83%**	
Revenue from rates, fees & charges (excluding water & sewerage)	$M	17.191	18.154	(calculated below)
divided by Total operating revenue (excluding water & sewerage)	$M	20.403	21.814	
Available cash balances ratio		**10%**	**38%**	
Current liabilities	$M	9.191	5.597	published accounts
Current assets	$M	21.124	22.906	published accounts
plus any non-current investments	$M	6.000	3.000	published accounts
less all externally-restricted cash & investments	$M	11.200	9.255	published accounts
less 1.5 times current liabilities 150%	$M	13.787	8.396	FiscalStar assumption
multiplied by non-water & sewerage share (proportionate to respective op revenues)	%	100%	100%	FiscalStar assumption
equals (if positive) Estimated cash balances potentially available for drawing down	$M	2.138	8.256	
divided by Total operating revenue (excluding water & sewerage)	$M	20.403	21.814	
Annual expenses growth gap ratio			**-1.0%**	
Ongoing annual % growth (per assessment) in underlying expenses	%		3.0%	FiscalStar estimate
less FiscalStar's estimate of the annual % increase in unit costs	%		4.0%	FiscalStar assumption
Annual renewals gap			**-16%**	
'Required' less 'actual' annual renewals capex	$M		-0.589	FiscalStar estimate
divided by Required annual renewals capex	$M		3.631	FiscalStar estimate
Fair value asset valuation uplift factor	%		**1.8%**	FiscalStar estimate

Calculation of key revenue items

		actual	actual	
All revenue as per the Annual Operating Statement	$M	23.420	23.649	published accounts
less **Below-the-line revenue**	**$M**	**3.017**	**1.835**	
comprising:				
Enhancement-related grants from other governments	$M	0.176	0.129	FiscalStar estimate
Any net unspent grants from other governments *additional* to amount of enhancement-related (	$M	0.000	0.000	published accounts
Capital contributions & asset donations	$M	2.398	1.646	published accounts
Net gain on disposal of non-financial assets	$M	0.443	0.060	published accounts
Net gain from revaluation of non-financial assets	$M	0.000	0.000	published accounts
Other capital revenue	$M	0.000	0.000	published accounts
equals **Total operating revenue**	**$M**	**20.403**	**21.814**	
less **Above-the-line grants from other governments**	**$M**	**1.416**	**1.565**	
comprising:				
All grants and transfers from other governments	$M	1.592	1.694	published accounts
less Enhancement-related and any additional net unspent grants	$M	0.176	0.129	
equals Total own-source operating revenue	$M	18.987	20.249	
less Estimated revenue from water & sewerage rates, fees & charges (net of any dividend comp	$M	0.000	0.000	(calculated below)
equals Total own-source operating revenue (excluding water & sewerage)	$M	18.987	20.249	
less **Own-source income other than rates, fees & charges (excl water & sewerage)**	**$M**	**1.796**	**2.095**	
comprising:				
Interest income	$M	1.502	1.656	published accounts
plus Reimbursements & recoveries	$M	0.194	0.400	published accounts
plus Estimated 'dividend' component of water & sewerage operating surplus	$M	0.000	0.000	(calculated below)
plus Other (but not including rates, fees & charges)	$M	0.100	0.039	published accounts
equals **Revenue from rates, fees & charges (excluding water & sewerage)**	**$M**	**17.191**	**18.154**	
comprising:				
Rates & annual charges	$M	13.747	14.259	published accounts
plus User charges	$M	3.444	3.895	published accounts
plus Other fees & charges	$M	0.000	0.000	published accounts
less Revenue from water & sewerage rates, fees & charges	$M	0.000	0.000	(calculated below)

Calculation of key expense items

Total expenses as per the Annual Operating Statement	$M	21.249	21.938	published accounts
less **Below-the-line expenses**	**$M**	**0.000**	**0.000**	
comprising:				
Loss on disposal of non-financial assets (n.e.i.)	$M	0.000	0.000	published accounts
Loss on revaluations (n.e.i.)	$M	0.000	0.000	published accounts
Asset write-downs and other significant one-off expenses	$M	0.000	0.000	published accounts
less Water & sewerage expenses (net of any estimated CSO component)	$M	0.000	0.000	(calculated below)
equals **Underlying expenses (excluding water & sewerage)**	**$M**	**21.249**	**21.938**	
comprising:				
Interest expense	$M	0.144	0.099	published accounts
plus Depreciation expense	$M	3.203	3.281	published accounts
plus Other operating expenses (excluding significant one-off expenses)	$M	17.902	18.558	
less Water & sewerage expenses	$M	0.000	0.000	(calculated below)

Calculation of any wage & sewerage components

Water & sewerage income from continuing operations	$M	0.000	0.000	published accounts
less Water & sewerage capital revenue (included in income)	$M	0.000	0.000	published accounts
equals Revenue from water & sewerage rates, fees & charges	$M	0.000	0.000	
Water & sewerage income from continuing operations	$M	0.000	0.000	
less Water & sewerage net operating surplus/(deficit) i.e, after capital revenue	$M	0.000	0.000	published accounts
equals Water & sewerage expenses	$M	0.000	0.000	
including:				
Water & sewerage interest expense	$M	0.000	0.000	FiscalStar estimate
Water & sewerage depreciation expense	$M	0.000	0.000	published accounts
Revenue from water & sewerage rates, fees & charges	$M	0.000	0.000	
less Estimated 'dividend' component of water & sewerage operating surplus	$M	0.000	0.000	published accounts
equals Estimated revenue from water & sewerage rates, fees & charges (net of any dividend com	$M	0.000	0.000	
Water & sewerage expenses	$M	0.000	0.000	
less Estimated 'community service obligation (CSO)' component of water & sewerage expenses	$M	0.000	0.000	published accounts
equals Estimated water & sewerage expenses (net of any CSO component)	$M	0.000	0.000	
Estimated revenue from water & sewerage rates, fees & charges (net of any dividend component	$M	0.000	0.000	
less Estimated water & sewerage expenses (net of any CSO component)	$M	0.000	0.000	
equals Estimated water & sewerage operating surplus/(deficit) retained in water & sewerage func	$M	0.000	0.000	

DEXIA

The 2008 Financial Sustainability review has been sponsored by Dexia Credit Local Asia Pacific Pty Ltd.

