Parkes Shire Council

Special Variation Application
Part B

Criterion 4
Annexure

Delivery Program and Long Term Financial Plan Assumptions

Annexure 4

Financial Assessment
and
Benchmarking Report

New South Wales
Treasury Corporation

Parkes Shire Council

Financial Assessment and Benchmarking Report

27 February 2013

Prepared by NSW Treasury Corporation for Parkes Shire Council

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by Parkes Shire Council as detailed in TCorp's correspondence and confirmation of 15 February 2013. The report has been updated as requested by Parkes Shire Council.

The report has been prepared based on information provided to TCorp as set out in Section 2.2 of this report. TCorp has relied on this information and has not verified or audited the accuracy, reliability or currency of the information provided to it for the purpose of preparation of the report. TCorp and its directors, officers and employees make no representation as to the accuracy, reliability or completeness of the information contained in the report.

In addition, TCorp does not warrant or guarantee the outcomes or projections contained in this report. The projections and outcomes contained in the report do not necessarily take into consideration the commercial risks, various external factors or the possibility of poor performance by the Council all of which may negatively impact the financial capability and sustainability of the Council. The TCorp report focuses on whether the Council has reasonable capacity, based on the information provided to TCorp, to take on additional borrowings within prudent risk parameters and the limits of its financial projections.

The report has been prepared for Parkes Shire Council. TCorp shall not be liable to Parkes Shire Council or have any liability to any third party under the law of contract, tort and the principles of restitution or unjust enrichment or otherwise for any loss, expense or damage which may arise from or be incurred or suffered as a result of reliance on anything contained in this report.

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Section 1 Executive Summary

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

TCorp's approach has been to:

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

The Council's historical performance has been satisfactory over the review period based on the following observations:

- Approximately 55.0% of the Council's revenue base is derived from own sourced revenue (annual charges, and user charges and fees). While this is below the benchmark of 60%, Council controls a very large area relative to its population size (2.5 people per km²), and require grants to meet the costs of their operations
- Employee costs have been well controlled in recent years. In 2011 Council experienced a 4.1% reduction in salaries and wages, driven by initiatives to manage worker's hours and minimise overtime hours
- Financial management has been strong, with Council utilising bank loan facilities to good effect by taking a total of $5.0m of loans for projects such as the airport main runway rehabilitation, a new sewer system, and other projects that will provide benefits to residents for the long term. In addition, Council has been using its cash reserves efficiently in recent years by investing in term deposits, and have maintained a strong unrestricted current ratio of 3.90x (as of 2012)

Council's reported infrastructure backlog of $63.5m in 2012 represents 14.4% of its infrastructure asset value of $440.6m. Other observations include:

- The Infrastructure Backlog has increased by over 500% from 2009 to 2012, primarily due to increases in public roads and water asset backlogs following the Asset Revaluations
- Compared to benchmark ratios, Council appears to be underspending on asset renewal and asset maintenance
- A continuation of this level of expenditure will likely result in the backlog increasing

Council has provided TCorp with two scenarios for their 10 year financial forecasts for its General Fund. The first scenario ('base case') was based on Council acquiring loans of $2.0m under the LIRS scheme and maintaining the status quo of the expected future financial position of Council.

Through their integrated planning and reporting framework, Council has recognised the need to secure additional funding to properly service their infrastructure assets and achieve operating surpluses in the medium to long term. The second scenario ('progressive delivery program') includes an SRV of 13% p.a.

increase for four years from 2014 to 2017 with the increased revenue being used to bring Councils operating results into surplus and increase capital expenditure programs. Council has indicated to IPART its intention to apply for the SRV.

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

- The General Fund shows deficit positions are expected in all 10 years when capital grants and contributions are excluded. This highlights that over the longer term Council could face financial sustainability issues, although the deficit is forecast to improve throughout the model from the worst ratio deficit in 2012 of negative 18.1% to negative 10.4% in 2022. We have some reservations about the ability of Council to achieve these improved outcomes, particularly as the forecast capital expenditure program appears to be lower than what we would see as being required to maintain its asset base to a satisfactory standard
- The Infrastructure Backlog will likely increase given the forecast capital expenditure, however Council's growing levels of accessible cash and investment reserves could be used to increase capital expenditure if required
- Overall, Council's level of fiscal flexibility is sound as Own Sourced Operating Revenue Ratio is projected at levels above 60.0%. Council projects a rise in own sourced revenue due to increasing RMS fees from future contracts

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

- The General Fund shows improving operating results over the forecast period with the Council returning to surplus from 2017 when capital grants and contributions are excluded
- The Infrastructure Backlog will likely reduce given the planned capital spend to address the asset maintenance and Infrastructure Backlog
- Overall, Council's level of fiscal flexibility is sound as Own Sourced Operating Revenue Ratio is projected at levels above 60.0%. This is due to the increased rating base from the SRV

In respect of the long term Sustainability of the Council if IPART approves the SRV our key observations are:

- Council forecasts returning to surplus in the medium term with surpluses steadily increasing in the long term
- Council's rating base will improve giving Council more financial flexibility in the future
- Council forecasts capital expenditure at a sufficient level to assist in addressing their asset maintenance and infrastructure backlogs as well as some new capital spend

In respect of the long term Sustainability of the Council if IPART does not approve the SRV our key observations are:

- Council forecasts operating deficits averaging 12.8% p.a. over the forecast period

- The limited size of the Council's rating base makes it difficult for Council to address the forecast operating deficits, manage unforseen financial shocks or any adverse changes in its business
- Council is forecasting insufficient capital spending which will likely lead to their infrastructure backlog increasing in the medium to long term

In respect of the Benchmarking analysis TCorp has compared the Council's key ratios with other councils in DLG group 11. The key observations are:

- Council's financial flexibility as indicated by the Operating Ratio and Own Source Operating Revenue Ratio are generally below the group average
- Council's DSCR and Interest Cover Ratio are around the group average and above the benchmark. In the medium term Council's forecast ratios are expected to remain above the benchmarks
- Council was in a sufficient liquidity position which is expected to continue in the medium term
- Council's performance in terms of its Infrastructure Backlog Ratio has been stronger than the group average but weaker than the benchmark. Council's Asset Maintenance Ratio and Building and Infrastructure Asset Renewal Ratio have been below the group averages and benchmarks. The Capital Expenditure Ratio has been in line with the group averages and above the benchmark for most of the period

Section 2 Introduction

2.1: Purpose of Report

This report provides the Council with an independent assessment of their financial capacity, Sustainability and performance measured against a peer group of councils. It will complement Council's internal due diligence, the IP&R system of the Council and the DLG, together with the work being undertaken by the Independent Local Government Review Panel.

The report is to be provided to the DLG and the Independent Local Government Review Panel. The report was also to be provided to the LIRS Assessment Panel for its use in considering applications received under the LIRS.

The key areas focused on are:

- The financial capacity of the Council
- The long term Sustainability of the Council
- The financial performance of the Council in comparison to a range of similar councils and measured against prudent benchmarks

2.2: Scope and Methodology

TCorp's approach was to:

- Review the most recent four years of the Council's consolidated audited accounts using financial ratio analysis. In undertaking the ratio analysis TCorp has utilised ratio's substantially consistent with those used by Queensland Treasury Corporation (QTC) initially in its review of Queensland Local Government (2008), and subsequently updated in 2011
- Conduct a detailed review of the Council's 10 year financial forecasts including a review of the key assumptions that underpin the financial forecasts. The review of the financial forecasts focused on the particular Council fund that was undertaking the proposed debt commitment. For example where a project is being funded from the General fund we focussed our review on the General fund
- Identify significant changes to future financial forecasts from existing financial performance and highlight risks associated with such forecasts
- Conduct a benchmark review of a Council's performance against its peer group
- Prepare a report that provides an overview of the Council's existing and forecast financial position and its capacity to meet increased debt commitments
- Conduct a high level review of the Council's IP&R documents for factors which could impact the Council's financial capacity and performance

In undertaking its work, TCorp relied on:

- Council's audited financial statements (2008/09 to 2011/12)
- Council's financial forecast model
- Council's IP&R documents

- Discussions with Council officers
- Council's submissions to the DLG as part of their LIRS application
- Other publicly available information such as information published on the IPART website

Benchmark Ratios

In conducting our review of the Councils' financial performance and forecasts we have measured performance against a set of benchmarks. These benchmarks are listed below. Benchmarks do not necessarily represent a pass or fail in respect of any particular area. One-off projects or events can impact a council's performance against a benchmark for a short period. Other factors such as the trends in results against the benchmarks are critical as well as the overall performance against all the benchmarks. As councils can have significant differences in their size and population densities, it is important to note that one benchmark does not fit all.

For example, the Cash Expense Ratio should be greater for smaller councils than larger councils as a protection against variation in performance and financial shocks. Therefore these benchmarks are intended as a guide to performance.

The Glossary attached to this report explains how each ratio is calculated.

Ratio	Benchmark
Operating Ratio	> (4.0%)
Cash Expense Ratio	> 3.0 months
Unrestricted Current Ratio	> 1.50x
Own Source Operating Revenue Ratio	> 60.0%
Debt Service Cover Ratio (DSCR)	> 2.00x
Interest Cover Ratio	> 4.00x
Infrastructure Backlog Ratio	< 0.02x
Asset Maintenance Ratio	> 1.00x
Building and Infrastructure Asset Renewal Ratio	> 1.00x
Capital Expenditure Ratio	> 1.10x

2.3: Overview of the Local Government Area

Parkes Shire Council LGA	
Locality & Size	
Locality	Central Slopes and Plains
Area	5,919 km²
DLG Group	11
Demographics	
Population as at 2011	14,600
% under 19	29.1%
% between 19 and 59	47.3%
% over 60	23.6%
Expected population 2021	14,600
Operations	
Number of employees (FTE)	155
Annual revenue	$31.9m
Infrastructure	
Infrastructure backlog value	$33.3m
Total infrastructure value	$451.8m
% backlog in Roads	36.7%
% backlog in Sewers	36.1%

Parkes Shire Council Local Government Area (LGA) is located on the western edge of the Great Dividing Range within the Central Slopes and Plains region of NSW. The town of Parkes is the main urban centre and is situated on the Broken Hill railway line and the Newell Highway.

A variety of farming is conducted in the region, and the staple farming products are wheat and wool.

The area is supported by gold and copper mines and Council considers these resource bases as important employers for the population now and in the future.

2.4: LIRS Application

Council made an application under the LIRS Scheme which was approved. Project details are as follows:

Project: Upgrade and construction of the Parkes swimming pool

Description: Upgrade of Parkes' 50m and program pools, and associated drained concourse, shade structures, tiered concrete seating and supplementary plant room.

Amount of loan facility: $2.0m

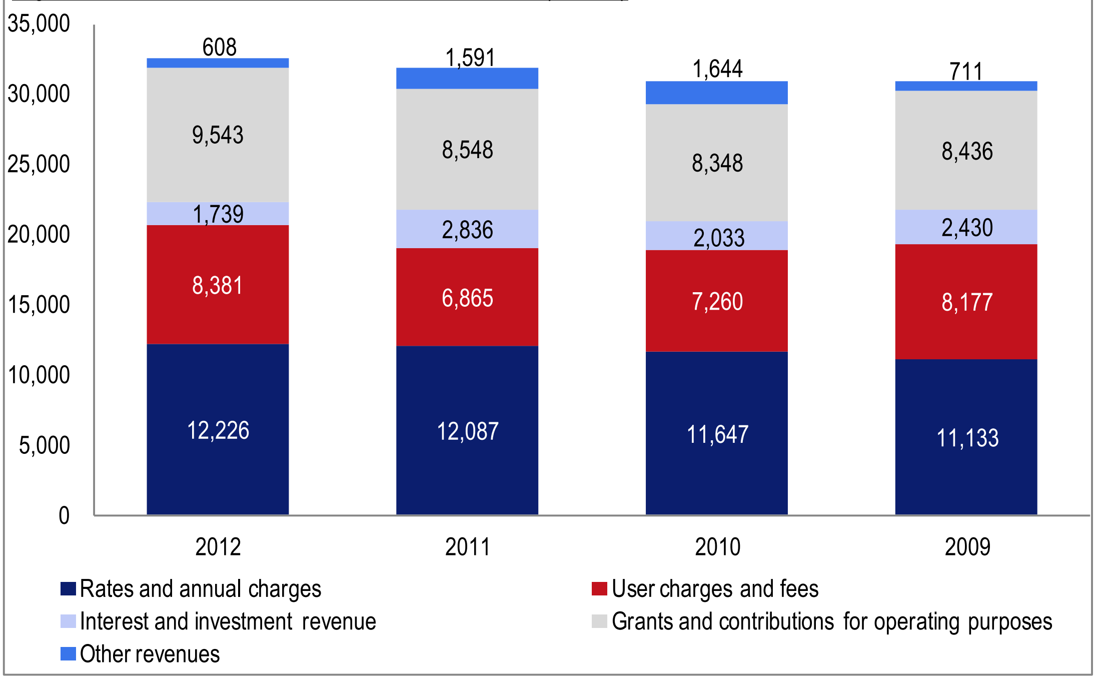
Term of loan facility: 10 years

Section 3 Review of Financial Performance and Position

In reviewing the financial performance of the Council, TCorp has based its review on the annual audited accounts of the Council unless otherwise stated.

