

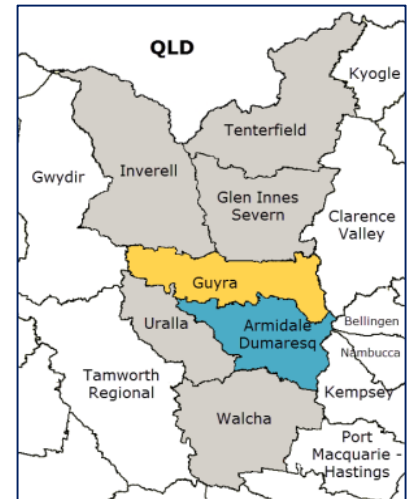
ARMIDALE DUMARESQ COUNCIL – CIP

NOT FIT

Area (km ²)	4,212	Population 2011	25,150
OLG Group	4	(2031)	31,650
ILGRP Group	E	Merger 2011	29,650
		(2031)	36,500
Operating revenue (2013-14)	\$31.4m	TCorp assessment	Moderate FSR Neutral outlook

ILGRP options (preference in bold) **Merge with Guyra** (yellow) or council in New England JO (all shaded).

Assessment summary	Scale and capacity	Does not satisfy
	Financial criteria:	Does not satisfy overall
	• Sustainability	Does not satisfy
	• Infrastructure and service management	Satisfies
	• Efficiency	Satisfies



Fit for the Future – NOT FIT

- The council does not satisfy the scale and capacity criterion.
- Scale and capacity is a threshold criterion which councils must meet to be Fit for the Future (FFTF), therefore the council is not fit.
- The council does not satisfy the financial criteria overall. Although it satisfies the infrastructure and service management and efficiency criteria, it does not satisfy the sustainability criterion.
- The council does not satisfy the sustainability criterion based on its forecast for a negative operating performance ratio by 2019-20.
- We consider a council's operating performance ratio is a key measure of financial sustainability that all Fit for the Future (FFTF) councils must meet, therefore the council is not fit.

Scale and capacity – does not satisfy

- The council's proposal to stand alone does not meet or only partially meets the elements of scale and capacity.
- The council did not demonstrate that its proposal to stand alone would be as good as or better than the ILGRP preferred merger. The efficiency improvements in the council's proposal can be realised under the merger option. In addition the merger option would provide significant further benefits.
- Our analysis is consistent with the ILGRP's preferred option for Armidale to merge.

Sustainability – does not satisfy

- The council does not satisfy the criterion for sustainability based on its forecast for an operating performance ratio of -0.8% by 2019-20, which is below the benchmark.
- The council's forecast is based on depreciation declining and then remaining constant in nominal terms. We do not consider this is a reasonable assumption as it implies the asset base declines over time. Without this, the council's operating performance ratio would be worse.
- The council forecast it will meet the benchmark for the own source revenue ratio by 2019-20.
- The council has forecast the building and infrastructure asset renewal ratio will be 58.2% by 2019-20 which is below the benchmark.
- The council indicates it will apply for a permanent special variation from 2022-23 of 12.5% cumulative (10% above the rate peg). However, this is outside of the outlook period.

Infrastructure and service management - satisfies

- The council satisfies the criterion for infrastructure and service management based on its forecast to meet the benchmark for the debt service ratio by 2019-20.
- The council has forecast the asset maintenance ratio will be 97.1% by 2019-20, which is close to the benchmark. Similarly, the council has forecast the infrastructure backlog will be 3.1% in 2019-20, which is close to the benchmark. We consider the council's forecast performance on these ratios to be reasonable in the context of the council's performance against the other ratios.

Efficiency - satisfies

- The council meets the criterion for efficiency based on a forecast decline in real opex per capita by 2019-20.

Other relevant factors

Social and community context	The LGA's community of interest would centre on Armidale. The presence of the University of New England makes the LGA somewhat distinct from other LGAs.
Community consultation	The council did not provide evidence of consultation about its proposal.
Water and/or sewer	The council has not provided evidence that its water and sewer businesses pay, or would be able to pay dividends. Consequently, the existence of these businesses only affect the council's scale and capacity insofar as they enable the council to hire staff with a wider range of skills.
Submissions	Two submissions were received in relation to the council's proposal. One supports the council standing alone. The other is from Guyra Shire Council's General Manager. It refers to a resolution by Armidale Dumaresq council that the council submit an attachment to its proposal about merging with Uralla and Guyra councils. We note that Guyra Shire Council's General Manager requested that IPART should not consider the submission because stakeholders have not been given the opportunity to respond.



New South Wales
Treasury Corporation

Armidale-Dumaresq Council
Financial Sustainability Assessment and Benchmarking Report

21 March 2013

Prepared by NSW Treasury Corporation for Armidale-Dumaresq Council, the Division of Local Government and the Independent Local Government Review Panel.

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by the Division of Local Government (DLG) as detailed in TCorp's letters of 22 December 2011 and 28 May 2012. The report has been prepared to assist the DLG and the Independent Local Government Review Panel in its consideration of the Sustainability of each local government area in NSW.

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

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

The report has been prepared for Armidale-Dumaresq Council the DLG and the Independent Review Panel. TCorp shall not be liable to Armidale-Dumaresq 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 Armidale-Dumaresq Council's (the Council) financial capacity, and its future Sustainability. The analysis is based on a review of the historical performance, current financial position, and long term financial forecasts. It also benchmarks the Council against its peers using key ratios.

TCorp's approach has been to:

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

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

- Total revenue, excluding capital grants and contributions, increased by 5.2% p.a. to \$44.6m over the four year review period
- Employee expenses have grown at an annual rate of 2.0% p.a. when compounded, which is lower than average CPI for the same period
- Council's operating results have been on a downward trend for the last three financial years however management have recognised areas for improvement and are workshopping effective budget control with councillors

The Council reported \$15.6m of infrastructure backlog in 2012 which represents 3.5% of its infrastructure asset value of \$440.6m. Other observations include:

- Of the 2012 Infrastructure Backlog, 58.3% (\$9.1m) relates to public roads and 30.7% (\$4.9m) is split evenly between water and sewerage
- Council's backlog has declined since 2009, specifically in public roads where the backlog has reduced from \$22.5m to \$9.1m in 2012

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

- Council forecasts an improving Operating Ratio for the General Fund from 2014, although the ratio is below benchmark for the duration of the LTFP
- Own Sourced Operating Revenue for the General Fund is above benchmark for the life of the forecast
- The Cash Expense Ratio for the General Fund is below benchmark for the forecast period at an average 0.7months

In our view, the Council has the capacity to undertake additional borrowings of up to \$4.9m. This is based on the following analysis:

- Based on a benchmark of DSCR >2.0x, \$4.9m could be borrowed in 2015 in addition to any existing borrowings included in the LTFP
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at 7.5% p.a.