Dexia Credit Local Asia Pacific Pty Ltd is the Australian wholly-owned subsidiary of the European bank Dexia (www.dexia.com), which specialises in local government public finance and supports research into local government best practices around the world.

The assessments made by FiscalStar in this report are completely independent of D exia as the report's sponsor. Dexia's main interest is to raise public awareness about the key drivers of council sustainability by encouraging genuine debate about the findings and the methodology being used.
Dexia had no involvement in either the methodo logy or its application.

29 July 2008

PUBLIC STATEMENT EMBARGOED UNTIL 6AM TUESDAY 29 JULY 2008

Financial sustainability remains biggest challenge for Councils

35 of the 100 largest local councils in NSW will need to increase their rates, fees and charges by 80% to 200% over the next ten years[1] or be forced to severely cut their services if they are to restore their finances and infrastructure to prudent and responsible levels.

For another 19 councils the increases are of the order of 60% to 80%. This means that the existing policies of half of all large councils in NSW fall short of being financially sustainable.

This is the main finding of the second FiscalStar annual financial sustainability survey of councils, commissioned by Review Today and sponsored by Dexia.

The FiscalStar study is based on the latest annual financial and infrastructure data published by councils as well as additional information councils provided in response to a questionnaire. Only 3 councils (Botany Bay, Gwydir and Wellington) failed the transparency test of not providing sufficient data on their websites to enable FiscalStar to assess their sustainability.

Changes in results from FiscalStar's 2007 survey are mainly due to councils providing new data, though a refinement of the analytical methodology also played a part.

It should be stressed that the 35 councils whose existing revenue and spending policies are unsustainable are not facing insolvency. This is because councils like other tiers of government can always tax their way out of bankruptcy. But they face huge increases in rates, fees and charges over the next ten years unless the commonwealth and/or state governments come to their assistance or they drastically cut services or they allow a backlog of dilapidated infrastructure to grow worse or they accept escalating budget deficits.

The most alarming aspect is that neither the state nor federal government accepts the gravity of the crisis sinking local government. The state government seems to think that as long as a few large councils each year are allowed a significant rate hike the problem will go away. The federal government appears more interested in funding state initiatives even though local government has a narrow revenue base and collects only 3% of all taxes.

The heart of the problem is that most councils are facing a large and growing backlog of infrastructure (e.g. roads, kerbing, footpaths, street lighting, stormwater drains, buildings, retaining walls, playgrounds, picnic benches, sports ovals, parks and gardens, etc) that has

[1] Assuming price inflation averages 3% per annum over the same period.

Review Today Pty Limited ABN 89 120 721 717
Address Suite 2, Mona Vale Business, 90 Mona Vale Road, Mona Vale NSW 2103
t 1800 500 035 **f** 1300 760 220 **e** review@reviewtoday.com.au **w** www.reviewtoday.com.au

passed its use-by date and needs replacing, not just patching. If this infrastructure backlog is added to councils outstanding debt then the resulting total ‘broad liabilities’ of all councils that are ‘unsustainable’ averages about 187% of their total annual operating revenue.

For ‘vulnerable’ councils the ‘broad liabilities’ average is 95%. To be ‘sustainable’ a council’s combined debt and infrastructure backlog generally should not exceed around 60%. With ‘sustainable’ councils averaging 55%, they too should be vigilant as they’re living on the edge.

The ‘unsustainable’ and ‘vulnerable’ councils also have difficulties on other fronts. For instance ‘unsustainable’ councils typically have large operating deficits as a proportion of their own source revenues. By contrast ‘sustainable’ councils have large operating ***surplus*** ratios.

Other weaknesses of many councils is a heavy reliance on tenuous grants from other governments, little or no spare cash to meet emergencies and special needs, expenses growing well in excess of underlying costs and insufficient capital works spending to renew ageing infrastructure. This too is documented by FiscalStar.

How should councils react to these findings, given that they are based on their own data?

First they could ask themselves:
- Have we measured our infrastructure backlog correctly?
- Are we positioned to meet future infrastructure renewals as they fall due?
- Can we withstand unexpected shocks or developments (e.g. impact of climate change)?
- How will we cope with demographic pressures (e.g. population growth and ageing)?

The Department of Local Government, State Grants Commission and Australian Bureau of Statistics could also help by improving the consistency and accuracy of the council data they collect. For instance the DLG should clarify that the requirement for a council to report the total cost of bringing its degraded assets to a satisfactory condition does not mean renewing all its assets to their original condition as some councils think.

If a council is rated ‘unsustainable’ or ‘vulnerable’ and the problem is not data related, then it must start a serious dialogue with its community and the state government on how best to rectify the situation if that hasn’t already been done. Denying the gravity of the situation would exacerbate the problem as the longer it’s left the more intractable it becomes.

Of course the state government’s decision to reduce the scope of councils to levy developer charges, to continue with rate pegging when no other state does and to tolerated cost shifting (the latest being a proposals to make councils pay more for fire services) will constrain the ability of local government to rescue itself.