3.1: Revenue

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



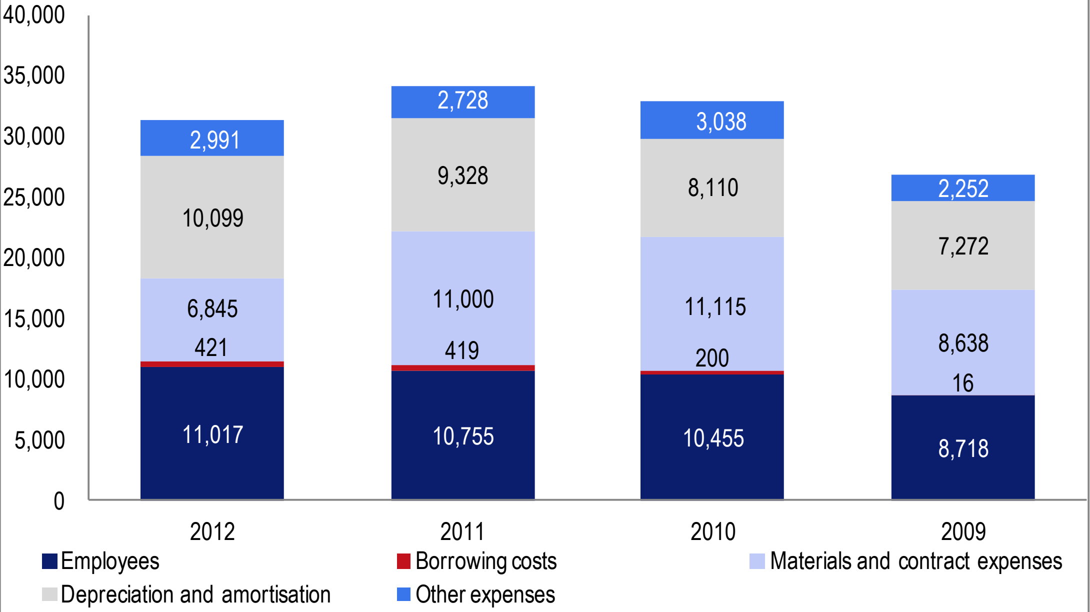
<u>Key Observations</u>

- Total revenue, excluding capital grants and contributions, increased 5.2% over the four year period to $32.5m in 2012.
- Rates and annual charges have increased 9.8% since 2009. The increase above the standard rate peg in 2010 and 2011 was aided by increases in farmland rates, which rose by 10.5% in 2011 and 12.1% in 2010. Farmland rate growth was helped by a catch up provision, which allows for the recoupment of under levied amounts in the previous three years. The purpose of the provision was to cap farmland rate increases by 20.0% in any single year, as Council had a farmland revaluation exercise in 2006 where farmland increased in value by up to 142.0%.
- User charges and fees have been declining in recent years except for 2012 where there was a 22.1% increase. The increase in 2012 is due to a $1.3m increase in RMS charges. The two major projects were the Orange-Condobolin and the black spot program. 2010 results were significantly impacted by a decrease in work carried out for RMS, with RMS fees to Council reducing by $1.3m. These revenues have also been impacted by variances in water supply fees. Higher rainfall in 2011 reduced water supply fees and was the main driver of the 5.4% drop in user charges and fees.

- Grants and contributions for operating purposes have increased by 13.1% ($1.1m) since 2009. This is due to the prepayment of $1.8m being half the 2013 Financial Assistance Grants (FAG) in 2012.
- Other revenue was at increased levels in 2010 and 2011 and has since fallen in 2012 to around 2009 levels. The increases were due to internal sales of gravel, mined from Council-owned pits, increasing due to the increased flood restorations and general capital works carried out in the LGA.
- Council operate a wide range of services, including an aerodrome and campsite. While the campsite is marginally unprofitable it provides ancillary benefits to business owners in the community. The airport is unprofitable (a net cost of $0.5m in 2011) but its ongoing operation is essential to the community's mining industry and healthcare service.

3.2: Expenses

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



Key Observations

Total expenses have grown 26.4% ($2.3m) to $11.0m in 2012. They have fluctuated over the four year period mainly due to materials and contract expenses.

Employee costs have been affected by flood restoration works in 2010, 2011 and 2012. More work has been required for repairs following flood damage, resulting in increased maintenance at the expense of capital works. In 2009, $1.8m of expenses was capitalised, compared to $0.8m in 2010, $1.0m in 2011 and $1.0m in 2012 when flood related repairs were carried out and the expenses were not capitalised. This is the main driver of the 19.9% increase in employee expenses in 2010. A general rise in employee costs is largely attributable to growth in long service leave entitlements which grew by 24.0% to $1.4m in 2011 due to the impact of wage increases on the accrued entitlements for long serving employees.

Employee costs have been well controlled in recent years with minimal growth recorded in 2011 and 2012. Council achieved a 4.1% ($1.0m) reduction in salaries and wages year on year in 2011, driven by initiatives to manage workers' hours and minimise overtime hours. The marginal growth in employee expenses in 2011 was largely attributable to a $0.6m increase in Employee Leave Entitlements. The growth in 2012 of 2.4% was due to an increase in salaries and wages.

Materials and contracts expenses have fluctuated substantially over the four year period with an overall reduction from 2009 of 20.8% ($1.8m) to $6.8m in 2012. Material and contracts expense increased by 28.7% from $8.6m to $11.1m in 2010, mainly due to increased repairs on roads resulting from flood damage. A reduction of $0.5m in contractor and consultancy costs was the main driver of the marginal decline in materials and contracts expenses in 2011. In 2012 the decrease occurred as increased capital works during the year saw a higher level of costs being capitalised than previously.

The Asset Revaluations process resulted in the value of Council's infrastructure assets increasing by $146.8m in 2010. This process resulted in the annual depreciation charge increasing by 38.9% to $10.1m from 2009 to 2012.

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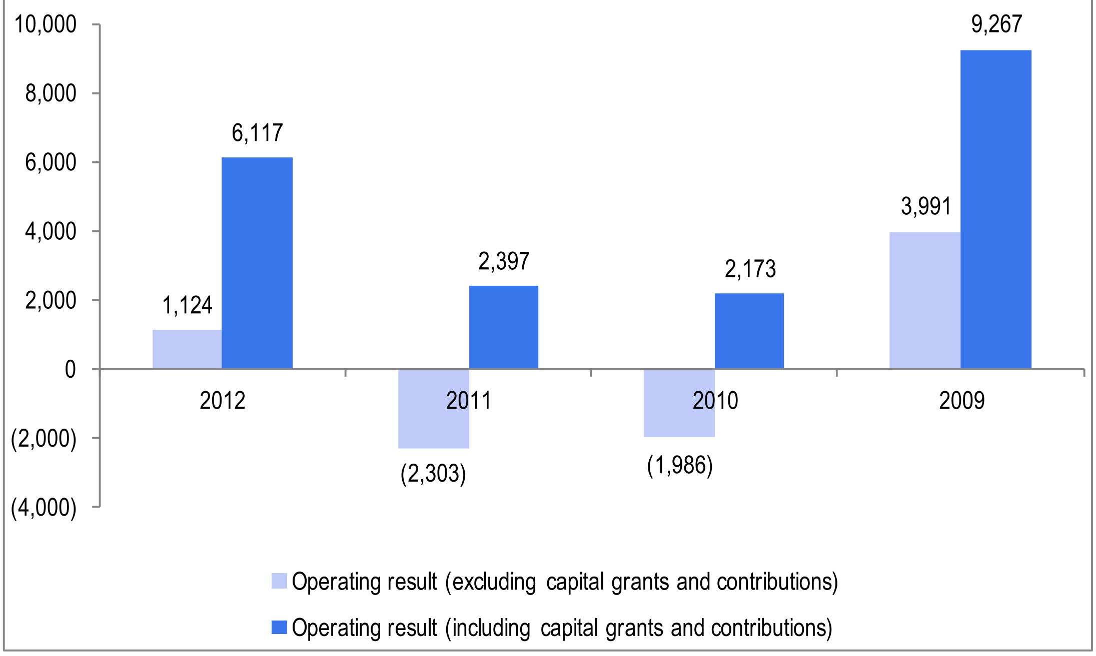
3.3: Operating Results

TCorp has made some standard adjustments to focus the analysis on core operating council results. Grants and contributions for capital purposes, realised and unrealised gains on investments and other assets are excluded, as well as one-off items which Council have no control over (e.g. impairments).

TCorp believes that the exclusion of these items will assist in normalising the measurement of key performance indicators, and the measurement of Council's performance against its peers.

All items excluded from the income statement and further historical financial information is detailed in Appendix A.

Figure 3 - Operating Results for 2008/09 to 2011/12 ($'000s)



Key Observations

- Council posted deteriorating net operating results excluding capital grants and contributions from 2009 until 2011 with an improvement in 2012. 2011 results were adversely affected by the increased depreciation charges.
- The improvement in 2012 is mainly due to a large increase in operating grants and contributions from the prepaid financial assistance grants and the fall in materials and contract expenses.
- Council expenses include a large non-cash depreciation expense ($10.1m in 2012), which has increased substantially over the past four years following the Asset Revaluations. Whilst the non-cash nature of depreciation can favourably impact on ratios such as EBITDA that focus on cash, depreciation is an important expense as it represents the allocation of the value of an asset over its useful life.
- Increased employee leave entitlements and increased materials expenditure relating to flood repairs also negatively affected Council operating results in 2010 and 2011.

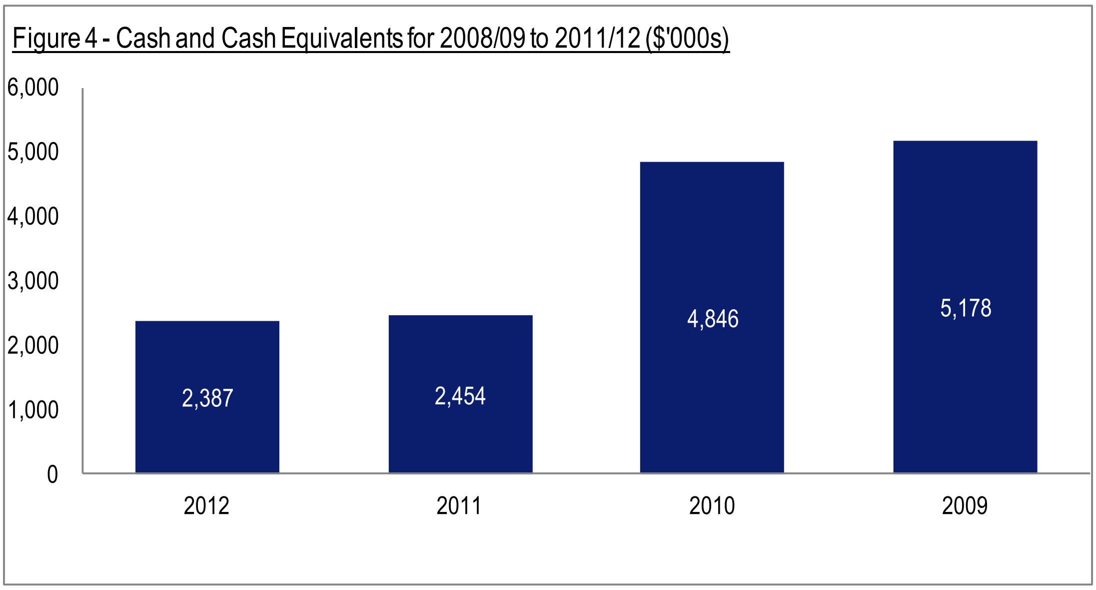
3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA ($'000s)	11,644	7,444	6,324	11,279
Operating Ratio	3.5%	(7.2%)	(6.4%)	12.9%
Interest Cover Ratio	27.66x	17.77x	31.62x	704.94x
Debt Service Cover Ratio	22.35x	14.57x	31.62x	704.94x
Unrestricted Current Ratio	3.90x	4.73x	2.63x	3.96x
Own sourced revenue	55.0%	51.7%	53.9%	53.4%
Cash expense ratio	1.4 months	1.2 months	2.4 months	3.2 months
Net assets ($'000s)	546,086	524,048	516,191	449,883

Key Observations

- Council's EBITDA and Operating Ratio deteriorated throughout most of the period with improvements in 2012 due to increased operating grants and contributions and reduced materials and contract expenses.
- The Unrestricted Current Ratio has been well above the benchmark of 1.50x over the past four years, indicating Council has sufficient liquidity.
- Own Sourced Operating Revenue Ratio has been below benchmark in all four years. Council has indicated that they will source more revenue from RMS fees, which will improve the Ratio above benchmark (explained further in Section 4.4).
- The underlying trend in all four years has been a growing Net Asset base. Overall, The Infrastructure, Property, Plant and Equipment (IPP&E) asset base has increased with asset purchases being greater than the combined value of disposed assets and annual depreciation. Over the last three years this amounted to a $5.2m net increase in the value of IPP&E.
- Council has total borrowings of $6.4m, being 1.2% of Net Assets.

3.5: Statement of Cashflows



Key Observations

- Council's cash and cash equivalents have decreased over the four year period, with the 2011 decrease primarily due to $12.0m spent on investment securities. Overall cash and investments combined have increased year on year. In total, Council had cash and investments of $50.3m in 2012 of which $40.6m is externally restricted, $9.7m is internally restricted and $0.03m is unrestricted.
- The cash reserves, along with the Unrestricted Current Ratio, indicate that Council had sufficient resources to meet their day to day obligations.
- Council had $47.9m in investments in 2012. This includes $43.7m in term deposits, $1.0m in NCDs and FRNs and $3.2m in CDOs.
- Council had CDOs totalling $3.2m in value in 2012. Council has advised that they currently expect to recover $3.0m of these assets when they are due to mature between 2014 and 2016.