In respect of the Sustainability of the Council we consider the Council to be moderately Sustainable. Our key observations are:

- Council appears to be in a Sustainable position indicated by their historical consolidated financial performance and existing LTFP
- Council has had sound liquidity (including investments) over the review period and this is forecast to continue over the next 10 years
- Council has a strong focus on the issue of Sustainability as indicated in their Community Strategic Plan and other IP&R documents
- Council's DSCR and Interest Cover Ratio are above benchmark for the entire forecast period which indicates Council should have the capacity to undertake the additional borrowings forecast for future capital works
- Council's future capital expenditure program needs to ensure that sufficient focus is placed on asset renewal and not just new assets

In respect of our Benchmarking analysis we have compared the Council's key ratios with other councils in DLG Group 4. Our key observations are:

- Council's financial flexibility as indicated by the Operating Ratio and the Own Source Operating Revenue Ratio was sound and above the group average
- Council's liquidity position was mixed compared to the benchmark and below the peer group
- Council's debt servicing capacity was sound but below the group average
- Council's performance in terms of asset maintenance and asset renewal was generally on par with the peer group. Council's level of Infrastructure Backlog was below the group's average level. Council's performance in terms of capital expenditure was below the group average.

Section 2 Introduction

2.1: Purpose of Report

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

The report is to be provided to the DLG and the Independent Local Government Review Panel.

The key areas focused on are:

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

2.2: Scope and Methodology

TCorp's approach was to:

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

In undertaking its work, TCorp relied on:

- Council's audited financial statements (2008/09 to 2011/12)
- Council's financial forecast model
- Council's IP&R documents
- Discussions with Council officers
- Other publicly available information such as information published on the IPART website

In completing the report, TCorp worked closely with Council management to analyse and understand the information gathered. The Council was given a draft copy of the report for their review and comment. Based on our discussions with Council:

- Council agrees with the findings of the report.

Definition of Sustainability

In conducting our reviews, TCorp has relied upon the following definition of sustainability to provide guidance:

A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community."

Benchmark Ratios

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

For example, the Cash Expense Ratio should be greater for smaller councils than larger councils as a protection against variation in performance and financial shocks.

Therefore these benchmarks are intended as a guide to performance.

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

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

2.3: Overview of the Local Government Area

Armidale-Dumaresq Council	
Locality and Size	
Locality	Northern
Area	4,236 km ²
DLG Group No.	4
Demographics	
Population as at 2011	24,105
% under 20	28.6%
% between 20 and 59	51.8%
% over 60	19.6%
Expected population in 2021	30,000
Operations	
Number of employees (FTE)	236
Annual revenue	\$44.6m
Infrastructure	
Roads	1,046.5 km
Bridges	69
Infrastructure backlog value	\$15.6m
Total infrastructure value	\$450.6m

Armidale-Dumaresq is 567km from Sydney and 467km from Brisbane. The area is serviced daily by air, rail and coach services to Sydney and daily air (via Tamworth) and coach services to Brisbane.

Council employs 236 Full Time Employees (FTEs) and is one of the major employers in the area.

Major industries in the LGA include educational services, fine and superfine wool, merino sheep breeding, cattle and lamb production, fruit and vineyards. A number of societies for breeds of cattle and other farmed livestock are represented in Armidale-Dumaresq.

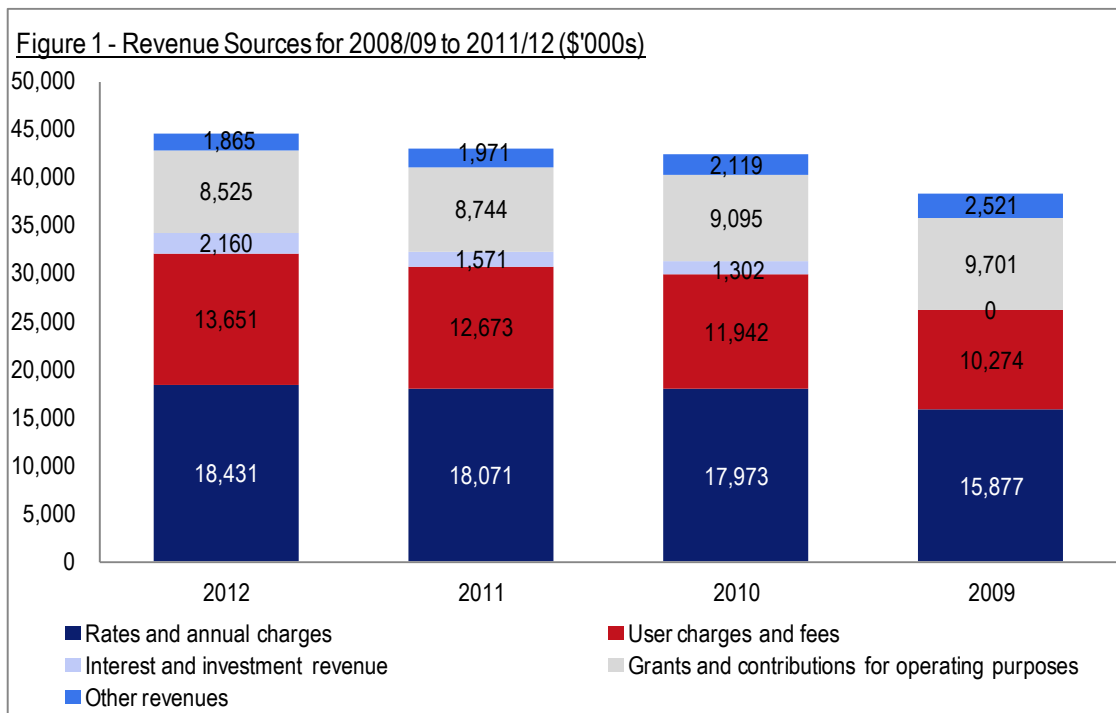
Armidale-Dumaresq has one University and a TAFE in its LGA. Retention of students from these colleges has historically been strong and is important to the sustainability of Council.

Armidale was involved in a strategic alliance with surrounding New England councils (Guyra, Walcha and Uralla) from 2004 to 2009. The New England Strategic Alliance of Councils (NESAC) was formed to develop efficiencies in operations, however the alliance was reduced to just Guyra and Armidale-Dumaresq following governance issues. Armidale-Dumaresq and Guyra continued the alliance on a shared service basis and have since submitted a formal request to the Minister for formation of a Corporation of the two Councils.