Recent data collected by a Dexia international research department shows that in 2006 local government expenditure as a share of GDP was only 2.3% in Australia compared with 15.1% in Japan, 12.9% in the UK, 12.7% in the European Union and 8.5% in the USA. Although Australia is a very large country we don’t entrust much power, let alone resources to our third tier of government.

And within Australia, there is a tighter rein on local government in NSW than any other state. A recent Productivity Commission report into the revenue raising capacity of local government found that:

The rate of growth in rates revenue in New South Wales has been among the lowest of all jurisdictions over the past seven years, for which reliable data are available. New South Wales also has rate revenue per person below that of most other jurisdictions. Rate pegging in New South Wales appears to be restricting revenue raised from rates, notwithstanding scope for councils to seek variations to mandated rate increases. In addition, only partial reimbursement of concessions affects the revenue of local governments in New South Wales. The evidence suggests that the NSW Government has chosen to have a more significant constraining influence on the revenue raised by local governments than have other State governments."

If the NSW government is determined to further reduce the relative size of local government it would do better to circumscribe its role and operating expenses through an intergovernmental agreement than stopping councils from raising the necessary revenue to rehabilitate, renew and enhance the state's decaying community infrastructure.

New Zealand has a much lower per capita income than NSW yet the standard of its local roads, footpaths, kerbing, public places, stormwater drains, community, recreation and other facilities puts us to shame.

Ironically, the straitjacket applied to NSW councils may ultimately backfire on the state if voters unleash their fury on MPs for not addressing local problems that councils could have fixed had they been allowed to do so. Already there are many councils whose infrastructure backlog is too big for ratepayers to fund. As more join their ranks the pressure on the state's Treasury to come to their rescue will intensify.

Another possibility is that any revamp of federal state financial relations might address local government funding, especially for rural and remote councils. The recent Productivity Commission report advised:

Given the differences in the scope to raise additional revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to local governments.

The NSW Independent Pricing and Regulatory Tribunal has been asked by the Premier to review the inter-governmental and regulatory framework for setting council rates and charges. Perhaps this is a sign that the government is heeding the advice of the Local Government Inquiry of 2006.

Repeated opinion polls– the latest being by the Federalism Project of Griffith University – have found that Australians have more confidence in their local councils than they do in state government and most think it better for decisions to be made at the lowest level of government including councils. They also recognize that local government is under-resourced.

With local government confined to only 5% of general government end spending, its time its future was secured by formal recognition in the Australian constitution and a guaranteed share of national taxation like the states receive through the GST.

Yet councils would be unwise to stake everything on manna from heaven. Instead each council should take charge of its destiny by identifying its service and infrastructure needs and devising a long term strategy and financial plan as councils do in New Zealand. Indeed the Department of Local Government is likely to make this mandatory.

By exploring its sustainability in terms of services, infrastructure and finances, a council can develop a business case for increased funding to put to its community and the Minister for Local Government. Some councils have already done so this with success.

Also councils should rethink their community relations. Too often annual reports, ratepayer notices and websites trumpet council achievements without highlighting the real threats to their community's amenities, services and environment. Greater candour by councils about the true plight of their finances and infrastructure could bring these issues to the forefront of the public's consciousness.

Hopefully the FiscalStar report will help galvanise attention on a problem that some would prefer was kept under wraps. The report identifies local government's problems at a local level. By doing so it highlights the scale of the task each community faces.

Professor Percy Allan AM
Chair and Research Director
Review Today Pty Ltd
Local Government Sustainability Researchers

End Note: Professor Allan chaired and directed the NSW Local Government Inquiry of 2006. He is a former Secretary of the NSW Treasury (1985-1994) and was Chair of the NSW Premier's Council on the Cost & Quality of Government (1999-2007).

Media Contact:	Professor Percy Allan	04 1172 7331
	Bob Gaussen	0419122255

Note: Full FiscalStar report can be downloaded from www.reviewtoday.com.au

The Financial Sustainability of Existing Financial and Infrastructure Policies, Largest 100 NSW Councils, 2006/07

As assessed by:

fiscal★star
rating local government

larger NSW councils	financial sustainability rating of existing policies [a]
METROPOLITAN: INNER	
Ashfield Municipal Council	**Unsustainable**
Botany Bay City Council	**n.a.**
Burwood Council	**Unsustainable**
Canada Bay City Council	**Unsustainable**
Canterbury City Council	**Sustainable**
Hurstville City Council	**Sustainable**
Kogarah Municipal Council	**Sustainable**
Lane Cove Municipal Council	**Sustainable**
Leichhardt Municipal Council	**Sustainable**
Manly Council	**Vulnerable**
Marrickville Council	**Unsustainable**
Mosman Municipal Council	**Unsustainable**
North Sydney Council	**Sustainable**
Randwick City Council	**Vulnerable**
Rockdale City Council	**Sustainable**
Strathfield Municipal Council	**Sustainable**
Sydney City Council	**Sustainable**
Waverley Council	**Sustainable**
Willoughby City Council	**Vulnerable**
Woollahra Municipal Council	**Sustainable**
METROPOLITAN: OUTER	
Auburn Council	**Unsustainable**
Bankstown City Council	**Sustainable**
Baulkham Hills Shire Council	**Sustainable**
Blacktown City Council	**Unsustainable**
Blue Mountains City Council	**Unsustainable**
Camden Council	**Unsustainable**
Campbelltown City Council	**Vulnerable**
Fairfield City Council	**Sustainable**
Gosford City Council	**Unsustainable**
Hawkesbury City Council	**Unsustainable**
Holroyd City Council	**Sustainable**
Hornsby Shire Council	**Sustainable**
Ku-ring-gai Council	**Vulnerable**
Liverpool City Council	**Unsustainable**
Parramatta City Council	**Vulnerable**
Penrith City Council	**Unsustainable**
Pittwater Council	**Sustainable**
Ryde City Council	**Sustainable**
Sutherland Shire Council	**Sustainable**
Warringah Council	**Sustainable**
Wollondilly Shire Council	**Unsustainable**
Wyong Shire Council	**Vulnerable**