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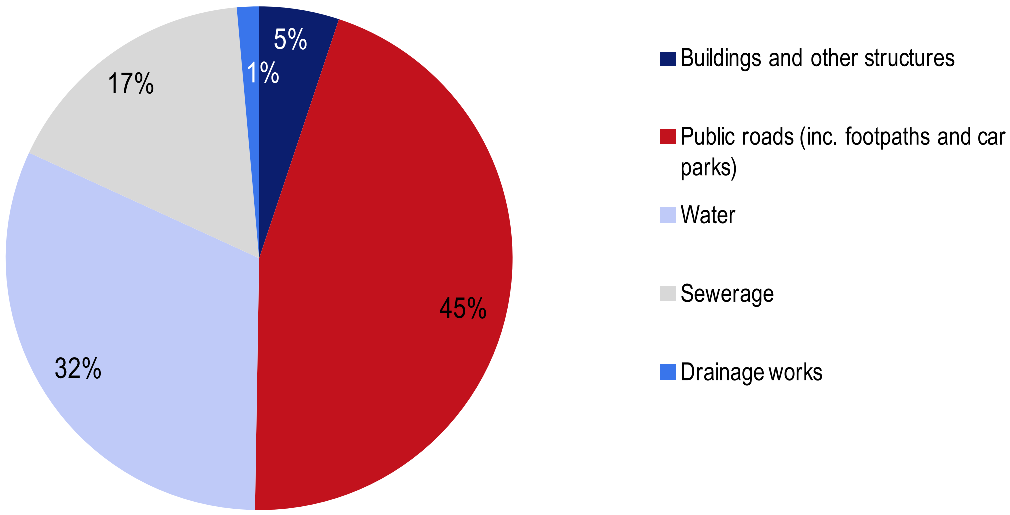
3.6: Capital Expenditure

The following section predominantly relies on information obtained from Special Schedules 7 and 8 that accompany the annual financial statements. These figures are unaudited and are therefore Council's estimated figures.

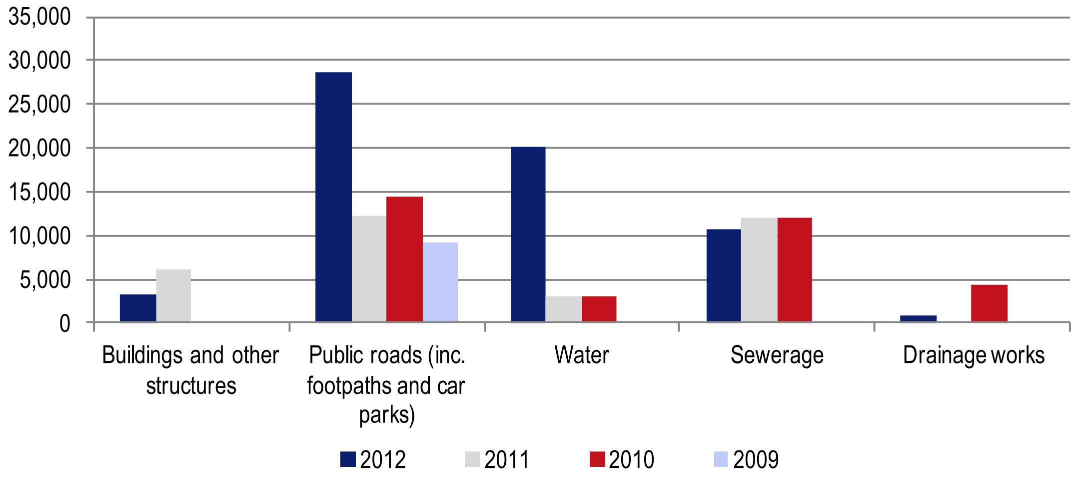
3.6(a): Infrastructure Backlog

Figure 6 - Infrastructure Backlog Composition for 2011/12



Council reported a $63.5m infrastructure backlog in 2012, with 45.1% relating to public roads and 31.6% relating to water assets. The overall backlog more than trebled from 2009 to 2010 and then almost doubled again in 2012 primarily due to Asset Revaluations. Council recently completed a drainage works upgrade project and this backlog figure decreased in 2011.

Figure 5 - Infrastructure Backlog for 2008/09 to 2011/12($'000s)



3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard ($'000s)	63,501	33,278	33,917	9,180
Required annual maintenance ($'000s)	8,952	7,842	7,621	4,993
Actual annual maintenance ($'000s)	6,035	6,147	7,031	3,833
Total value infrastructure assets ($'000s)	440,598	451,361	450,927	264,051
Total assets ($'000s)	560,402	535,240	528,433	455,379
Infrastructure Backlog Ratio	0.14x	0.07x	0.08x	0.03x
Asset Maintenance Ratio	0.67x	0.78x	0.92x	0.77x
Building and infrastructure asset renewal ratio	0.46x	0.21x	0.70x	0.54x
Capital Expenditure Ratio	1.27x	0.48x	1.46x	1.48x

The total value of infrastructure assets has increased by $176.5m since 2009, due to Asset Revaluations. In addition, an asset management plan was implemented and Council reassessed the cost to bring assets to satisfactory standard. This more thorough assessment was the reason for the large increase in the backlog in 2010. In 2012, Council completed extensive asset data collection and analysis for their 2012 asset management plans which enabled a more accurate analysis and resulted in a higher backlog value in 2012. Also, in March 2012 a flood that was declared a natural disaster caused significant damage to the road network.

The Asset Maintenance Ratio and Building and Infrastructure Renewals Ratio have been below the benchmarks in all four years, indicating that Council may not have invested enough to keep their assets operating at their current standard.

The Building and Infrastructure Renewal Ratio decreased in 2011 mainly because Council had programmed Water and Sewerage upgrades awaiting government funding approval, which was not forthcoming (state government deferred the funding as a budget measure). The grants are expected to be paid in 2015 and 2016. Construction is being funded initially through cash reserves, followed by a bridging loan until the grants are received.

The Capital Expenditure Ratio was above benchmark in three of the four years due to increased capital works on sewerage and transport networks. The ratio fell in 2011 as the Council carried out no major capital works.

3.6(c): Capital Program

The following figures are sourced from the Council's Annual Financial Statements at Special Schedule No. 8 and are not audited. New capital works are major non-recurrent projects, eg new Leisure Centre, new Library and new Swimming pool.

Capital Program ($'000s)	**Year ended 30 June**			
	2012	**2011**	**2010**	**2009**
New capital works	0	4,131	4,881	9,634
Replacement/refurbishment of existing assets	0	1,507	7,778	3,010
Total	0	5,638	12,659	12,644

Council has engaged in capital works projects on a yearly basis with particular attention to both the sewerage network and the road, bridge and footpath network. Although Special Schedule 8 shows no new or replacement capital works in 2012, there were asset additions of $13.6m.

Council is planning a number of projects in the next few years to restore water assets to a satisfactory position. They are:

- Dam replacements $8,000,000
- Treatment plant replacement $24,100,000
- Reservoir works $3,500,000

Major capital works projects in 2012 included:

• Road works	$6,784,696
• Swimming pool refurbishments	$1,205,815
• Engineering works	$720,800
• Fire Protection works	$677,472
• Water capital works	$548,736

3.7: Specific Risks to Council

- CDO Investments. Council had CDOs and linked notes totalling $3.2m value in 2012. Council has advised that they now expect to recover $3.0m of these assets when they are due to mature between 2014 and 2016. This risk was reflected in an Auditor's qualified opinion issued on the 2011 Council accounts.
- Rising employee costs. Council has committed to minimise overtime costs by maintaining an overtime rate which is less than 10% of the ordinary time wage level, whilst at the same time maintaining current services. This is a challenge for the Council as some service areas such as water, sewer and ordinance control tend to have higher levels of overtime due to the nature and timing of service delivery that is required.
- Declining own source revenue and reliance on grants. Own Source Operating Revenue Ratio is below benchmark of 60.0% in the past four financial years. Rate increases are restricted by NSW rate pegging while fees and charges can be volatile from year to year. Council relies heavily on contributions and grants, with 26.7% of revenue coming from grants and contributions for operating purposes in 2011. Council has contracts in place with the RMS and there has been an increase in work contracted to Council of about $2.0m in 2012. It is expected that this level will be maintained over the next 10 years, thereby increasing own source revenues above benchmark levels. Council is also planning to apply for a cumulative 13% p.a. SRV for four years which if approved will enhance own sourced revenue.
- Climate Change. The LGA is sensitive to climate change and its impacts, and Council needs to maintain water security to avoid negative social and economic effects of severe water restrictions. Droughts have lasted for up to seven years recently and these conditions have a severe effect on farmers' ability to maintain a livelihood. Conversely, overly wet conditions wash-out the land and cause floods, which affect all residents and the infrastructure of the area. Council has a number of initiatives in planning to deal with the issue of water volatility such as irrigation management, water recycling and storm water harvesting.

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Section 4 Review of Financial Forecasts

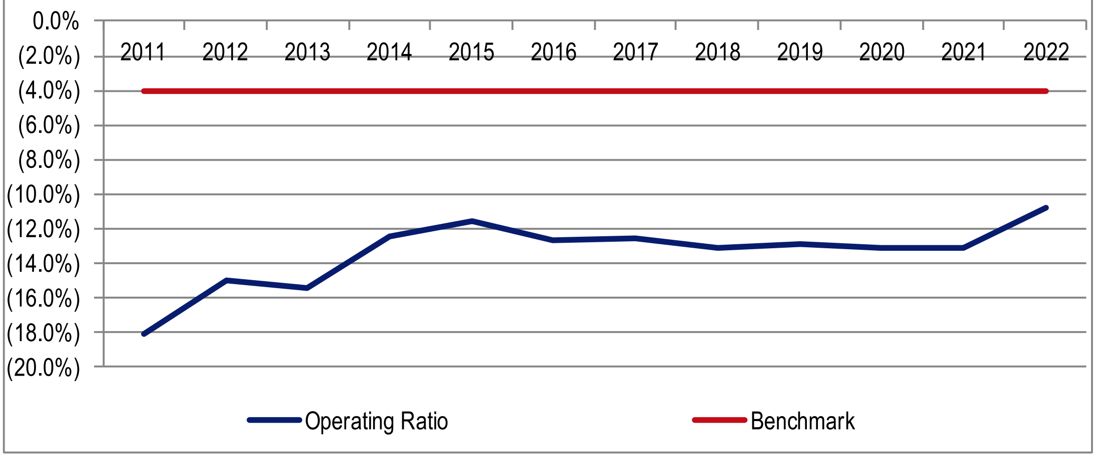
Section 4a: Base case Forecasts

The financial model shows the projected financial statements and assumptions for the next 10 years. The model includes the $2.0m loan being provided as part of the LIRS scheme, without any LIRS subsidy.

The LIRS loan relates to the General Fund, therefore we have focused our financial analysis solely upon this Fund. Council's consolidated position includes both a Water and Sewer Fund however these are operated as independent entities, which unlike the General Fund are able to adjust the appropriate fees and charges to meet all future operating and investing expenses.

4.1a: Operating Results

Figure 7- Operating Ratio for General Fund

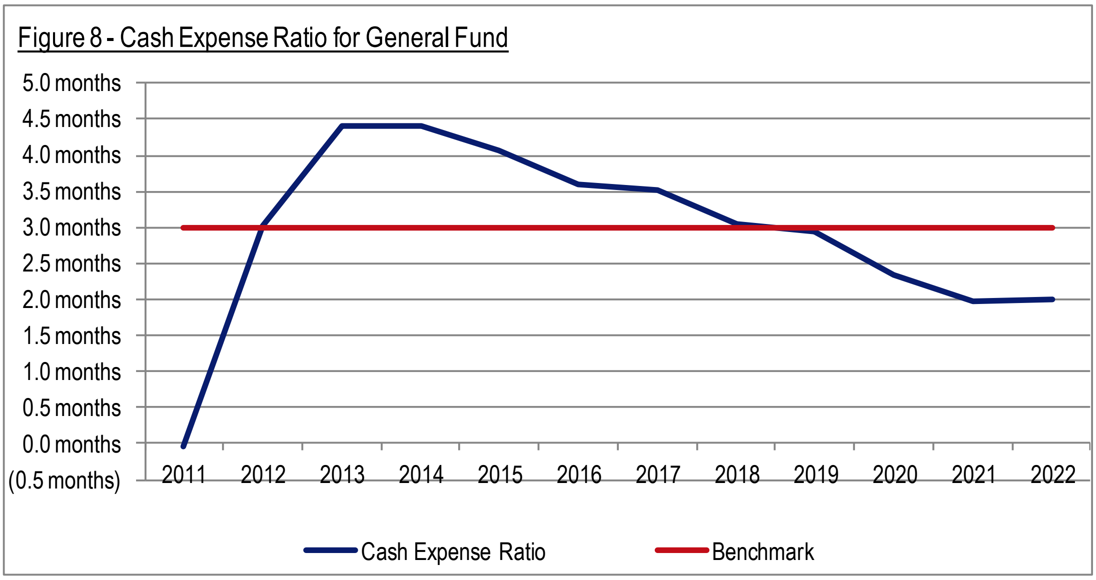


A gradual improvement of the Operating Ratio is projected from negative 18.1% in 2011 to negative 10.4% in 2022. This improvement is based on the general assumption that revenues will grow by 3.0% p.a. and expenses will grow by 2.5% p.a.