Section 3 Review of Financial Performance and Position

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

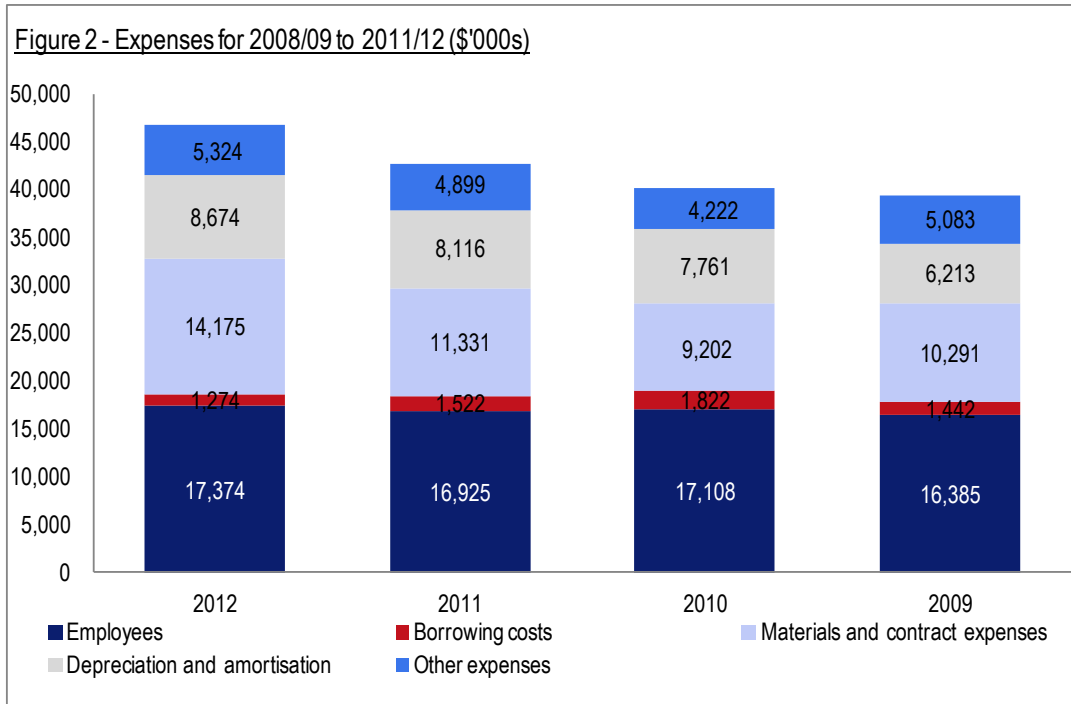
3.1: Revenue



Key Observations

- Total revenue, excluding capital grants and contributions, increased by 16.3% to \$44.6m over the four year period. When compounded this equates to a 5.2% p.a. increase. Council rates have grown in line with standard rate increments over this period.
- Rate growth has been static from 2011 and 2012 as Council miscalculated rate charges by \$0.1m in 2012. This mistake will be rectified via a catch-up in 2013.
- In 2012, 35.6% of user charges and fees were water charges. Council have been moving to best practice water pricing and have applied increases in water charges to maintain financial sustainability. 23.2% of user charges and fees are related to waste management fees, which have grown in recent years with increased charges.
- Interest and investment revenue has grown from zero in 2009 to \$2.2m in 2012. Council realised investment losses of \$2.6m in 2009 following a writedown of CDO exposures. Investment income has grown since 2009 due to rising interest rates and Councils increasing use of long term deposits.
- Other revenues have been on a downward trend and have decreased by 26.0% (\$0.7m) since 2009. Fines, cattle sales (from a profitable Council-operated farm) and lucerne tillage sales have all declined year on year and contributed to the downward trend.

3.2: Expenses



Key Observations

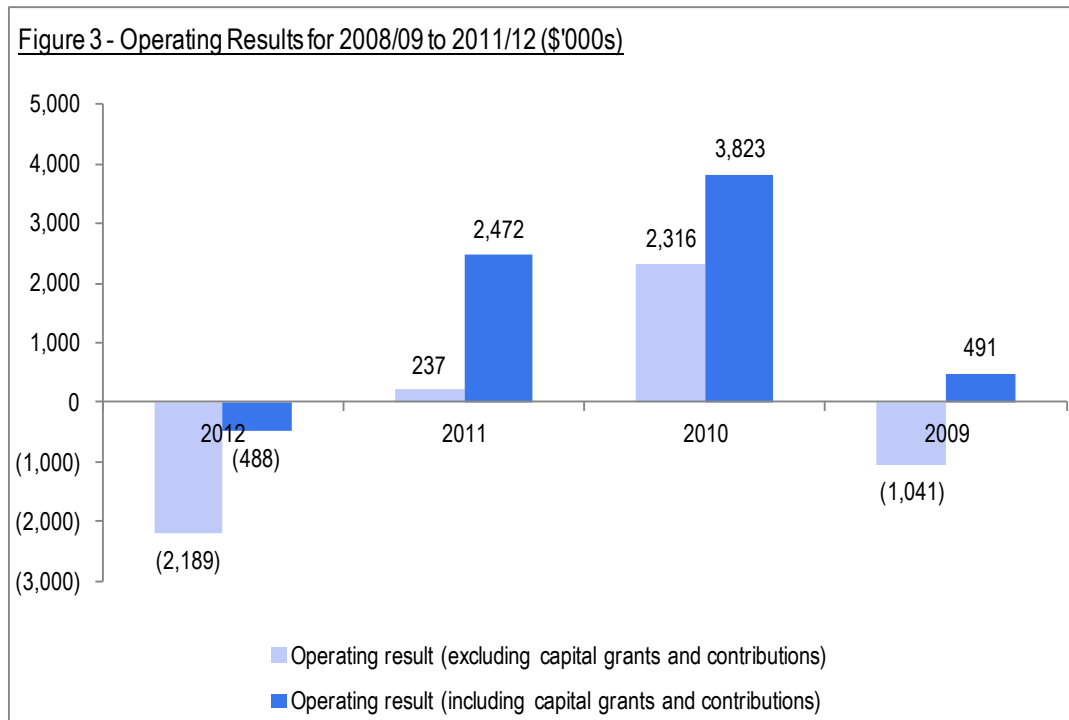
- Total expenses have grown by 18.8% (\$7.4m) from 2009 to 2012, at a compound annual growth rate of 5.9%.
- Employee expenses have grown at an annual rate of 2.0% when compounded, which is lower than average CPI for the same period. FTEs have decreased from 262 in 2009 to 236 in 2012 and Council have been sharing administration and IT services with Guyra Shire Council since 2009 as a means of reducing costs.
- Materials and contract expenses have grown on a compounded annual basis of 11.3% p.a. This growth reflects increased maintenance works on infrastructure assets following floods in the area. Flood events in financial years 2011 and 2012 forced Council to focus on repair works and defer parts of its capital works program.
- Other expenses have grown by \$1.0m, which is 1.6% compounded annually over the four year review period.

3.3: Operating Results

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

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

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



Key Observations

- Council has posted positive net operating deficits (excluding capital grants and contributions) in two of last four years. 2010 and 2011 operating surpluses excluding capital grants and contributions were driven by increasing user charges and fees, increasing interest income and static materials and contract expenses.
- The 2012 deficit was incurred as the former Council invested in economic development and environmental projects of around \$1m as part of the Community Strategic Plan. The new (current) Council have recognised the associated cost issue and are workshopping with the community to develop a new Community Strategic Plan within revenue and cost constraints. The possibility of an SRV in 2014 is also under discussion.
- Council expenses include a non-cash depreciation expense (\$8.7m in 2012), which has increased by \$2.5m since 2009 following the Asset Revaluations process. Whilst the non-

cash nature of depreciation can favourably impact on ratios such as EBITDA that focus on cash, depreciation is an important expense as it represents the allocation of the value of an asset over its useful life.