larger NSW councils	financial sustainability rating of existing policies [a]
REGIONAL: COASTAL URBAN	
Ballina Shire Council	**Unsustainable**
Bega Valley Shire Council	**Sustainable**
Byron Shire Council	**Unsustainable**
Coffs Harbour City Council	**Vulnerable**
Eurobodalla Shire Council	**Vulnerable**
Great Lakes Council	**Unsustainable**
Greater Taree City Council	**Unsustainable**
Kempsey Shire Council	**Unsustainable**
Kiama Municipal Council	**Unsustainable**
Lake Macquarie City Council	**Sustainable**
Newcastle City Council	**Unsustainable**
Port Macquarie-Hastings Council	**Unsustainable**
Port Stephens Council	**Vulnerable**
Richmond Valley Council	**Unsustainable**
Shellharbour City Council	**Vulnerable**
Shoalhaven City Council	**Sustainable**
Tweed Shire Council	**Unsustainable**
Wollongong City Council	**Unsustainable**
REGIONAL: INLAND URBAN	
Albury City Council	**Sustainable**
Armidale Dumaresq Council	**Unsustainable**
Bathurst Regional Council	**Vulnerable**
Broken Hill City Council	**Unsustainable**
Cessnock City Council	**Unsustainable**
Dubbo City Council	**Vulnerable**
Goulburn Mulwaree Council	**Sustainable**
Griffith City Council	**Unsustainable**
Lismore City Council	**Unsustainable**
Lithgow City Council	**Vulnerable**
Maitland City Council	**Sustainable**
Orange City Council	**Sustainable**
Queanbeyan City Council	**Sustainable**
Singleton Shire Council	**Vulnerable**
Tamworth Regional Council	**Vulnerable**
Wagga Wagga City Council	**Sustainable**
Wingecarribee Shire Council	**Unsustainable**
REGIONAL: RURAL	
Bellingen Shire Council	**Unsustainable**
Cabonne Shire Council	**Unsustainable**
Clarence Valley Council	**Unsustainable**
Cooma-Monaro Shire Council	**Sustainable**
Cowra Shire Council	**Sustainable**
Forbes Shire Council	**Sustainable**
Gunnedah Shire Council	**Sustainable**
Gwydir Shire Council	**n.a.**
Leeton Shire Council	**Sustainable**
Liverpool Plains Shire Council	**Vulnerable**
Inverell Shire Council	**Sustainable**
Mid-Western Regional Council	**Sustainable**
Moree Plains Shire Council	**Vulnerable**
Muswellbrook Shire Council	**Unsustainable**
Nambucca Shire Council	**Unsustainable**
Narrabri Shire Council	**Sustainable**
Parkes Shire Council	**Sustainable**
Temora Shire Council	**Sustainable**
Tumut Shire Council	**Sustainable**
Upper Hunter Shire Council	**Sustainable**
Upper Lachlan Council	**Vulnerable**
Wellington Council	**n.a.**
Young Shire Council	**Sustainable**

Explanatory notes:

Note: All assessments exclude a council's water & sewerage operations.

[a] Assessment of the financial sustainability of a council's existing financial and infrastructure policies is based on the council's most recent statutory financial reports, focussing on its operating deficit, debt level and infrastructure backlog – each as reported by the council. n.a. = not assessed (the full statutory financial reports for 2005/06 and 2006/07 are not on the council's website), only three councils (Botany Bay, Gwydir and Wellington) do not publish all their financials on the internet.

A council's existing financial and infrastructure policies are assessed as financially '**unsustainable**' where substantial revenue (or expenditure) adjustments over the next few years seem unavoidable. The financial solvency of such councils is not being called into question. Rather, it is continuation of a council's present revenue-raising and spending that is financially unsustainable. In the absence of increased grants funding, the substantial rates increases and/or spending cutbacks necessary if these councils are to achieve financial and infrastructure conditions that are prudent and responsible will impose a considerable cost on ratepayers and the communities they serve.

FOREWORD

Wyong Shire Council (WSC) has in place an Audit & Risk Management Committee (ARMC). The ARMC was established by the Council in accordance with section 355(d) of the *Local Government Act 1993* to provide advisory assurance to the elected Council on its governance, risk and control frameworks.

The ARMC operated as a 'Governance Committee' from 2007 until a revised charter was adopted by Council in October 2012.

The Council requires an annual report on the ARMC's operation and activities during the year covering the requirements below.

WSC ARMC Reporting Framework (Section 5.2 of ARMC Charter)

The Chair of the Committee will provide an annual report to Council on the Committee's operation and activities during the year. Each such report should include:

- A summary of the work the Committee performed during the preceding year.
- Details of meetings, including the number of meetings held during the relevant period, and the number of meetings each member attended.

This annual report provides commentary on the committee's operation and activities for the 2012 calendar year.

OVERVIEW

The ARMC has provided advisory assurance to WSC Council throughout 2012 on governance, risk and control matters.

Fundamental to this is WSC continuing to focus on achieving long-term financial sustainability through rigorous business planning and tight management control around expenditure (whilst striving to still deliver acceptable levels of service).

WSC had a net equity position of $2.3 billion at the end of 2012. It has a targeted operating shortfall of $10 million for the 2012/13 fiscal year off a budgeted income base of $249 million (including capital).