4.2a: Financial Management Indicators

The financial indicators are linked to the utilisation of debt in early years and the use of cash for capital works projects. The indicators remain static over time as the amortising debt reduces, operating deficits improve and cash is allocated to capital expenditure.

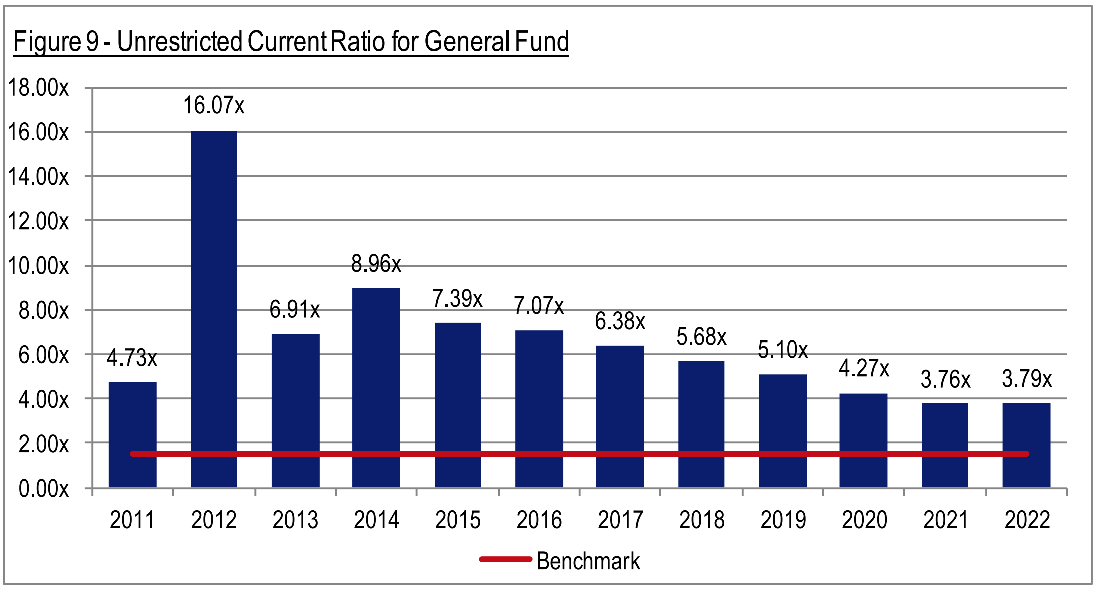
Liquidity Ratios



The Cash Expense Ratio starts out at a negative level in 2011 as Council recorded a negative cash position which was reversed in 2012.

The gradual decline in the ratio over the life of the forecast is driven by declining cash balance forecasts, as Council plan to expend cash to help address its Infrastructure Backlog.

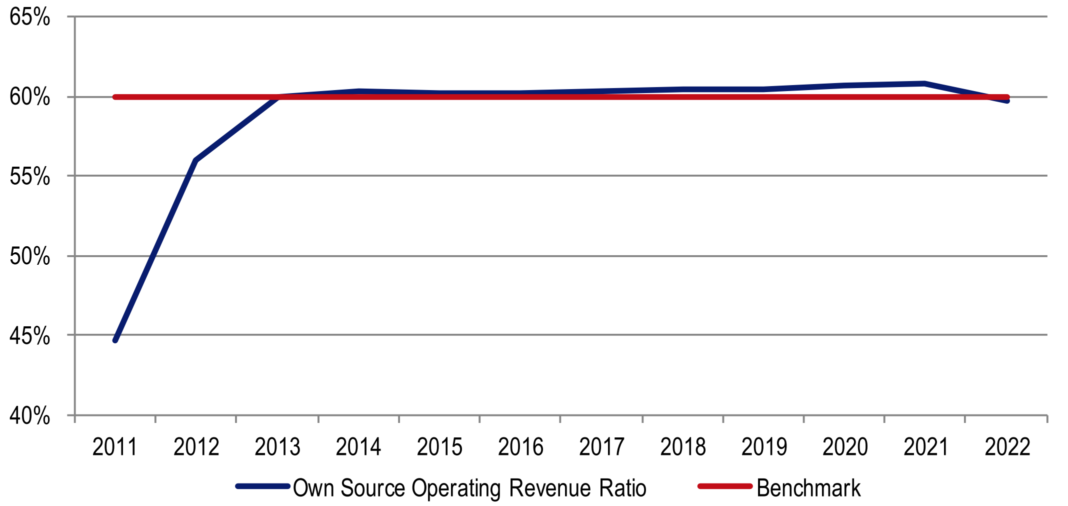
The graph indicates that Council expects to have cash reserves of between two to four months cash expenses during the life of the project. The ratio does not take into account Council's level of investments, and as of June 2012 Council had $47.9m in investment assets, of which $43.7m is held in long term deposits.



The Unrestricted Current Ratio is above benchmark for all forecast years, indicating that Council have sufficient liquidity in the next 10 year period to service all short term liabilities, currently scheduled capital expenditure and related long term liabilities.

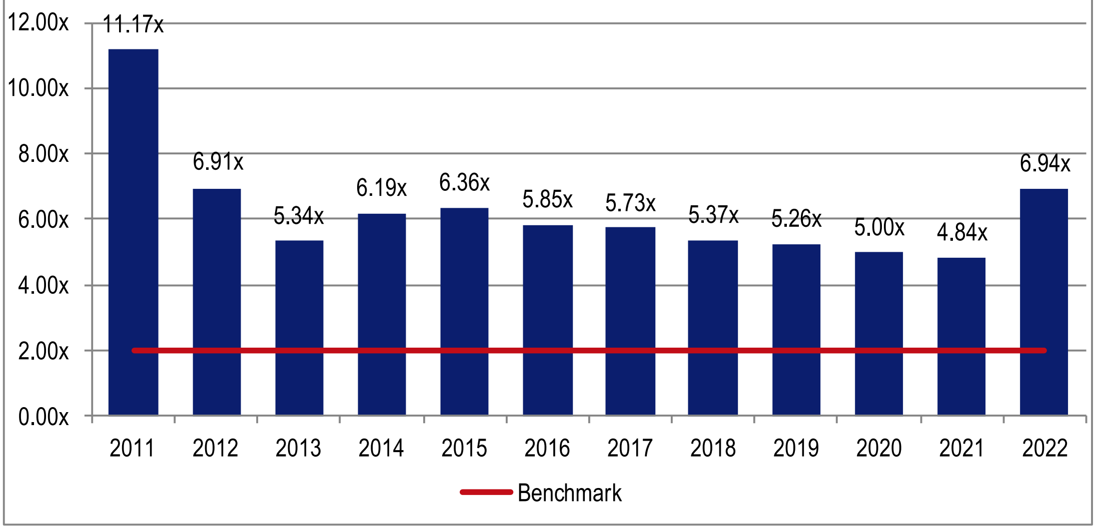
Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund



Own Source Operating Revenue for the General Fund in 2011 was 44.6% and Council is forecasting this to rise to a level of 60.0% in 2013. Forecast user fees and charges increase over the LTFP due to a contractual relationship with the RMS. Council is contracted to provide maintenance and capital works on state roads and there has been an increase in work contracted to Council of about $2.0m in 2013. It is expected that this level will be maintained over the LTFP.

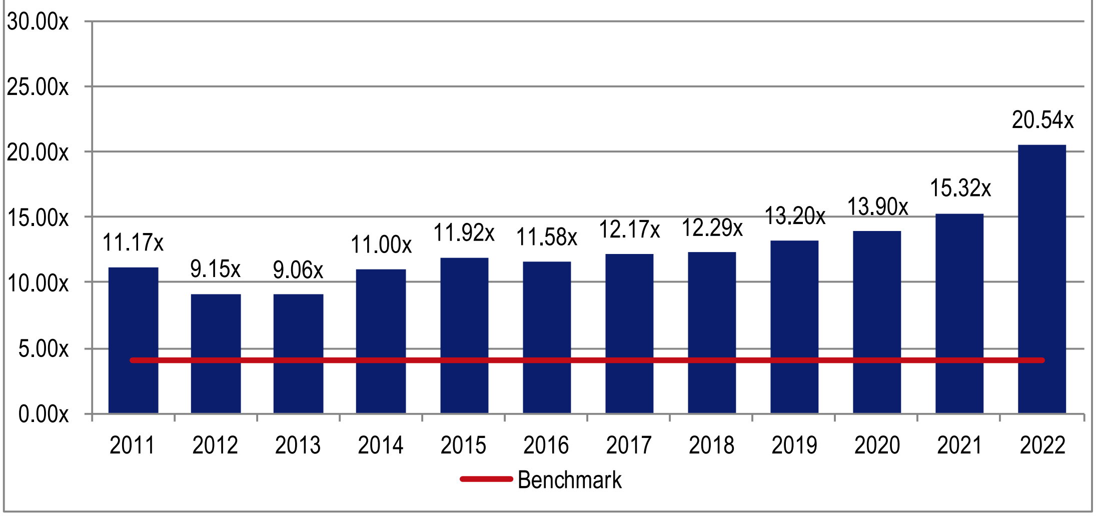
Figure 11 - DSCR for General Fund



The DSCR is above benchmark of 2.00x for the life of the project. Based on the above ratios, Council will have sufficient capacity to manage the LIRS debt service commitments for the life of the loan.

New South Wales
Treasury Corporation

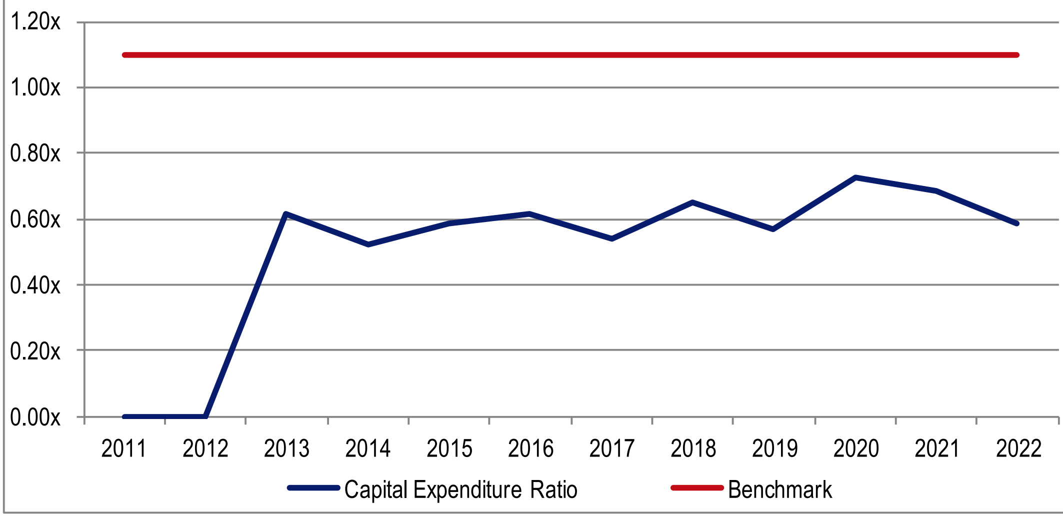
Figure 12 - Interest Cover Ratio for General Fund



The Interest Cover Ratio, similarly to the DSCR, shows the Council has sufficient capacity to service scheduled debt commitments, including the LIRS loan. Based on current total debt of $4.8m, there is capacity to service further debt interest costs before the Council's ratio decreases to the 4.00x benchmark.

4.3a: Capital Expenditure

Figure 13 - Capital Expenditure Ratio for General Fund



There is a gap between capital expenditure and depreciation, and capital expenditure does not meet the benchmark in any of the 10 years of the forecast. Based on the current LTFP, Council will not be spending enough to renew its ageing infrastructure. The total deficit figure for capital expenditure versus depreciation from 2013 to 2022 amounts to $41.3m in nominal terms.

4.4a: Financial Model Assumption Review

Councils have used their own assumptions in developing their forecasts.

In order to evaluate the validity of the Council's forecast model, TCorp has compared the model assumptions versus TCorp's benchmarks for annual increases in the various revenue and expenditure items. Any material differences from these benchmarks should be explained through the LTFP.

TCorp's benchmarks:

- Rates and annual charges: TCorp notes that rates increased by 3.4% in the year to September 2011, and in December 2011, IPART announced that the rate peg to apply in the 2012/13 financial year will be 3.6%. Beyond 2013 TCorp has assessed a general benchmark for rates and annual charges to be increased by mid-range LGCI annual increases of 3%
- Interest and investment revenue: annual return of 5%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1%)
- All other expenses: the estimated annual CPI increase of 2.5%

Key Observations and Risks

- The forecasts for rates and annual charges are based on the rate peg for NSW councils at 3.6% increase in 2013 and a flat rate of 3.0% p.a. until 2022.
- Other fees and charges are expected to rise by a minimum of 4% p.a. over the life of the plan.
- Forecasts for user fees and charges increase over the LTFP due to a contractual relationship with the RMS. The overall increase of 3.0% p.a. for user charges and fees is considered reasonable.
- Council's total wage budget has been calculated based upon an expected 3.3% p.a. award increase in November 2012 together with a 3.0% p.a. increase in future years of the plan. The workforce is planned to stay at a level of 166 Full Time Equivalents (FTE) over the life of the plan.
- LTFP service levels are consistent with ongoing service levels and no reduction of service levels is forecast.
- While the 3.0% yearly growth in revenues is considered reasonable given historical growth, rate pegging and CPI projections, TCorp believe the projected 2.5% annual growth in expenses to be optimistic given the historical trend of rising costs. It should be noted however that Council reported a reduction in salaries and wages of 4.1% in 2011, indicating that council may have a sufficient cost control program in place to meet the projected targets.