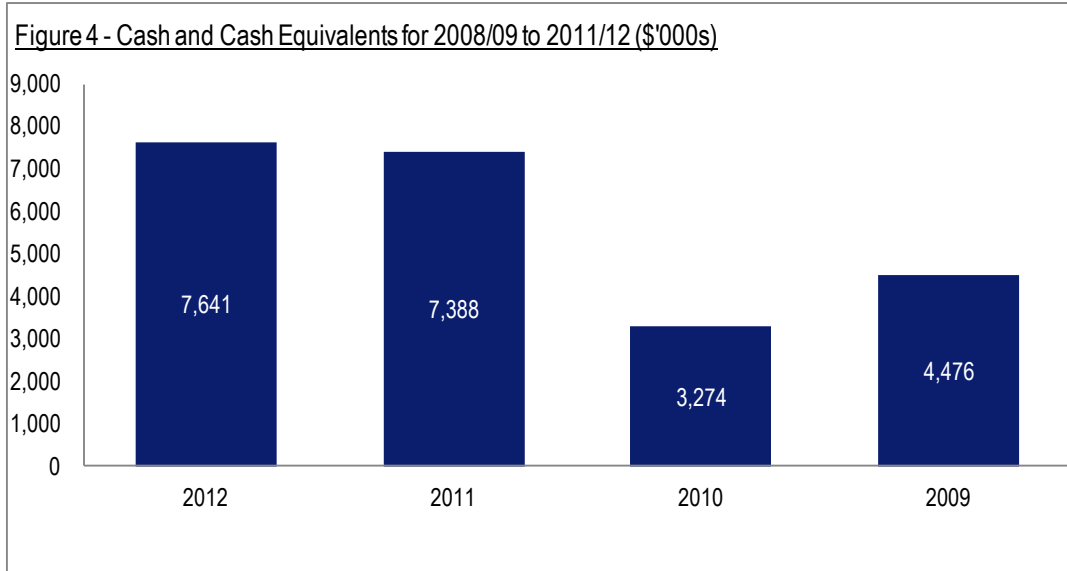
3.4: Financial Management Indicators

Performance Indicators	Year ended 30 June			
	2012	2011	2010	2009
EBITDA (\$'000s)	7,759	9,875	11,899	6,614
Operating Ratio	(4.9%)	0.6%	5.5%	(2.7%)
Interest Cover Ratio	6.09x	6.49x	6.53x	4.59x
Debt Service Cover Ratio	2.42x	3.35x	4.07x	2.57x
Unrestricted Current Ratio	2.21x	2.48x	2.28x	2.18x
Own sourced revenue	69.2%	67.9%	68.1%	65.5%
Cash expense ratio	2.5 months	2.7 months	1.3 months	1.7 months
Net assets (\$'000s)	721,338	701,032	685,405	641,632

Key Observations

- Council's EBITDA has declined year on year since 2010 and this has been driven by materials and contract expenses growth coupled with falling levels of grants and contributions.
- The DSCR and Interest Cover Ratios have been above benchmark over the review period indicating Council has further flexibility to take on more debt.
- The Unrestricted Current Ratio has been above benchmark over the review period indicating liquidity is sufficient.
- Own Sourced Revenue Ratio is above benchmark for all reporting years.
- Cash Expense Ratio has grown to 2.5 months in 2012 from 1.7 months in 2009. While this is below the benchmark of 3.0 months, Council had sufficient cash reserves to cover their short-term liabilities.
- Council's Net Assets increased by \$43.8m in 2010 as a result of Asset Revaluations. This had followed revaluations in 2009 that resulted in an increase in the value of IPP&E assets of \$235.7m. When the Asset Revaluations are excluded, the underlying trend in all four years has been a growing infrastructure, property, plant, and equipment (IPP&E) asset base with asset purchases being greater than the combined value of disposed assets and annual depreciation.
- Asset Revaluations over the last four years have resulted in some volatility in Net Asset growth. Consequently, in the short term, the value of Net Assets is not necessarily an informative indicator of performance. In the medium to long term however, this is a key indicator of a Council's capacity to add value to its operations. Over time, Net Assets should increase at least in line with inflation plus an allowance for increased population and/or improved or increased services. Declining Net Assets is a key indicator of the Council's assets not being able to sustain the ongoing operations of Council.
- Council has total borrowings of \$19.9m representing 2.8% of Net Assets

3.5: Statement of Cashflows



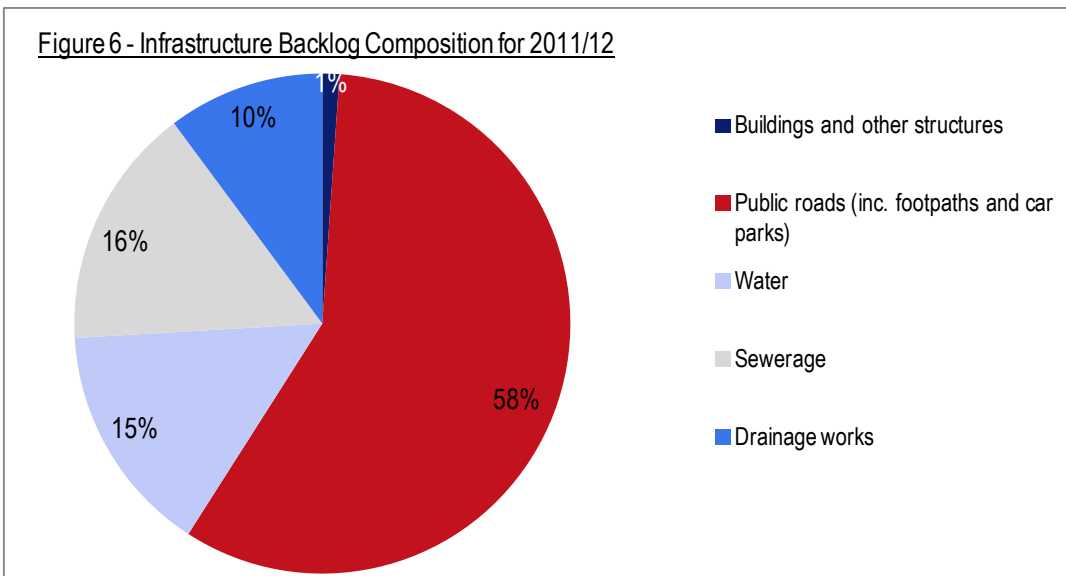
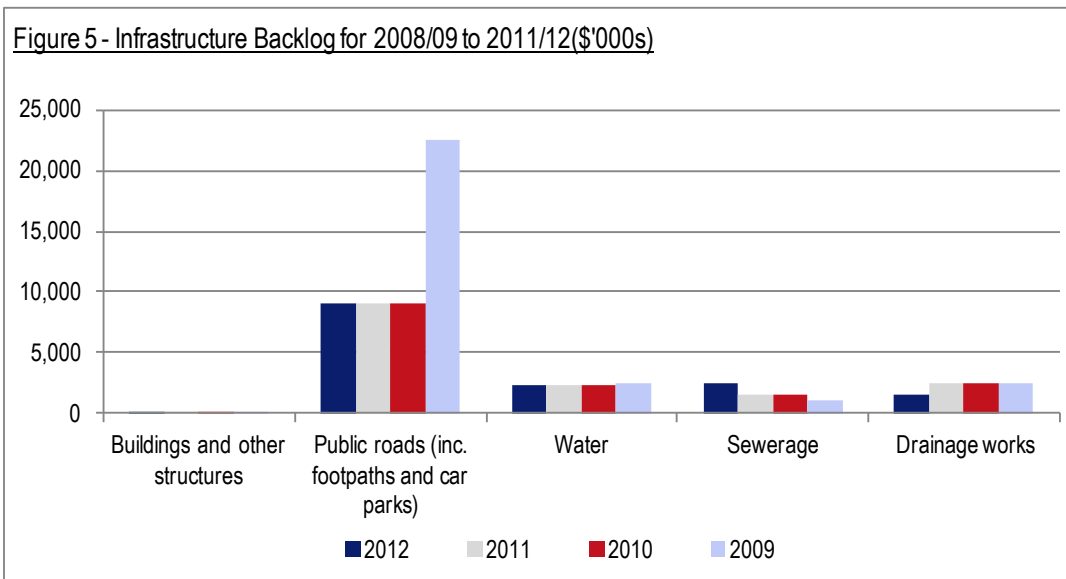
Key Observations