OVERALL ARMC 'REPORT CARD'

Element Based on ARMC Charter	Rating
PART 1 - ARMC ASSESSMENT - HOW IT IS SERVICING WSC	
Audit Committee Charter	Strong compliance with all obligations
Skills and Experience	Well-balanced ARMC team composition (see profile later)
Understanding the Entity	Sound and effective overall
Meeting Administration and Conduct	Strong compliance with all elements
General Manager Communications	Effectively maintained
PART 2 - ARMC ASSESSMENT - AREAS SUPPORTING ARMC	
Administrative Support	Effective support is provided
Enterprise Risk Management (ERM)	Being enhanced through ERM Strategy (ERMS) project
Control Framework	Developing and will benefit from ERM
External Accountability	Improving with rigorous business planning driving long-term financial sustainability
Compliance	Basis of compliance reporting to be enhanced in 2013
Internal Audit	Delivery of program and audit contribution to be enhanced
External Audit	Effective arrangements in place which were 'market tested' in 2012
Notes: ★ = Throughout report denotes specific 2013 priorities. Also see section – 'ARMC Top 10 Focus Items for 2013'	

AUDIT RECOMMENDATIONS SNAPSHOT

Internal Audit

The implementation of 'agreed' recommendations arising from internal audit reports is a critical element of an effective internal control framework. Based on internal audit reports provided to the ARMC during the year, there are typically between 47 and 59 'open' recommendations. The ARMC periodically monitors the status of 'open' recommendations.

"(The Committee requested) the General Manager to have the Senior Executive Team review the Outstanding Internal Audit Agreed Action List and provide comments back to the next meeting ...".
Excerpt from minutes of June 2012 meeting

Where appropriate, the responsible managers are invited to attend ARMC meetings to discuss the results of audits where the reports highlight significant internal control issues.
The ARMC endorsed proposed actions to strengthen the processes for monitoring the status of recommendations through the establishment of a new internal audit action tracker system (presented by Internal Auditor in December).

External Audit

The ARMC considered a report from PricewaterhouseCoopers (PwC) in October that identified several control weaknesses arising from their audit of the financial statements. These related to 'expenditure cycle' controls (ie purchasing and payroll). A progress report considered by the ARMC in December noted that action was in hand to address the four PwC recommendations.

RISK, CONTROL, AND COMPLIANCE

SIGNIFICANT CHANGES IN 2012

2012 was a year of significant change.

- Council elections in September brought four newly elected councillors together with six experienced councillors who were returned. The new Council will have a focus on creating jobs and attracting investment to the Shire.
- Councillors Eaton and Webster were elected as Mayor and Deputy Mayor respectively, and were appointed to the ARMC in October replacing Councillors Graham and Wynn.
- The Governance Committee that had operated since 2007 was replaced with an Audit and Risk Management Committee (ARMC) with a fresh charter that better aligned with contemporary leading governance, risk and control practices. The changes were supported by the independent members. [Note: References in this report to ARMC include activities of the Governance Committee until it ceased to operate in October 2012.]
- Mr Bruce Turner assumed the role of ARMC Chair after his predecessor Mr David Holmes retired at the end of 2011.
- The Internal Auditor Mr Jeff Simpson left WSC in mid-2012 after about nine years in the role. Ms Tina Baker was subsequently appointed Chief Audit Executive in December through a merit-based selection process.

OPINION ON INTERNAL CONTROLS

Independent audits reported by the internal auditor and the external auditor PwC provide assurance that key controls are operating in practice for the areas they reviewed.

DETAILS OF MEETINGS

A quorum was available for and throughout each of the five formal meetings held during 2012 (21 March; 21 June; 19 September; 5 October; and 19 December). The elected Council appointed new Councillor representatives in October.

Name	Role	Term	Meetings	
			Eligible	Attended
ARMC MEMBERS AS AT DECEMBER 2012				
Bruce Turner	Chairman	May 2007 to 30/06/13	5	5
Jason Masters	Independent	Sept 2009 to 30/06/13	5	5
Doug Eaton	Mayor	From October 2012	1	0 (Alternate attended)
Lynne Webster	Deputy Mayor	From October 2012	1	1
Luke Nayna	Alternate	From October 2012	1	1
ARMC MEMBERS TO SEPTEMBER 2012				
Bob Graham	Mayor	To September 2012	3	3
Sue Wynn	Deputy Mayor	To September 2012	2	2
Doug Vincent	Alternate	To September 2012	1	1

SUMMARY OF ARMC WORK IN 2012

FORUM FOR COMMUNICATION

- Acted as a forum for communication between Council, the General Manager, senior management, internal audit, external audit and the Internal Ombudsman. This was achieved substantially through frank and open discussions as ARMC meetings, complemented with other informal discussions held throughout the year on specific topics.
- Held periodic 'in camera' meetings were with the General Counsel, Internal Auditor, Internal Ombudsman, and the external auditor PricewaterhouseCoopers (PwC).
- Welcomed Councillors that are not members of the ARMC to attend meetings as observers.

ENTERPRISE RISK MANAGEMENT

- Provided advice on the adequacy of the enterprise risk management framework and associated procedures. Monitored the implementation of the contemporary Enterprise Risk Management Framework, with the project expected to be delivered by mid-2013.
- Considered reports on major projects to establish whether a sound and effective risk management approach had been followed. These included a post-implementation operational management report on the $120 million Mardi to Mangrove pipeline; renewal of 'Councils Online' contract; the WSC Information Management strategy; and the Strategy for Section 94 Reducing Contribution Credits.
- Considered and provided advice on structural changes proposed for procurement and stores management.
- Considered other significant matters, including the Local Environmental Plan; the Chinese Cultural Theme Park; the Central Coast Joint Services Project (including Central Coast Water Corp); the Estuary Management program; the Warnervale Town Centre; and Investment management.
- Participated in an Enterprise Risk Management Strategy (ERMS) Councillor Workshop in March 2012.