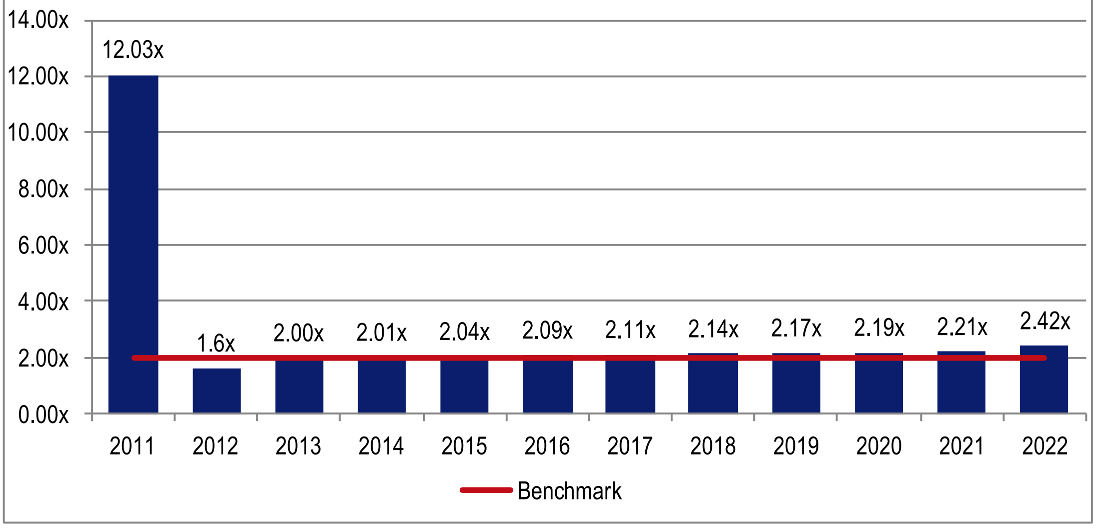
New South Wales
Treasury Corporation

4.5a: Borrowing Capacity

When analysing the financial capacity of the Council we believe Council will be able to incorporate additional loan funding in addition to the LIRS loan facilities as follows:

Council Forecast

Figure 14 - DSCR for General Fund



Based on a benchmark of DSCR>2.0x, $8.2m could be borrowed in 2013 within the General Fund.

This scenario has been calculated by assuming additional borrowings for a 10 year amortising loan at the rate of the LIRS application of 7.3% p.a.

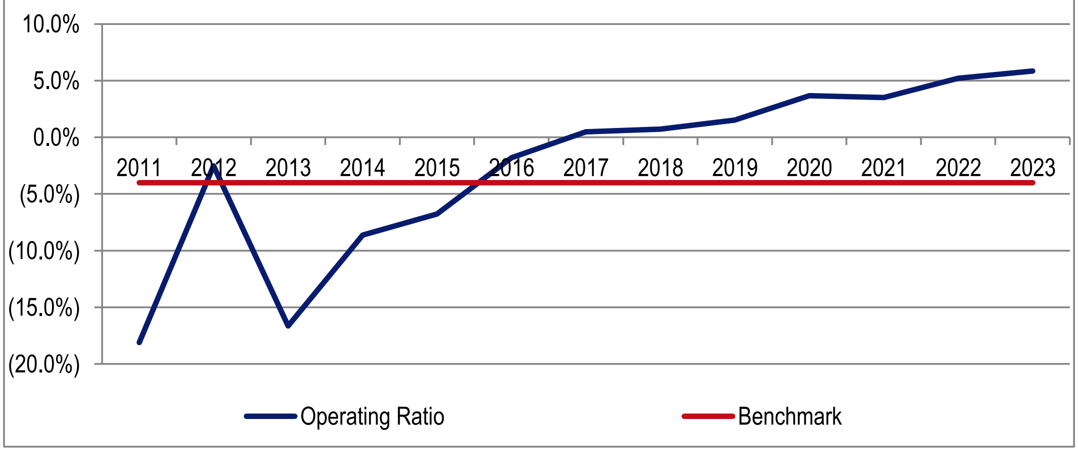
Section 4b: Progressive Delivery Program Forecast

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

This scenario includes an SRV of 13% p.a. increase for four years from 2014 to 2017 with the increased revenue being used to bring the Council into surplus and increase capital expenditure programs.

4.1b: Operating Results

Figure 15- Operating Ratio for General Fund



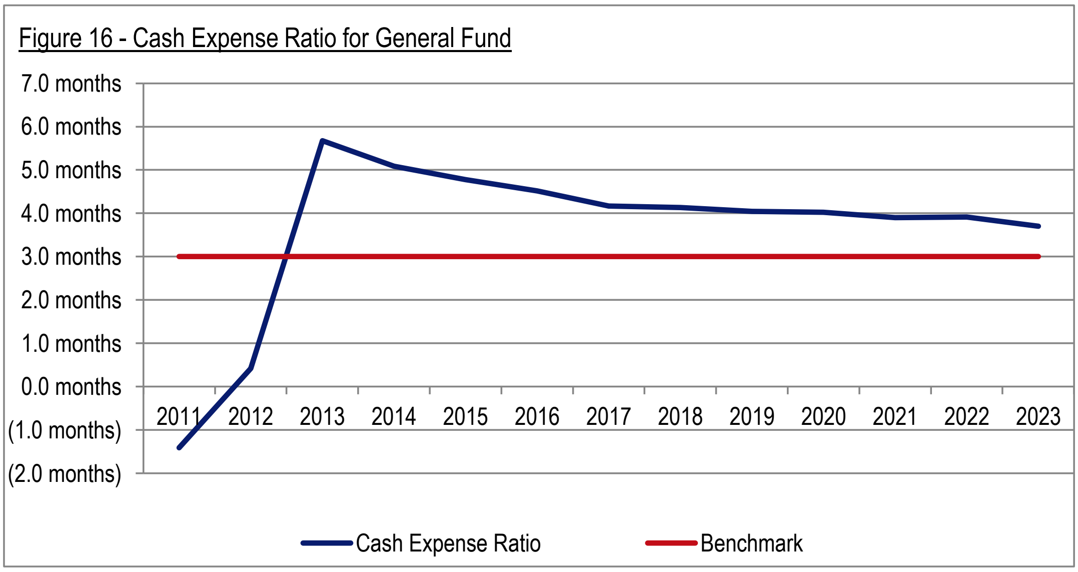
The overall trend in operating results is improving to be above the benchmark from 2016 and in surplus from 2017. The main driver of the improving operating results is the SRV of 13% p.a. over four years.

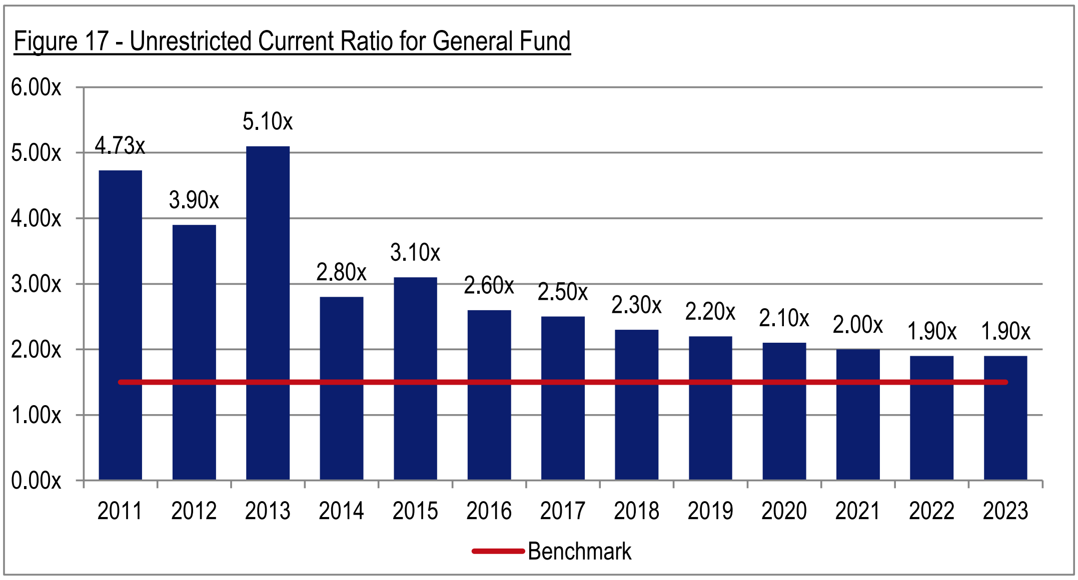
Revenue growth excluding rates and annual charges and capital grants and contributions averages 1.5% p.a. while total expenses are forecast to grow at 2.7% p.a.

The spike in 2012 is due to the receipt of the prepayment of $1.8m of the 2013 FAG and a reduction in materials and contract expenses.

4.2b: Financial Management Indicators

Liquidity Ratios

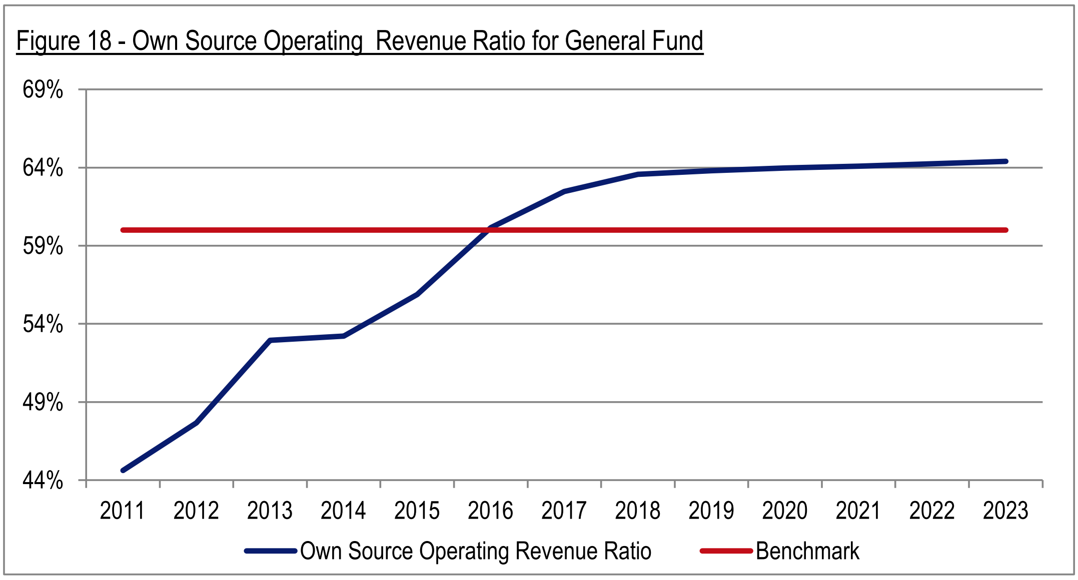




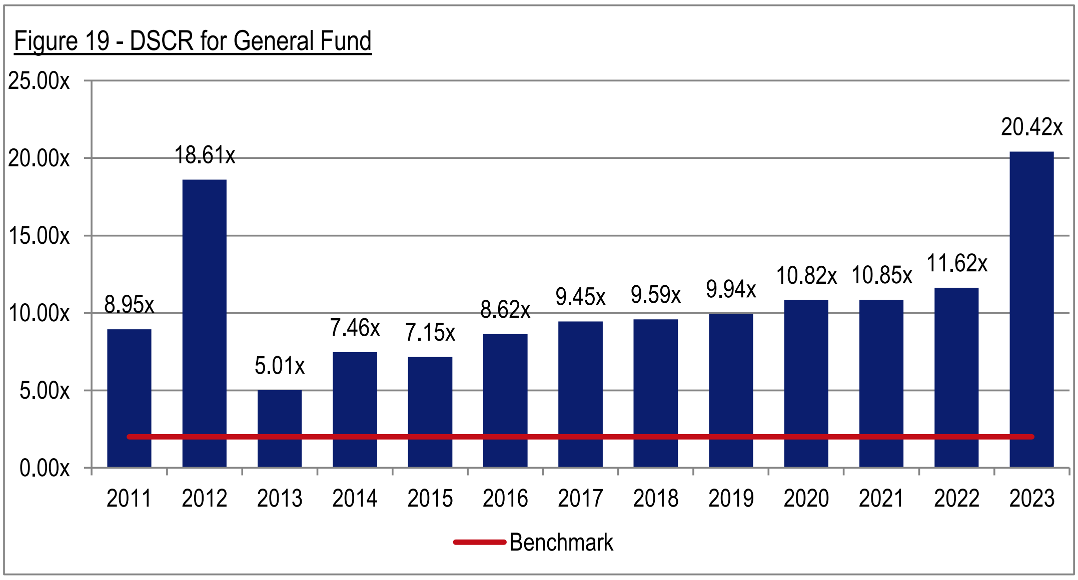
The Cash Expense Ratio and Unrestricted Current Ratio are forecast to be above the benchmark over the entire forecast period.

This indicates that Council is forecasting sufficient liquidity levels over the period.