- Cash and cash equivalents have grown by 70.7% (\$3.2m) over the four year period.
- Within Council's cash, cash equivalents, and investments totalling \$20.5m, \$11.9m was externally restricted, \$6.6m internally restricted, and \$2.0m was unrestricted.
- Of the total cash and investment securities held in 2012, \$12.9m was held as investment securities, of which \$7.6m is in long term deposits. Council is currently exposed to CDOs (estimated realisable value \$0.2m) and equity linked notes (\$3.5m).
- Council expect to recoup a total of \$4.1m of \$10.4m (face value) worth of existing and terminated CDO exposures, subject to ongoing UK and US litigation finding in favour of the Council. The exposures can be broken down as follows;
 - \$0.2m (20% of \$0.9m book value) of Council's CDOs are on Balance Sheet but not certain to be realised
 - \$1.5m of terminated CDOs are currently being held in trust. These securities had original values of \$2.1m and following favourable court orders in October 2012, Council expect to receive \$2.0m of these investments in a possible recovery process
 - Council have \$6.0m worth of outstanding claims against Lehman Brothers CDOs, and they expect to receive 20 to 40% of these investments

3.6: Capital Expenditure

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

3.6(a): Infrastructure Backlog



Council reported a \$15.6m infrastructure backlog in 2012, of which 58.0% (\$9.1m) relates to public roads and 31.0% (\$4.8m) relates to water and sewerage assets. Council's backlog valuation has declined since 2009, specifically in public roads where the backlog has reduced from \$22.5m to \$9.1m in 2012. Recent floods had caused damage to many Council infrastructure assets and consequently focus was shifted to returning these assets to a satisfactory condition. The AMP has been prepared, however Council are consistently trying to improve the reporting methodology and develop increasingly accurate estimates of the Infrastructure Backlog.

3.6(b): Infrastructure Status

Infrastructure Status	Year ended 30 June			
	2012	2011	2010	2009
Bring to satisfactory standard (\$'000s)	15,627	15,626	15,626	28,783
Required annual maintenance (\$'000s)	5,314	7,961	5,314	4,689
Actual annual maintenance (\$'000s)	14,572	5,314	4,890	4,165
Total value infrastructure assets (\$'000s)	450,559	432,149	426,732	387,165
Total assets (\$'000s)	751,478	732,256	718,827	676,130
Infrastructure Backlog Ratio	0.03x	0.04x	0.04x	0.07x
Asset Maintenance Ratio	6.30x	0.67x	0.92x	0.89x
Building and Infrastructure Asset Renewal Ratio	0.57x	0.64x	0.73x	0.67x
Capital Expenditure Ratio	1.02x	1.12x	1.17x	1.59x

Council's Building and Infrastructure Asset Renewals Ratio was below the benchmark of 1.0x in all years reported, which indicates Council is spending at levels below the required amount on asset renewal.

The Asset Maintenance Ratio grew significantly in 2012 following Council's need to repair flood-damaged assets, with a focus on buildings, bridges and roads. Required annual maintenance has fluctuated in recent years and Council currently are working with its engineering, finance and external surveyors to determine a more precise method of analysing asset condition.

The Capital Expenditure Ratio takes into account capital expenditures which improve performance or capacity and indicates Council has spent a sufficient amount on capital expenditure over the three year period.

3.6(c): Capital Program

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

Capital Program (\$'000s)	Year ended 30 June			
	2012	2011	2010	2009
New capital works	8,104	4,000	2,000	6,000
Replacement/refurbishment of existing assets	3,431	4,000	5,000	4,000
Total	11,535	8,000	7,000	10,000

Proposed capital works include:

Landfill. Council's current landfill is full and they are in the process of developing a new more efficient site, with start-up costs being approx \$2.6m in 2012. Council plans to apply for approval of a \$14.0m loan to construct the landfill at the end of this year. Higher user and gate charges will fund the loan repayment.

Major capital works during 2012 included:

Gas Works remediation. Armidale Council previously owned and operated an LPG gas plant. The plant was situated on creek lands, which resulted in contaminants being taken down stream to the sport and recreation facilities during the flood. The contaminated soil clean-up cost approximately \$5.0m. Other Capital works included:

- Construction of a new depot following the council amalgamation in 2000
- Renewal of the saleyards
- Renewal of computer networks
- Renewal of the animal shelter
- Renewal of sporting complex for hockey and basketball – both associations are repaying the cost. Council was a Guarantor to the Basketball and Hockey Associations for the renewal of their respective sporting facilities. The combined outstanding value of the loan is currently \$0.4m and is due to be repaid in full by 2014.