"(The Committee received) the status of WSC registered risks, as tracked by the Corporate Risk Register, noting its inconsistencies and anticipating improvements through the ERM Strategy post 30 June 2013."
Excerpt from minutes of June 2012 meeting

- Endorsed the importance of achieving long-term financial sustainability, founded on tight financial stewardship and a foundation of longer-term business and asset planning.
- ★ ***Will*** monitor the implementation of the contemporary Enterprise Risk Management Framework (due mid-2013).
- ★ ***Will*** receive reports in 2013 on the WSC property strategy, together with regular reports on critical path reporting on major projects.
- ★ ***Will*** consider periodic updates on the Central Coast Joint Services Project (which includes the establishment of two new Council owned organisations by 1 July 2017 – Central Coast Water Corporation and Joint Services Business) and will continue to provide advice on the unique venture risks.

CONTROL FRAMEWORK

- Received and reviewed regular progress reports on WSC's performance as measured by the Strategic Plan. This comprises the 2012-2016 four year delivery plan and the annual plan (subset).
- Noted at the December meeting that 348 Strategic Plan activities are 'on track' (90%), 19 are 'not on track' (5%), 12 are 'achieved or completed' (3%), and 9 have been 'deferred' (2%).
- Established that management is committed to having a sound and effective internal control framework (this was determined through a review of internal and external audit reports, coupled with discussions with managers).
- Sought a review of the Statement of Business Ethics to ensure that effective integrity safeguards are in place and communicated to third party suppliers.
- Considered a report on an Information Security audit conducted by an external specialist firm. Potential vulnerabilities were identified. Notably, the review found that internal network security was inadequate, and there were a substantial number of security issues requiring immediate attention.
- Invited the Chief Information Officer to attend the ARMC in June to discuss the results of the Information Security review given the significance of the issues reported. The ARMC sought a follow-up review by mid-2013 by which time corrective action should be in place.
- Determined that a comprehensive set of policies, procedures and delegations is in place and reviewed periodically. The need for some updates was identified through audit reports, in particular for areas associated with Human Resources where action is now in hand.
- Established that the Internal Ombudsman role has been a catalyst for ensuring that WSC has a culture committed to ethical and lawful behaviour.
- Monitored the incidence of suspected and actual frauds, thefts and breaches of laws. On occasions, held discussions directly with the Ombudsman to fully understand matters.
- Reviewed the content of a sample of management reports and business papers for reasonableness.
- Considered proposed changes to plant and fleet management arising from recommendations from a review by Morrison Low consultants.
- Encouraged a frank and open dialogue with management, and encouraged the Internal Auditor and Ombudsman to connect with WSC staff and other stakeholders so as to preserve and enhance internal communication channels.
- Received and noted a report from the General Counsel on compliance matters involving external agencies. These included in March a review by the NSW Environment Protection Authority (EPA) of the WSC waste levy systems and procedures at Buttonderry Waste Management Facility, and a section 430 review by the Division of Local Government (DLG) covering body hire arrangements.
- Received and noted a report in September on the action taken and proposed to address the EPA recommendations in respect to waste management (Buttonderry).
- Received and noted periodic reports from the General Counsel on significant legal proceedings and matters.

"The Compliance report from General Counsel submitted to the next meeting will include commentary on a desirable policy review framework … this item will be provided to the 20 March 2013 meeting."
Excerpt from draft minutes of December 2012 meeting

- ★ ***Will*** monitor the adoption of an enhanced and effective compliance framework (covering legislative and regulatory obligations) as a priority for reporting to the ARMC in 2013.
- ★ ***Will*** consider a report on the follow-up review on Information Security by mid-2013 by an external specialist firm to ensure that identified internal network security vulnerabilities are adequately addressed.
- ★ ***Will*** consider an assessment report on the availability an appropriate contemporary Statement of Business Ethics.

INTERNAL AUDIT

- Reviewed and endorsed changes to the scope and content of the Audit Plan and associated resourcing following staff changes and a reorganisation of the function in mid-2012.
- Monitored the status of planned audits. The contribution by Internal Audit in delivering audits in the first half of 2012 was not as strong as expected. The ARMC initiated changes to drive better performance and beneficial outcomes.
- Sought the implementation of a 'Balanced Scorecard' reporting approach for internal audit to provide a firm and consistent basis for monitoring the performance and effectiveness of the internal audit function.
- Reviewed reports for audits completed. Significant audit reports issued included Service Delivery (March), Rezoning, Human Resources (June), Procurement Cards (December).
- Sought clarification on action being taken to address higher risk areas highlighted by internal audit. For instance, invited the responsible managers to attend the ARMC in June to discuss the results of the Human Resources review given the significance of issues reported. Subsequently received a 'status update' report (September) illustrating the progress being made to address the audit recommendations.
- Monitored (through periodic reports) the implementation by management of internal audit recommendations.
- Provided advice on enhancements to the underlying audit recommendations 'tracker' process (changing from 2013).
- Provided independent advice to the GM on the appointment of Ms Baker as Internal Auditor from end-2012. Was consulted on proposed structural and staffing changes within the internal audit function during the year.

"The Committee emphasised the importance of delivering the agreed Internal Audit plan."
Excerpt from minutes of June 2012 meeting

- ★ ***Will*** continue to closely monitor the need for the Internal Auditor to focus on delivering the approved Audit Plan.
- ★ ***Will*** monitor the practical implementation of changes to the recommendations tracking and reporting processes.

- ★ ***Will*** resurrect a 'Balanced Scorecard' report once other priorities achieve reasonable traction.