Fiscal Flexibility Ratios

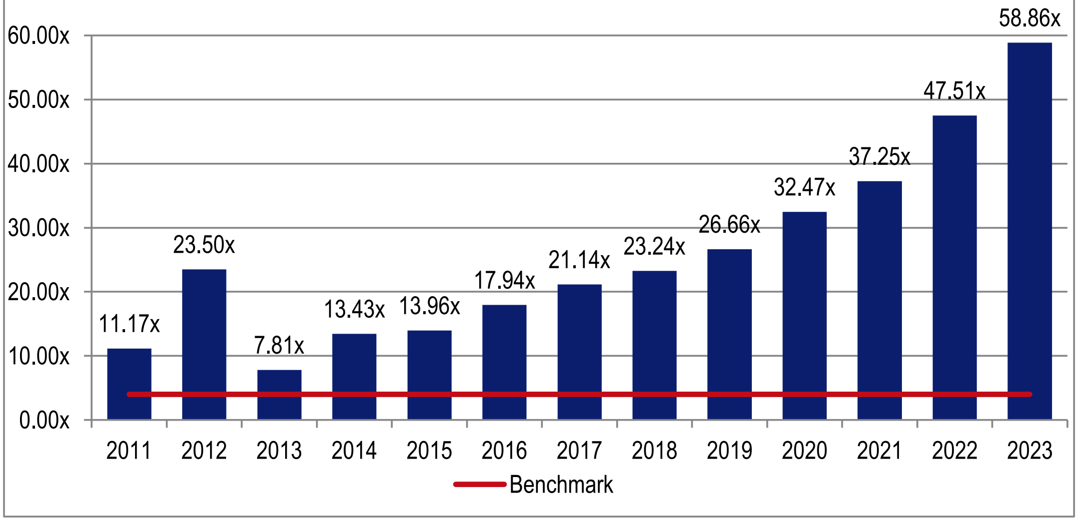


Council's Own Source Operating Revenue Ratio is forecast to improve over the period due to the SRV of 13% p.a. for four years. Once the SRV finishes the ratio stabilises over the remaining forecast period.



Council's Debt Service Cover Ratio is well above the benchmark and improves over the period as profitability improves and debt levels reduce.

Figure 20 - Interest Cover Ratio for General Fund

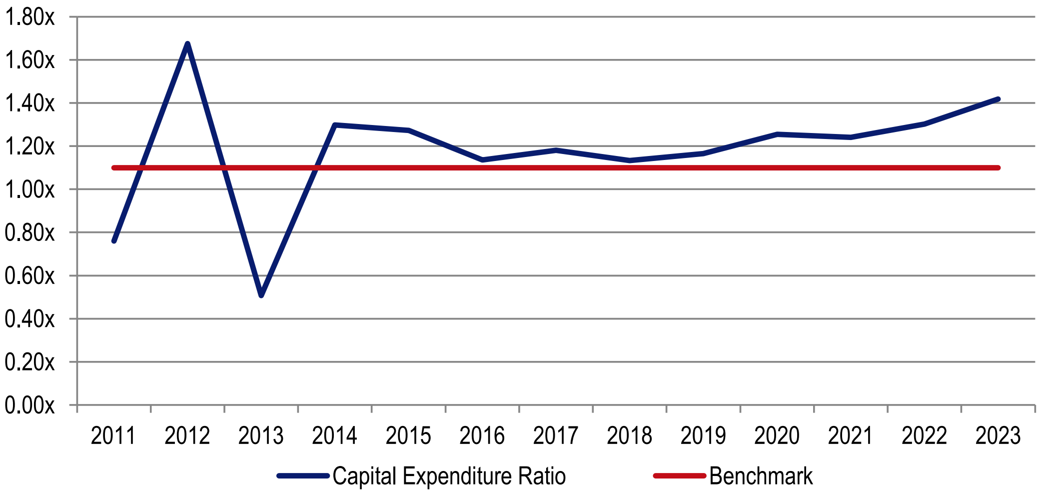


Similar to the DSCR, Council's Interest Cover Ratio is well above the benchmark and improves over the forecast period as profitability improves and debt levels and interest costs reduce.

With both the DSCR and Interest Cover Ratios being very high and increasing, this suggests that the Council would be able to service substantially more debt over the forecast period.

4.3b: Capital Expenditure

Figure 21 - Capital Expenditure Ratio for General Fund



The Council's forecast Capital Expenditure Ratio is above the benchmark for most of the forecast period. Council is intending to spend an average of $9.3m p.a. from 2014 which will assist in address the asset maintenance shortfalls and Infrastructure Backlog. There is also some scope for new capital projects.

Increased capital funding will be used for Parkes Airport, footpaths, roads, town drainage, township pools and sporting grounds.

4.4b: Financial Model Assumption Review

Councils have used their own assumptions in developing their forecasts.

In order to evaluate the validity of the Council's forecast model, TCorp has compared the model assumptions versus TCorp's benchmarks for annual increases in the various revenue and expenditure items. Any material differences from these benchmarks should be explained through the LTFP.

TCorp's benchmarks:

- Rates and annual charges: TCorp notes that the LGCI increased by 3.4% in the year to September 2011, and in December 2011, IPART announced that the rate peg to apply in the 2012/13 financial year will be 3.6%. Beyond 2013 TCorp has assessed a general benchmark for rates and annual charges to increase by mid-range LGCI annual increases of 3.0%
- Interest and investment revenue: annual return of 5.0%
- All other revenue items: the estimated annual CPI increase of 2.5%
- Employee costs: 3.5% (estimated CPI+1.0%)
- All other expenses: the estimated annual CPI increase of 2.5%

<u>Key Observations and Risks</u>

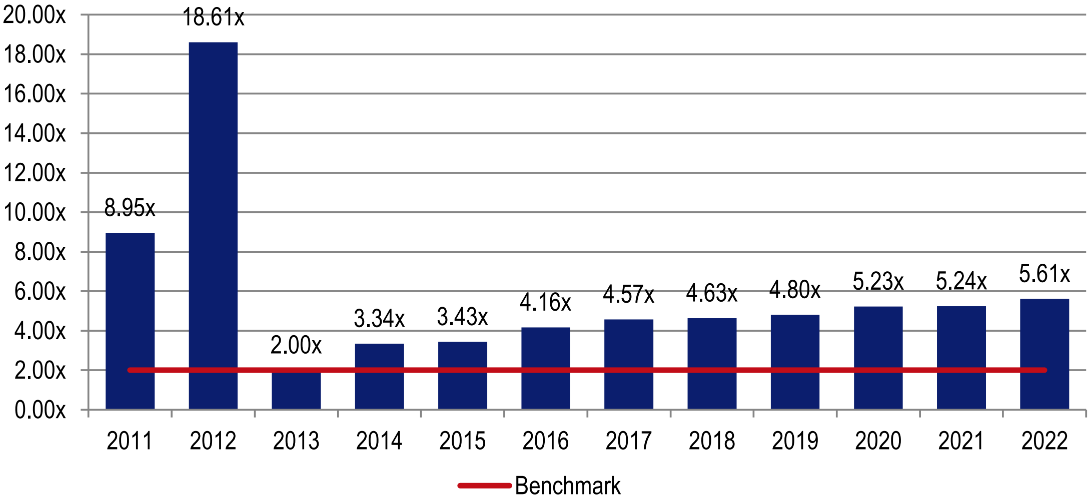
- Council is forecasting increasing service levels over the forecast period.
- Rates and annual charges increase by 11.1% p.a. over the four year period whilst the SRV is in place and then 3.3% p.a. thereafter.
- User fees and charges fall 14.3% in 2013 due to an unusually high level in 2012. In 2014 user fees and charges increase 18.9% with an average increase of 2.9% p.a. from 2015.
- Operating grants and contributions fall 15.5% in 2013 due to the prepayment of half of the 2013 FAG in 2012 and then average growth of 2.2% p.a.
- Capital grants and contributions forecasts are based on known recurrent sources and planned applications and as such vary throughout the forecast period.
- Employee costs vary for the first three years of the forecast period due to the capitalisation of employee costs based on capitalised works. From 2016 employee costs grow at 3.5% p.a.
- Materials and contract expenses fluctuate in the first two years of the forecast period and then grow by an average of 0.3% p.a.
- Depreciation and amortisation expenses average 1% p.a. growth from 2015.
- The assumptions used by Council appear to be reasonable.

4.5b: Borrowing Capacity

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

- Based on a benchmark of DSCR>2x, $6.0m could be borrowed in addition to any existing borrowings in the general fund
- As the DSCR continues to improve there could be further capacity to take on increased borrowings in the future
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at an 8% interest rate

Figure 22 - DSCR for General Fund



4.6 Sustainability

Through their integrated planning and reporting framework, Council has recognised the need to secure additional funding to properly service their infrastructure assets and achieve operating surpluses in the medium to long term. Through this process Council has carried out intensive community engagement to determine the service delivery and project delivery expectations across the Shire. Council also conducted a detailed analysis of the Workforce Plan, Asset Management Plans and Long Term Financial Plan.

Council has developed three resourcing scenarios based on the current situation which is considered unsustainable due to the operating deficits and insufficient spending on infrastructure. The 'base case' scenario assumes no change from the existing forecasts. The 'static plan' scenario requires an SRV of 10% p.a. for four years and would allow Council to return to a balanced budget and address some of the infrastructure backlog and the 'progressive delivery program' scenario requires an SRV of 13% p.a. for four years and would allow Council to return to an operating surplus and address some of its Infrastructure Backlog as well as some new capital investment.

The community favours the progressive delivery program and Council has signalled its intention to IPART to apply for the SRV of 13% p.a. for four years.

If IPART approves the SRV, in considering the longer term sustainability of the Council we make the following comments:

- Council is forecasting to return to surplus in the medium term which will be maintained throughout the rest of the forecast period
- Council will improve its rating base through the SRV which will give Council more financial flexibility in the future
- Council has historically had sufficient liquidity levels and this is expected to continue in the medium term
- Council has demonstrated that it has begun integrating the cost of implementing the asset management plans with its LTFP. Council has recently conducted extensive asset data collection and analysis which has improved the accuracy of their plans. This is expected to continue in the future
- Council is forecasting capital spending sufficient to address their asset maintenance and infrastructure backlog and allow for some new capital spend

If IPART does not approve the SRV, the impact on the long term sustainability of Council is:

- Council is forecasting operating deficits averaging 12.8% over the forecast period
- The limited size of the Council's rating base makes it difficult for Council to address the forecast operating deficits, manage unforseen financial shocks or any adverse changes in its business
- Council has historically had sufficient liquidity levels and this is expected to continue in the medium term
- Council has demonstrated that it has begun integrating the cost of implementing the asset management plans with its LTFP. Council has recently conducted extensive asset data collection and analysis which has improved the accuracy of their plans. This is expected to continue in the future
- Council is forecasting insufficient capital spending which will likely lead to their infrastructure backlog increasing in the medium to long term

Section 5 Benchmarking and Comparisons with Other Councils

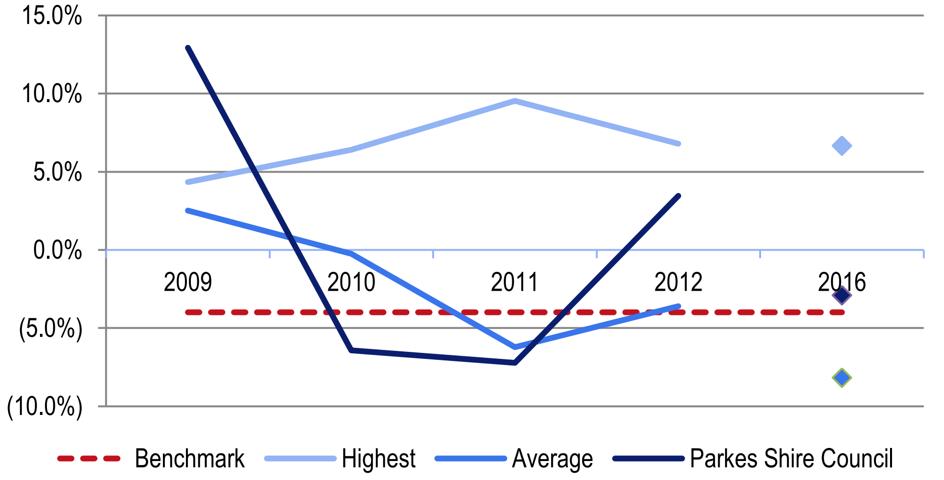
As discussed in section 2 of this report, each council's performance has been assessed against ten key benchmark ratios. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 11. There are 21 councils in this group and at the time of preparing this report, we have data for all of these councils.

In Figure 23 to Figure 29, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 30 to 32 do not include the 2016 forecast position as those numbers are not available.

Where no highest line is shown on the graph, this means that Council is the best performer in its group for that ratio. For the Interest Cover Ratio and Debt Service Cover Ratio, we have excluded from the calculations, councils with very high ratios which are a result of low debt levels that skew the ratios.