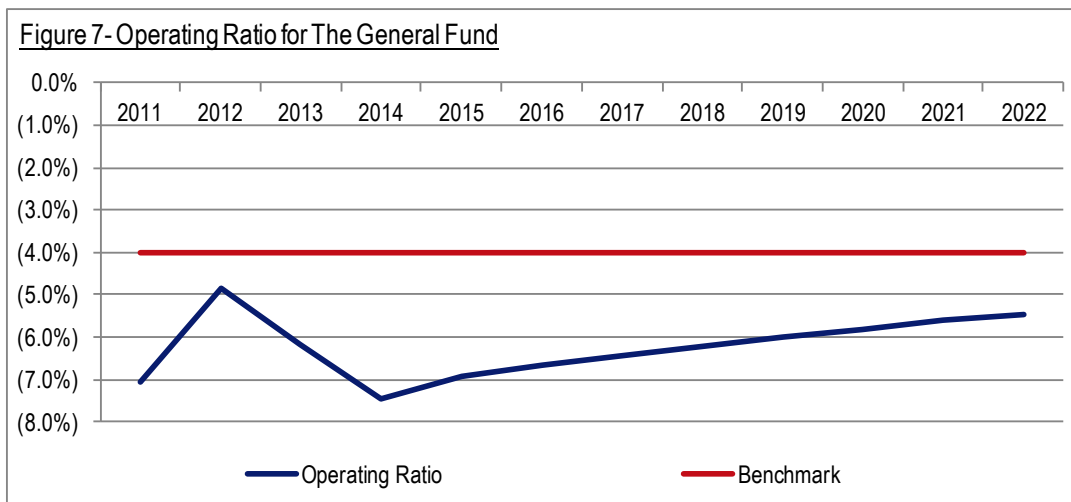
3.7: Specific Risks to Council

- Recovery of investments. Council has been proactive in writing down its exposures to CDO's. Of Council's original exposure of \$10.4m, only \$0.2m remains on balance sheet with the balance having been written down. Council continues to pursue litigation against various parties in the UK and US seeking recovery of its written down investments. Depending on the outcome of the litigation, Council currently expects to recover around \$4.1m of its initial investments.
- Formation of Council Corporation. Council has recently applied to the Minister for Local Government for the formation of a Corporation with Guyra Shire Council. Council has invested considerable time and resources to its formation and application. Council has been engaged in a shared service agreement with Guyra Shire Council for the past four years and have reported positive results to date and are confident that the proposal will be accepted. Council anticipates costs savings with shared services and Armidale will own 80% of the Corporation
- Asset Management Plan. Whilst Council has completed most of its AMP, it has not completed some aspects of its methodology for measuring and recording the works required in respect of its assets. This needs to be completed and any impacts built into Council's LTFP to ensure that funding is available. This work should be completed and built into any SRV application Council may seek to lodge.

Section 4 Review of Financial Forecasts

The financial forecast model shows the projected financial statements and assumptions for the next 10 years. We have focused our financial analysis upon the General Fund as although 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.

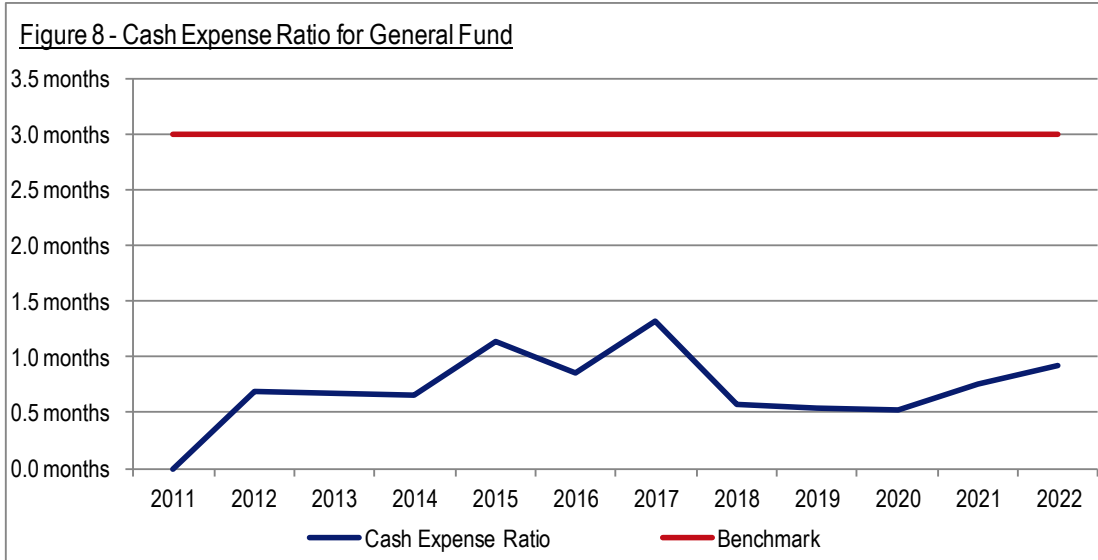
4.1: Operating Results



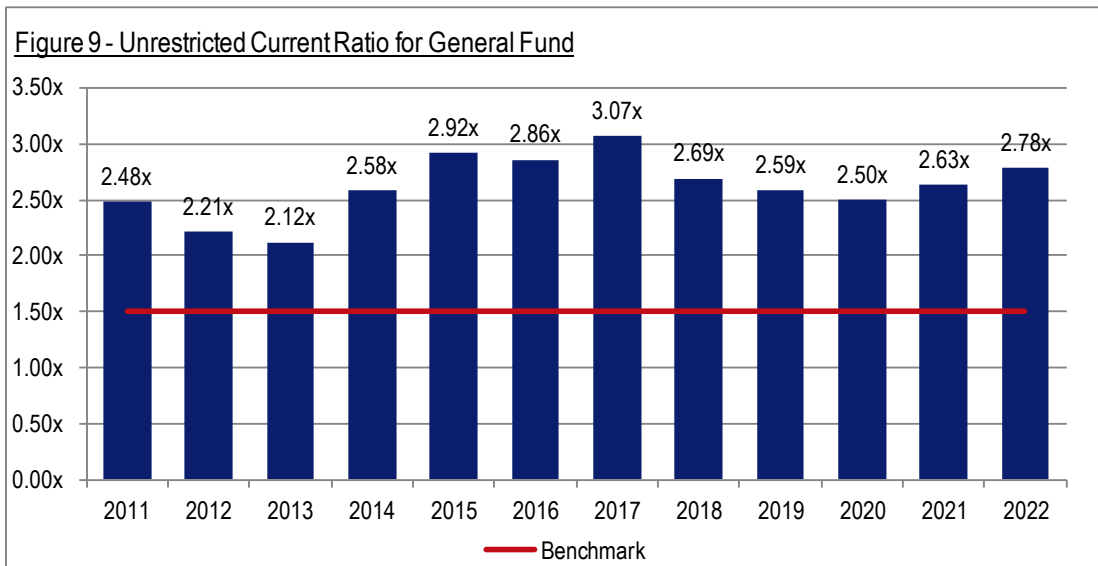
Council forecasts a marginally improving Operating Ratio for the General Fund, although the ratio is below benchmark for the LTFP. The ratio falls until 2014 as total operating expenses grow at a rate of 4.0% p.a. compared to 3.2% p.a. for operating revenue (excluding capital grants). From 2014, borrowing costs decline and the Operating Ratio begins to improve.