Internal Audit reports functionally to the Committee, with day-to-day supervision undertaken by the Manager of the Legal and Risk Service Unit.
Excerpt from ARMC Charter

EXTERNAL AUDIT

- Provided input and feedback on the financial statements and audit coverage by the external auditors.

"In our opinion, the financial report presents fairly, in all material respects ... as of 30 June 2012 ..."
PwC's Independent auditor's report

- Provided advice to Council on action taken on significant issues raised by the external auditors.
- Obtained enhanced information on the external audit activity, including engagement planning and reporting.
- Provided advice on the tender for the external audit services, and endorsed the results. The contract with PwC was extended as a consequence of their successful tender.
- Arranged for the PwC Partner (Mr Peter Buchhok) to periodically attend the ARMC meetings (two in 2012), in addition to the PwC Director (Dennis Banicevic) who has been a regular attendee in past years.
- ★ ***Will*** clarify the contractual relationship with the external auditor (PwC) in the light of the Centro Court decision. Formal response expected in early 2013.

The Centro Case decision handed down in the Federal Court in mid-2011 addressed board responsibilities regarding the review and approval of an entity's financial statements. Directors (and potentially Councillors) now need to be mindful of:

- **Delegating tasks to senior management and advisers, and their reliance upon these advisers without sufficient critical analysis;**
- **Having the expected minimum financial knowledge to understand and appropriately analyse the financial reports that they are required to approve; and**
- **Ensuring that they sufficiently participate within board meetings and adequately discharge their duties of care and diligence.**

Summarised from GrantThornton Publication – *The Centro case: Where to from here?*

INTERNAL OMBUDSMAN

- Established an effective and constructive consultative working relationship with the Internal Ombudsman Ms Lilly Mojsin who commenced in December 2011.
- Considered reports on investigative assessments undertaken by the Independent Commission Against Corruption (ICAC), the Division of Local Government (DLG), and the Office of Environment and Heritage (OEH).
- Considered a report from the Internal Ombudsman where she assessed the potential implications for WSC as a result of ICAC investigations into other councils (notably, Auburn, Strathfield, and Willoughby).

"The majority of complaints presently before the Ombudsman mainly refer to alleged flawed decision-making by Council staff, alleged failure to respond to ratepayers in a timely manner, and alleged failure to discharge obligations."
Excerpt from Report from Internal Ombudsman March 2012

- Received a report from the Internal Ombudsman on the outcomes of the ICAC investigation (called Operation Jarek) into councils across NSW.

The ICAC's 'Operation Jarek' investigation dealt with relational selling and gift giving, procurement processes, and inventory management. The investigation was prompted by allegations of corrupt conduct involving public officials accepting gift vouchers and other gifts from suppliers. The ICAC report was issued in October and there were no adverse findings against WSC.

- ★ ***Will*** assess the potential internal control enhancements and other actions that WSC might need to consider as a consequence of 'lessons learned' from Operation Jarek.

The Internal Ombudsman reports functionally to the GM and provides information, as required, to the ARMC to assist the Committee in the exercise of its responsibilities.
Excerpt from ARMC Charter

OTHER ARMC ACTIVITIES

- Provided independent advice to the GM on a sensitive and complex investigation (Investigation 16 of 2012).
- Helped to review and redraft the position description for the Internal Auditor so as to reshape the future role.
- Participated directly in the Internal Auditor recruitment.
- Helped to redraft the ARMC Charter to align it with contemporary leading practice models.

ADMINISTRATIVE ARRANGEMENTS

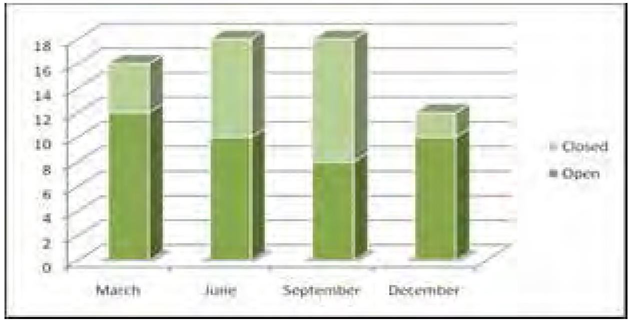
'ACTIONS ARISING' INITIATED BY ARMC

Robust discussions at ARMC meetings often lead to 'actions arising'. These matters typically facilitate an assessment of risks and controls through a different lens.

Management provides further information at subsequent meetings in response to these ARMC requests.

The ARMC tracks progress to ensure that reasonable and timely action is taken to address these matters.

The following graph (next column) illustrates the progress of 'actions arising' in 2012, with the movement in 'closed' items illustrating management's attention to appropriately addressing these matters.



COMPLIANCE WITH KEY MEETING REQUIREMENTS

Requirement (from Charter)	Compliance
The committee is required to meet at least four times a year with a further meeting to consider the draft financial statements.	✓
A meeting plan will be agreed each year to ensure coverage of all of the Committee's responsibilities.	✓
The agenda for each meeting will be set by the Chair in consultation with the GM.	Partial
The agenda and business papers are to be provided to Committee members one week before each meeting.	✓
A quorum will consist of two independent Committee members.	✓
The Chair is to preside over each meeting of the Committee.	✓
The Chief Audit Executive and external audit representatives may be invited by the Chair to attend each meeting.	✓
The Committee will meet separately with both the internal and external auditors at least once each year.	✓
Minutes must be prepared in the prescribed form and must be approved by the Chair (in consultation with the GM) and circulated within two weeks of the meeting.	✓
Committee members must declare any conflicts of interest and take appropriate action.	✓
Legend: ✓ = Achieved.	