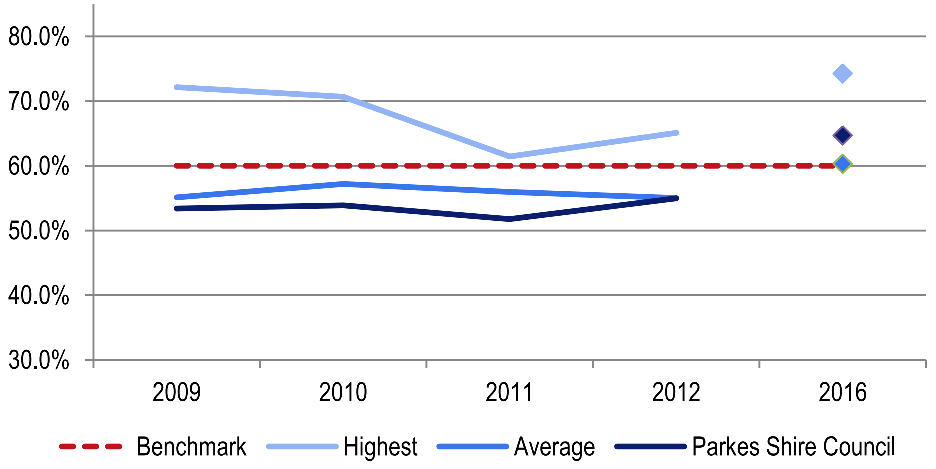
Financial Flexibility

Figure 23 - Operating Ratio Comparison



Council's Operating Ratio was above the group average and benchmark in two of the four years. Consistent with other councils in the group, it experienced an improvement in 2012 due to the prepaid FAG. Results are forecast to be above the group average and benchmark in the medium term.

Figure 24 - Own Source Operating Revenue Ratio Comparison



Council's Own Source Operating Revenue Ratio was below the benchmark and group average over the last four years. The ratio is forecast to improve to be above the benchmark and group average in the medium term.

Overall, Council's financial flexibility is below the group average but is forecast to improve to be above the group average in the medium term.

Liquidity

Figure 25 - Cash Expense Ratio Comparison

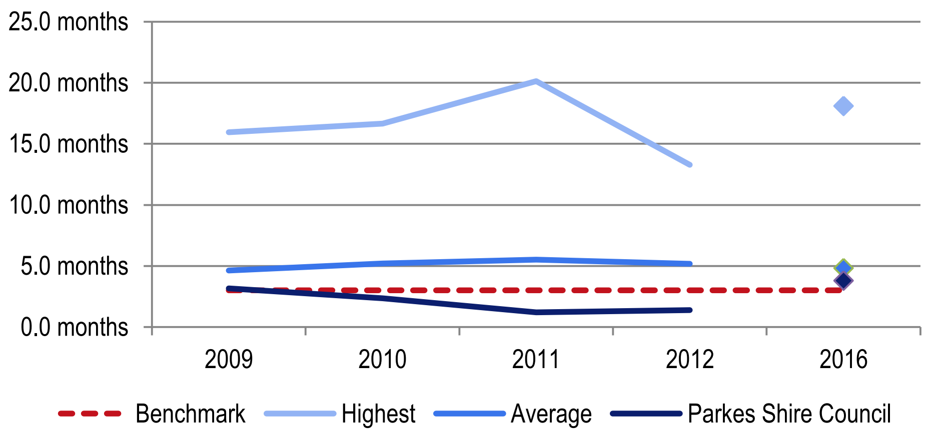
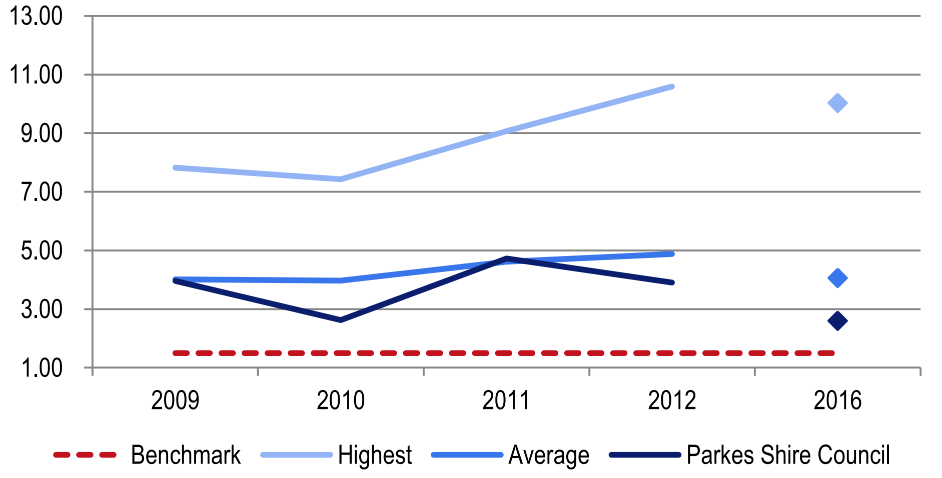


Figure 26 - Unrestricted Current Ratio Comparison



On average over the last four years, the Council's liquidity position has been sufficient and this is forecast to continue in the medium term.

Debt Servicing

Figure 27 - Debt Service Cover Ratio Comparison

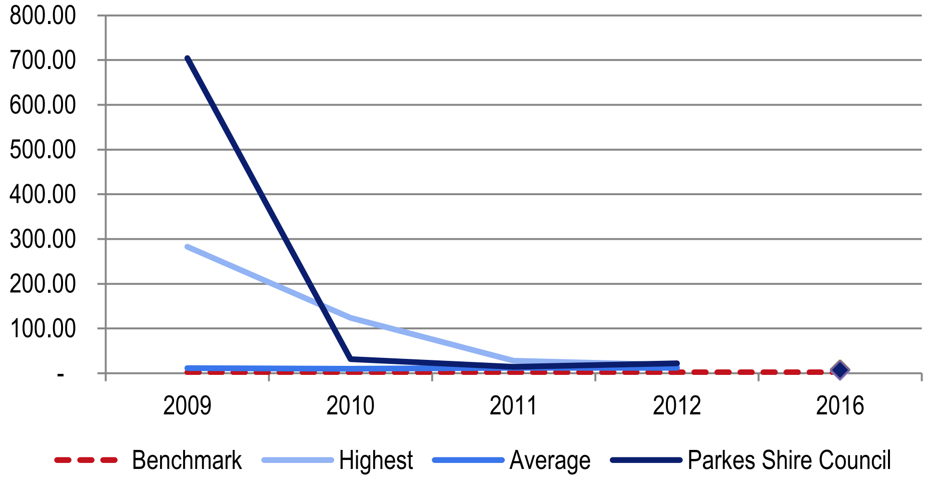
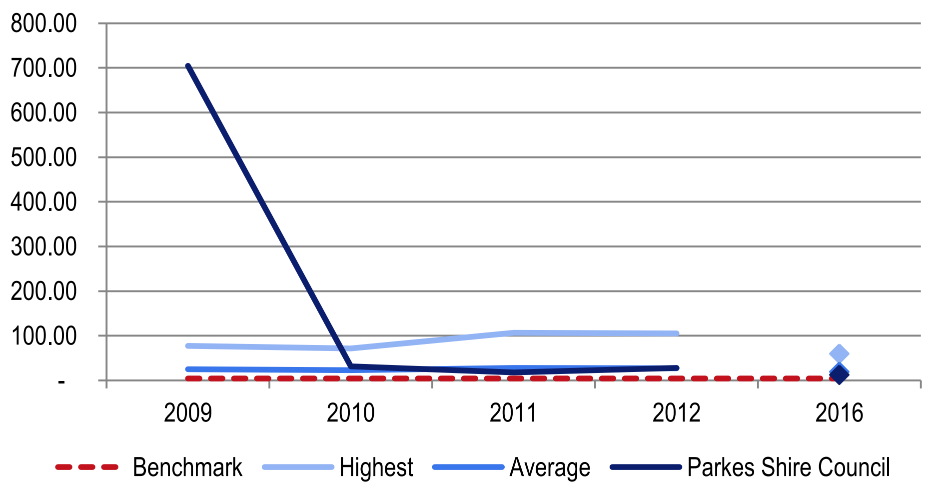


Figure 28 - Interest Cover Ratio Comparison



Over the review period Council has been above the benchmarks and in line with the group averages. These ratios are forecast to marginally decline in the medium term but will remain above the benchmarks and in line with the group averages.

Asset Renewal and Capital Works

Figure 29 - Capital Expenditure Ratio Comparison

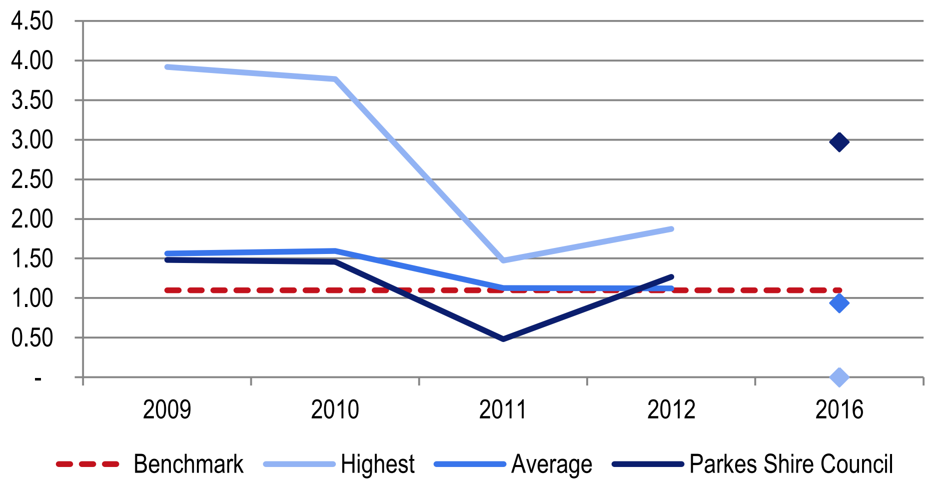


Figure 30 - Asset Maintenance Ratio Comparison

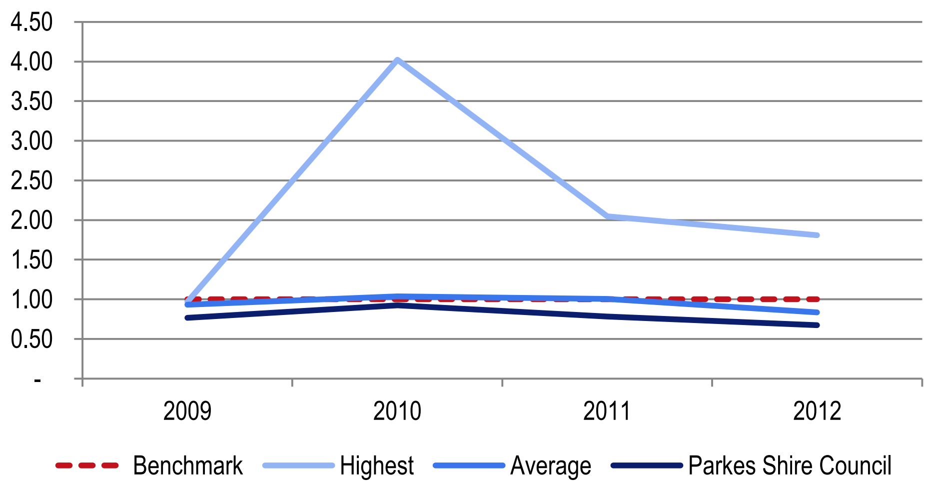


Figure 31 - Infrastructure Backlog Ratio Comparison

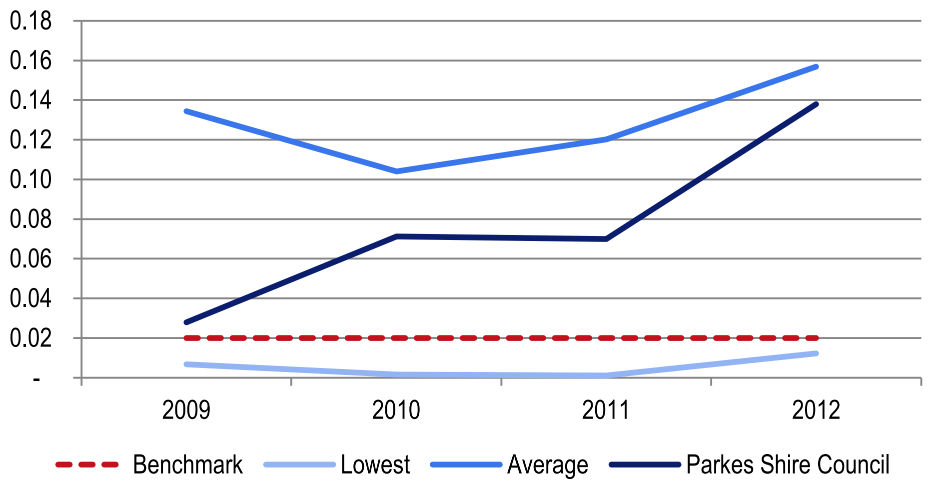
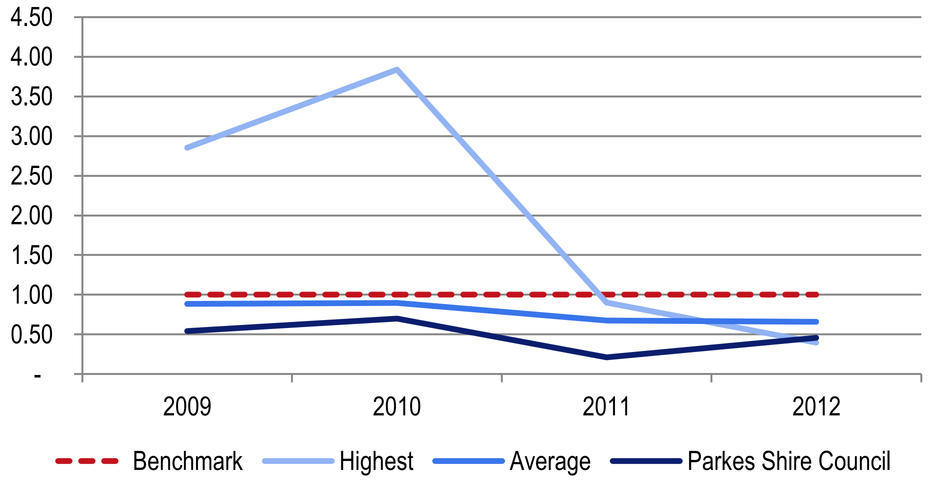


Figure 32 - Building and Infrastructure Asset Renewal Ratio



Overall, Council had a better Infrastructure Backlog Ratio than other councils in the group but the backlog increased over the period and will need to improve significantly to reach the benchmark. Council's Asset Maintenance Ratio and Building and Infrastructure Asset Renewal Ratios were below the benchmarks and group averages over the period. Council's Capital Expenditure Ratio was above the benchmark and around the group average for most of the review period and is expected to improve significantly above the benchmark and group average in the medium term.