4.2: Financial Management Indicators

Liquidity Ratios



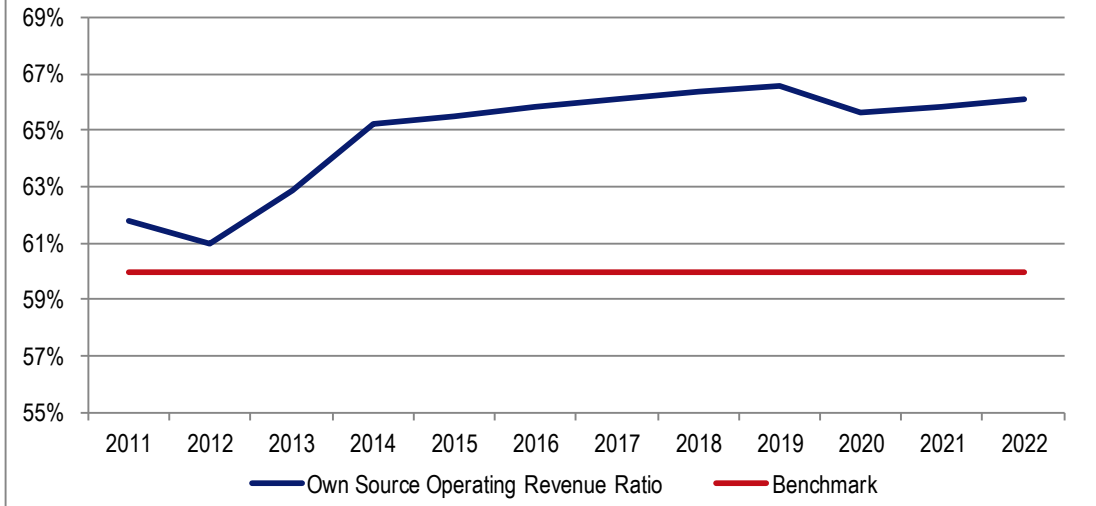
The Cash Expense Ratio for the General Fund is below benchmark for the forecast period. This Ratio indicates that Council will have limited headroom with respect to short term liquidity needs.



The Unrestricted Current Ratio for the General Fund is above benchmark for the LTFP which indicates that Council should be able to meet its short term obligations.

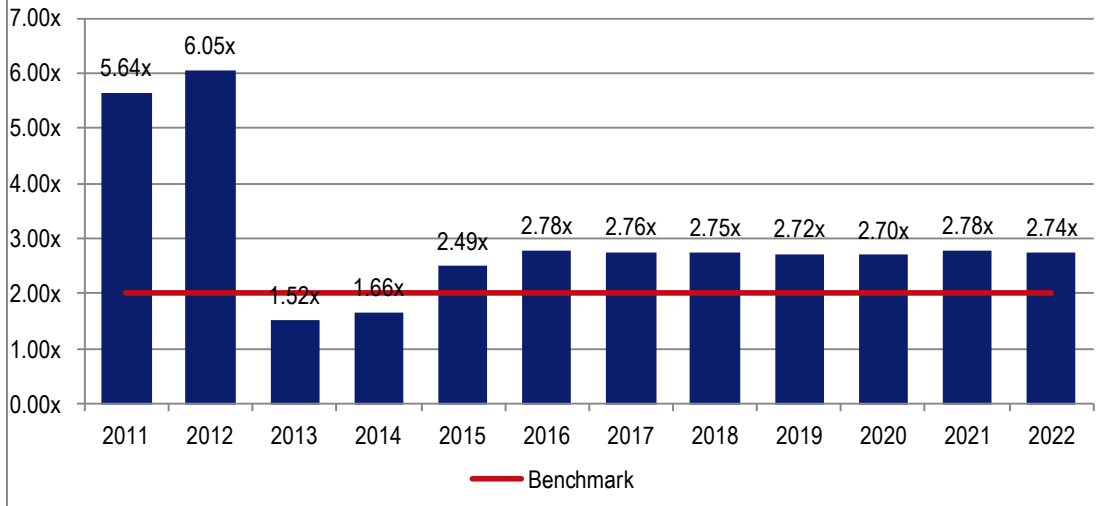
Fiscal Flexibility Ratios

Figure 10 - Own Source Operating Revenue Ratio for General Fund



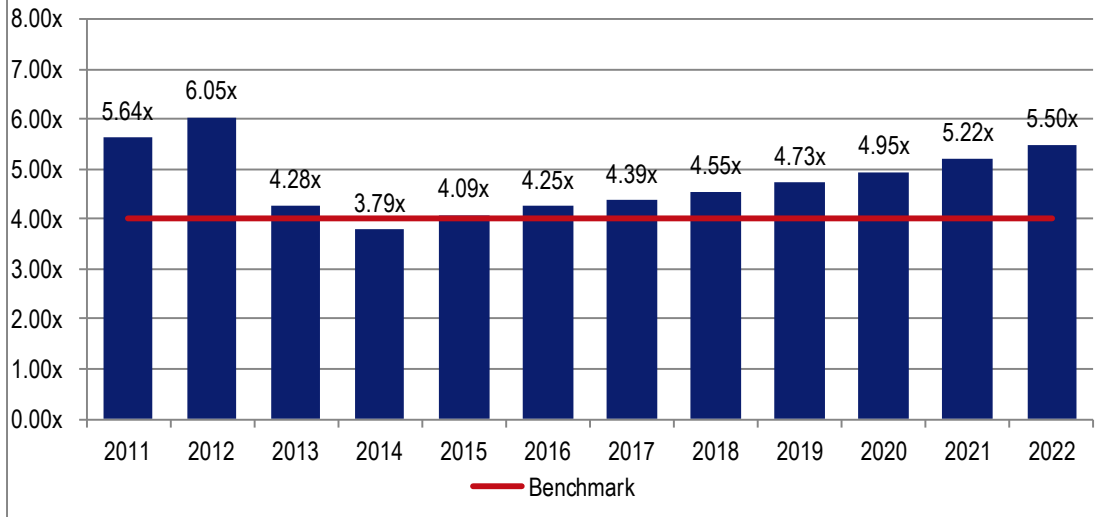
Own Sourced Operating Revenue for the General Fund is above benchmark for the life of the forecast. This indicates the Council is not highly reliant on external revenue sources.

Figure 11 - DSCR for General Fund



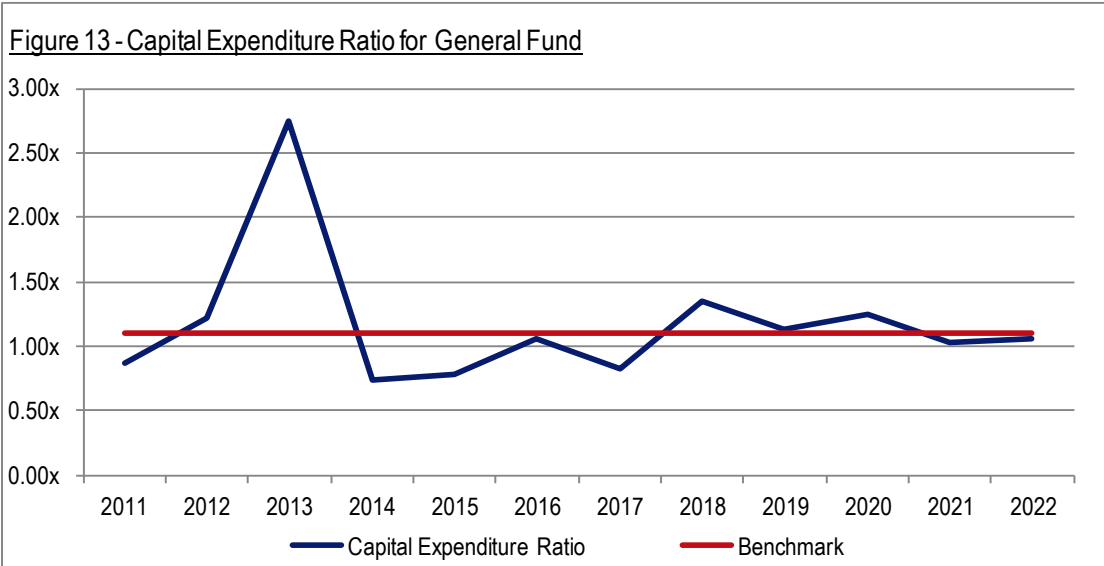
The DSCR for the General Fund is forecast to be below benchmark in 2013 and 2014 due to the projected drawdown of the landfill loan. Should the landfill project receive approval, the timing of the drawdowns are expected to be spread over 24 months, thus smoothing out the ratio to levels that will be above benchmark. DSCR is forecast to increase to above benchmark in 2015 as debt repayments reach the end of their term and cash levels begin to grow.