ARMC CONTINUOUS IMPROVEMENT PHILOSOPHY

The ARMC Chair periodically meets with the General Manager (GM) to ensure that the Committee is contributing at a level that effectively satisfies the needs and expectations of both the GM and the elected Council. Based on the latest assessment consultation, the ARMC implemented the following improvements during 2012:

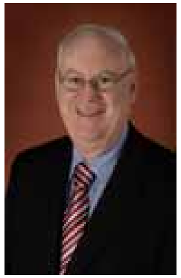
- Stronger alignment between the agenda and the ARMC responsibilities contained in its charter.
- Close scrutiny of the internal audit contribution.
- Independent scrutiny of higher risk activities through broadened reporting of projects, programs, and procurement.
- Establishment of an annual ARMC report.

ARMC 'TOP 10' FOCUS ITEMS FOR 2013

- Monitor the implementation of the contemporary Enterprise Risk Management Framework by mid-2013.
- Monitor the delivery of the Strategic Plan, in particular initiatives for achieving long-term financial sustainability.
- Consider the WSC Property Strategy, once finalised.
- Monitor the Central Coast Joint Services project.
- Drive enhancements to WSC's compliance framework.
- Consider a follow-up report on Information Security.
- Transition a new Chief Audit Executive (CAE) into the role.
- Ensure quality delivery of the approved internal audit plan, changes to audit recommendations tracking processes, and (re)introduction of Balanced Scorecard Reporting.
- Clarify contractual relationship with external auditor (PwC).
- Assess potential internal control enhancements resulting from the 'lessons learned' from ICAC's Operation Jarek.

PROFILE OF INDEPENDENT ARMC MEMBERS

Bruce Turner CRMA, CGAP, CISA, CFE, CFIIA, FFin, FIPA, MAICD, AFAIM, JP



Bruce was appointed as one of the two inaugural independent members of the WSC Governance Committee in May 2007. He was appointed Governance Committee Chairman effective 17 October 2011 and then continued as Chair of the ARMC.

Bruce established an exemplary record as one of Australia's leading chief audit executives (CAE). He attained international, national and local awards recognizing his leadership, ongoing commitment to professional excellence, quality of service, and professional outreach. He is an accomplished technical author and presenter on governance, risk, audit and fraud topics.

In the decade prior to his retirement in 2012 Bruce held CAE roles at the Australian Tax Office, Integral Energy and StateRail.

Bruce sits on the Board of the IIA Australia and is a member of the IIA Global international public sector committee. He chairs five ARMCs, including the Department of Premier and Cabinet.

Bruce holds professional certifications and memberships:

- Certified in Risk Management Assurance
- Certified Government Audit Professional
- Certified Information Systems Auditor
- Certified Fraud Examiner
- Certified Fellow Internal Auditor
- Fellow of the Financial Services Institute of Australasia
- Fellow of the Institute of Public Accountants
- Member of the Australian Institute of Company Directors

Jason Masters CRMA, GGEIT, CFE, FIIA, FFin, , GAICD, JP

Jason Masters was the third Independent Member joining in September 2009.

Jason has a depth of experience in Internal Audit and Risk Management having been the Chief Audit Executive for the National Rail Corporation and Fujistu Australia and New Zealand. He has held operational roles at Allianz and a long history of consulting in Ernst & Young, Grant Thornton and successfully operated his own consulting business for 10 years.

Jason has held various board roles and is currently a Councillor (Board Member) of the Medical Council of NSW.

Jason has spoken locally and internationally on topics related to Internal Audit, IT Governance, Probity, Audit and Risk Committees and Ethics. He also lectures for the AICD in the areas of Finance, Strategy and Risk.

Jason holds a range of certificates and memberships such as:

- Graduate Member of the Australian Institute of Company Directors (AICD)
- Certified in Risk Management Assurance
- Certified in the Governance of Enterprise IT
- Certified Fraud Examiner
- Fellow of the Institute of Internal Auditors (Australia)
- Foundation Member (Associate) of the Chartered Institute of Purchasing and Supply
- Associate Member of Leadr – Association of Dispute Resolvers
- Member of the St James Ethics Centre

ACRONYMS AND EXPLANATIONS

Abbreviation	Description
ARMC	Audit and Risk Management Committee
AS/ISO31000:2009	International standard for risk management
CAE	Chief Audit Executive (the most senior internal audit executive in an organisation)
DLG	Division of Local Government
EPA	Environmental Protection Authority
ERM	Enterprise Risk Management
ERMS	Enterprise Risk Management Strategy
GM	General Manager
Governance Committee	Precursor to ARMC with name change adopted in October 2012 together with associated changes to its formal charter
ICAC	Independent Commission Against Corruption
IIA	Institute of Internal Auditors – the professional body
NSW Treasury Policy	TPP09-05 Internal Audit & Risk Management Policy / Guidelines
OEH	Office of Environment and Heritage
PwC	PricewaterhouseCoopers (PwC) – the external auditor
Risk	Risk defined in ISO31000: *the effect of uncertainty on objectives*
Local Government Act 1993	
- *Section 94*	The council may determine an application … by granting approval to the application, either unconditionally or subject to conditions …
- *Section 355*	A function of the council may … be exercised by a committee of the council.
- *Section 430*	The Director General (Division of Local Government) … may authorise any person … to investigate any aspect of a council or its work and activities …
Statement of Business Ethics	WSC code of ethics translated into obligations for suppliers
WSC	Wyong Shire Council

The independent ARMC members also undertake local-government specific activities in the broader professional community that are beneficial to the reputation of WSC. For instance:

- **Mr Turner presented a paper at the Local Government Internal Audit Network meeting held in Penrith in September; and**
- **Messrs Turner and Masters presented papers as part of an 'expert panel' discussion at the IIA Local Government Forum held in Sydney in November.**

USE OF RAP TOOL TO ASSIST DECISION MAKING