Section 6 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecasts within Council's long term financial plans we consider Council to be in a satisfactory short to medium term financial position. If IPART approves the SRV, Council's financial position will be improved in the long term.

Both past performance and the financial forecasts support our findings that Council has sufficient financial capacity to service the additional borrowings proposed under its LIRS application.

We base our recommendation on the following key points:

- Council has sufficient financial capacity to repay the additional $2.0m debt highlighted by a DSCR and Interest Cover Ratio above the benchmarks for each year of its financial forecast. Financial management has been strong, with Council utilising bank loan facilities to good effect by taking a total of $5.0m of loans for projects such as airport main runway rehabilitation, a new sewer system, and other projects that will provide benefits to residents for the long term
- Council have maintained a strong unrestricted current ratio of 3.90x (as of 2012)
- Council has demonstrated their ability to manage costs through the reduction in salary and wages costs in 2011. Council experienced an 4.1% ($1.0m) reduction in salaries and wages, driven by initiatives to manage worker's hours and minimise overtime hours, however this was offset by a 53.8% $0.6m increase in employee leave entitlements

If IPART approves the SRV:

- Council forecasts returning to surplus in the medium term with surpluses steadily increasing in the long term
- Council's rating base will improve giving Council more financial flexibility in the future
- Council forecasts capital spend sufficient to address their asset maintenance and infrastructure backlogs as well as some new capital spend

If IPART does not approve the SRV:

- Council forecasts operating deficits averaging 12.8% p.a. over the forecast period
- The limited size of the Council's rating base makes it difficult for Council to address the forecast operating deficits, manage unforseen financial shocks or any adverse changes in its business
- Council is forecasting insufficient capital spending which will likely lead to their infrastructure backlog increasing in the medium to long term

Appendix A Historical Financial Information Tables

Table 1- Income Statement

Income Statement ($'000s)	Year ended 30 June					% annual change	
	2012	2011	2010	2009	2012	2011	2010
Revenue							
Rates and annual charges	12,226	12,087	11,647	11,133	1.1%	3.8%	4.6%
User charges and fees	8,381	6,865	7,260	8,177	22.1%	(5.4%)	(11.2%)
Interest and investment revenue	1,739	2,836	2,033	2,430	(38.7%)	39.5%	(16.3%)
Grants and contributions for operating purposes	9,543	8,548	8,348	8,436	11.6%	2.4%	(1.0%)
Other revenues	608	1,591	1,644	711	(61.8%)	(3.2%)	131.2%
Total revenue	**32,497**	**31,927**	**30,932**	**30,887**	**1.8%**	**3.2%**	**0.1%**
Expenses							
Employees	11,017	10,755	10,455	8,718	2.4%	2.9%	19.9%
Borrowing costs	421	419	200	16	0.5%	109.5%	1150.0%
Materials and contract expenses	6,845	11,000	11,115	8,638	(37.8%)	(1.0%)	28.7%
Depreciation and amortisation	10,099	9,328	8,110	7,272	8.3%	15.0%	11.5%
Other expenses	2,991	2,728	3,038	2,252	9.6%	(10.2%)	34.9%
Total expenses	**31,373**	**34,230**	**32,918**	**26,896**	**(8.3%)**	**4.0%**	**22.4%**
Operating result (excluding capital grants and contributions)	**1,124**	**(2,303)**	**(1,986)**	**3,991**	148.8%	(16.0%)	(149.8%)
Operating result (including capital grants and contributions)	**6,117**	**2,397**	**2,173**	**9,267**	155.2%	10.3%	(76.6%)

Table 2 - Items excluded from Income Statement

Excluded items				
Grants and contributions for capital purposes	4,993	4,700	4,159	5,276
Net gains from the disposal of assets	459	0	0	0
Fair Valuation movements in Investments	0	1,144	1,071	(5,339)

Table 3 - Balance Sheet

Balance Sheet ($'000s)	Year Ended 30 June				% annual change		
	2012	2011	2010	2009	2012	2011	2010
Current assets							
Cash and cash equivalents	2,387	2,454	4,846	5,178	(2.7%)	(49.4%)	(6.4%)
Investments	43,931	34,448	27,583	22,081	27.5%	24.9%	24.9%
Receivables	5,240	5,330	7,678	6,410	(1.7%)	(30.6%)	19.8%
Inventories	3,371	3,409	3,553	3,501	(1.1%)	(4.1%)	1.5%
Other	16	16	17	5	0.0%	(5.9%)	240.0%
Total current assets	54,945	45,657	43,677	37,175	20.3%	4.5%	17.5%
Non-current assets							
Investments	4,012	6,271	1,500	988	(36.0%)	318.1%	51.8%
Receivables	29	55	60	86	(47.3%)	(8.3%)	(30.2%)
Infrastructure, property, plant & equipment	501,404	483,245	483,179	417,130	3.8%	0.0%	15.8%
Investment property	12	12	17	0	0.0%	(29.4%)	N/A
Total non-current assets	505,457	489,583	484,756	418,204	3.2%	1.0%	15.9%
Total assets	**560,402**	**535,240**	**528,433**	**455,379**	**4.7%**	**1.3%**	**16.0%**
Current liabilities							
Payables	3,101	1,822	3,041	1,749	70.2%	(40.1%)	73.9%
Borrowings	235	98	92	0	139.8%	6.5%	N/A
Provisions	4,208	3,926	3,672	3,558	7.2%	6.9%	3.2%
Total current liabilities	7,544	5,846	6,805	5,307	29.0%	(14.1%)	28.2%
Non-current liabilities							
Borrowings	6,167	4,760	4,858	0	29.6%	(2.0%)	N/A
Provisions	605	586	579	189	3.2%	1.2%	206.3%
Total non-current liabilities	6,772	5,346	5,437	189	26.7%	(1.7%)	2776.7%
Total liabilities	**14,316**	**11,192**	**12,242**	**5,496**	**27.9%**	**(8.6%)**	**122.7%**
Net assets	**546,086**	**524,048**	**516,191**	**449,883**	**4.2%**	**1.5%**	**14.7%**

New South Wales
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Table 4- Cashflow

Cash Flow Statement ($'000s)	Year ended 30 June			
	2012	2011	2010	2009
Cash flows from operating activities	18,063	13,993	9,393	12,753
Cash flows from investing activities	(19,674)	(16,293)	(14,675)	(23,458)
Proceeds from borrowings and advances	1,644	0	4,950	0
Repayment of borrowings and advances	(100)	(92)	0	0
Cash flows from financing activities	1,544	(92)	4,950	0
Net increase/(decrease) in cash and equivalents	**(67)**	**(2,392)**	**(332)**	**(10,705)**
Cash and equivalents	2,387	2,454	4,846	5,178

Appendix B Glossary

Asset Revaluations

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

Collateralised Debt Obligation (CDO)

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

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

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

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

Division of Local Government (DLG)

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

Depreciation of Infrastructure Assets

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

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

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

EBITDA

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

Grants and Contributions for Capital Purposes

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

Grants and Contributions for Operating Purposes

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

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

Independent Commission Against Corruption (ICAC)

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

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

Independent Pricing and Regulatory Tribunal (IPART)

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

Infrastructure Backlog

Infrastructure backlog is defined as the estimated cost to bring infrastructure, building, other structures and depreciable land improvements to a satisfactory standard, measured at a particular point in time. It is unaudited and stated within Special Schedule 7 that accompanies the council's audited annual financial statements.

Integrated Planning and Reporting (IP&R) Framework

As part of the NSW Government's commitment to a strong and sustainable local government system, the *Local Government Amendment (Planning and Reporting) Act 2009* was assented on 1 October 2009. From this legislative reform the IP&R framework was devised to replace the former Management Plan and Social Plan with an integrated framework. It also includes a new requirement to prepare a long-term Community Strategic Plan and Resourcing Strategy. The other essential elements of the new framework are a Long-Term Financial Plan (LTFP), Operational Plan and Delivery Program and an Asset Management Plan.

Local Government Cost Index (LGCI)

The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activities funded from general rate revenue. The LGCI is designed to measure how much the price of a fixed "basket" of inputs acquired by councils in a given period compares with the price of the same set of inputs in the base period. The LGCI is measured by IPART.

Net Assets

Net Assets is measured as total assets less total liabilities. The Asset Revaluations over the past years have resulted in a high level of volatility in many councils' Net Assets figure. Consequently, in the short term the value of Net Assets is not necessarily an informative indicator of performance. In the medium to long term however, this is a key indicator of a council's capacity to add value to its operations. Over time, Net Assets should increase at least in line with inflation plus an allowance for increased population and/or improved or increased services. Declining Net Assets is a key indicator of the council's assets not being able to sustain ongoing operations.

Roads and Maritime Services (RMS)

The NSW State Government agency with responsibility for roads and maritime services, formerly the Roads and Traffic Authority (RTA).

Section 64 Contribution

Development Servicing Plans (DSPs) are made under the provisions of Section 64 of the Local Government Act 1993 and Sections 305 to 307 of the Water Management Act 2000.

DSPs outline the developer charges applicable to developments for Water, Sewer and Stormwater within each Local Government Area.

Section 94 Contribution

Section 94 of the Environmental Planning and Assessment Act 1979 allows councils to collect contributions from the development of land in order to help meet the additional demand for community and open space facilities generated by that development.

It is a monetary contribution levied on developers at the development application stage to help pay for additional community facilities and/or infrastructure such as provision of libraries; community facilities; open space; roads; drainage; and the provision of car parking in commercial areas.

The contribution is determined based on a formula which should be contained in each council's Section 94 Contribution Plan, which also identifies the basis for levying the contributions and the works to be undertaken with the funds raised.

Special Rate Variation (SRV)

A SRV allows councils to increase general income above the rate peg, under the provisions of the Local Government Act 1993. There are two types of special rate variations that a council may apply for:

- a single year variation (section 508(2)) or
- a multi-year variation for between two to seven years (section 508A).

The applications are reviewed and approved by IPART.

Ratio Explanations

Asset Maintenance Ratio

Benchmark = Greater than 1.0x

Ratio = actual asset maintenance / required asset maintenance

This ratio compares actual versus required annual asset maintenance, as detailed in Special Schedule 7. A ratio of above 1.0x indicates that the council is investing enough funds within the year to stop the infrastructure backlog from growing.

Building and Infrastructure Renewals Ratio

Benchmark = Greater than 1.0x

Ratio = Asset renewals / depreciation of building and infrastructure assets

This ratio compares the proportion spent on infrastructure asset renewals and the asset's deterioration measured by its accounting depreciation. Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets or the refurbishment of old assets that increase capacity or performance.

Cash Expense Cover Ratio

Benchmark = Greater than 3.0 months

Ratio = current year's cash and cash equivalents / (total expenses – depreciation – interest costs) *12

This liquidity ratio indicates the number of months a council can continue paying for its immediate expenses without additional cash inflow.

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

This indicates the extent to which a council is forecasting to expand its asset base with capital expenditure spent on both new assets, and replacement and renewal of existing assets.

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

Ratio = operating results before interest and depreciation (EBITDA) / principal repayments (from the statement of cash flows) + borrowing interest costs (from the income statement)

This ratio measures the availability of cash to service debt including interest, principal and lease payments

Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure, building, other structures and depreciable land improvement assets (from note 9a)

This ratio shows what proportion the backlog is against total value of a council's infrastructure.

Interest Cover Ratio

Benchmark = Greater than 4.0x

Ratio = EBITDA / interest expense (from the income statement)

This ratio indicates the extent to which a council can service its interest bearing debt and take on additional borrowings. It measures the burden of the current interest expense upon a council's operating cash.

Operating Ratio

Benchmark = Better than negative 4%

Ratio = (operating revenue excluding capital grants and contributions – operating expenses) / operating revenue excluding capital grants and contributions

This ratio measures a council's ability to contain operating expenditure within operating revenue.

Own Source Operating Revenue Ratio

Benchmark = Greater than 60%

Ratio = rates, utilities and charges / total operating revenue (inclusive of capital grants and contributions)

This ratio measures the level of a council's fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions. A council's financial flexibility improves the higher the level of its own source revenue.

Unrestricted Current Ratio

Benchmark = 1.5x (taken from the IPART December 2009 Revenue Framework for Local Government report)

Ratio = Current assets less all external restrictions / current liabilities less specific purpose liabilities

Restrictions placed on various funding sources (e.g. Section 94 developer contributions, RMS contributions) complicate the traditional current ratio because cash allocated to specific projects are restricted and cannot be used to meet a council's other operating and borrowing costs. The Unrestricted Current Ratio is specific to local government and is designed to represent a council's ability to meet debt payments as they fall due.