Figure 12 - Interest Cover Ratio for General Fund



The Interest Cover Ratio shows the Council has sufficient capacity to service scheduled debt commitments. The Ratio falls below benchmark in 2014 because of a large debt repayment to service the maturity of outstanding debt but overall, the Ratio indicates that it has sufficient headroom to service its scheduled debt commitments.

4.3: Capital Expenditure



The Capital Expenditure Ratio is forecast to be in line with benchmark levels for the LTFP. There is a spike in capital expenditure in 2013 due to the landfill site development. Based on the above, Council's capital assets should be maintained at an acceptable level.

4.4: Financial Model Assumption Review

Councils have used their own assumptions in developing their forecasts.

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

TCorp's benchmarks:

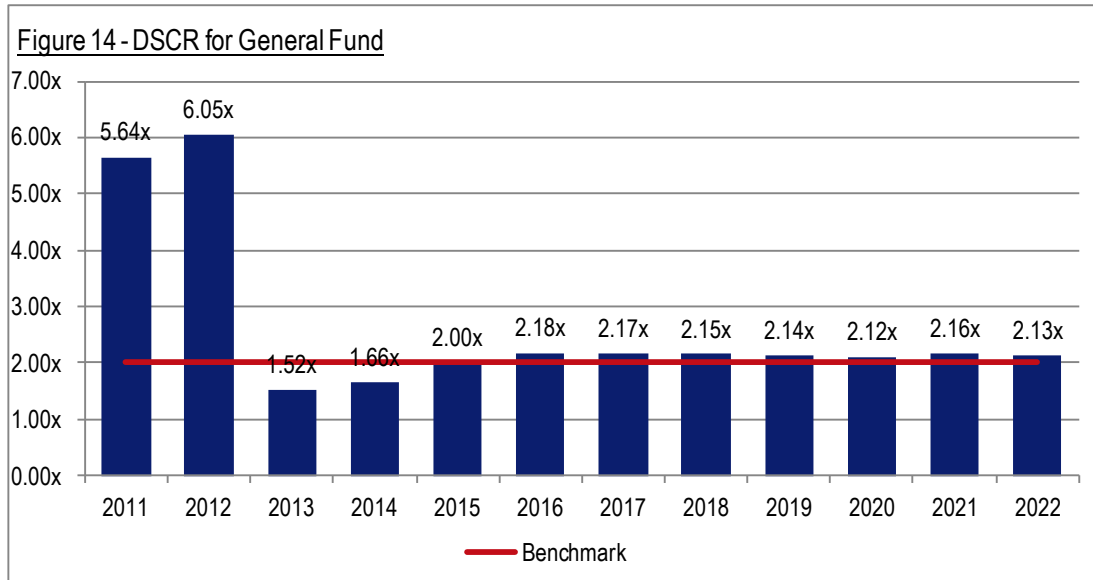
- Rates and annual charges: TCorp notes that the LGCI increased by 3.4% in the year to September 2011, and in December 2011, IPART announced that the rate peg to apply in the 2012/13 financial year will be 3.6%. Beyond 2013 TCorp has assessed a general benchmark for rates and annual charges to increase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

Key Observations and Risks

- Council forecasts rates and annual charges to grow at an average of 3.0% p.a., in line with standard rate pegging. Council are considering applying for a 9.0% SRV increase in 2014 (on top of the forecast expected rate peg limit of 3.0%) however this has not been factored into the LTFP. If approved, the proceeds of the SRV would be used to fund numerous projects contained in the Community Strategic Plan, which are currently under discussion within community forums.
- User charges and fees are forecast to increase by 3.1% p.a for the LTFP. Council has a new landfill site under development and operations are forecast to begin in 2013. The loan, repayments and borrowing expenses have been included in the forecasts, however increases in related charges to cover the cost of its development have not been included in the LTFP.
- Other Revenues are forecast to grow at a rate of 0.9% p.a for the LTFP.
- Employee Costs are forecast to grow at a rate of 4.0% p.a for the LTFP.
- Materials & contracts expenses are forecast to grow at a rate of 2.8% p.a for the LTFP
- Other expenses are forecast to grow at a rate of 3.2% p.a for the LTFP, above CPI annual increase of 2.5% as Council forecast increasing electricity costs
- Council plans are based on its existing service levels. Council does have under consideration an SRV and an increase in capital works of approximately \$1.0m extra each year for five years from 2014. This plan is currently being taken to the community as part of the Community Strategic Plan review following the 2012 Council elections.
- TCorp consider the assumptions used in the forecast to be reasonable and any variations to the benchmark have been adequately explained.

4.5: Borrowing Capacity

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



- Based on a benchmark of DSCR>2x, Council would be unable to take on any additional debt following the drawdown of the \$14.9m landfill loan in 2013 until 2015, when \$4.9m could be borrowed in addition to borrowings already included in the LTFP
- This scenario has been calculated by basing borrowing capacity on a 10 year amortising loan at 7.5% p.a

4.6 Sustainability

General

Sustainable growth is a key issue for Armidale-Dumaresq Council and its residents. Council had recorded operating surpluses for two successive years following cost management initiatives, but recorded an operating deficit in 2012 as a result of overreaching on implementing various Community Strategic Plan initiatives.

Council's Community Strategic Plan contains the community's Vision - "Excellent Lifestyle - Sustainable Growth", with 21 strategic objectives and 65 goals to be achieved over the next 15 years. The plan adopts bottom line format focusing on four areas – Council's community social and economic wellbeing, assets, physical surroundings and governance.

Council have stated that they recognise that some of the Community Strategic Plan initiatives are unrealistic without an SRV and this is now under discussion within Council and through community consultation.

The New England Strategic Alliance was an unsuccessful effort by Council and its neighbouring LGAs to address the issue of Sustainability. The main reason for the failure of the alliance was the breakdown of governance due to the non-formal nature of the Alliance. Council's shared service program with Guyra Shire Council since the collapse of the Alliance, together with the 2012 application to the Minister for approval of the formation of a two-Council Corporation, is further evidence of Council's proactivity in their goal for a cost-effective, sustainable Council.

Infrastructure maintenance and renewal is a key aspect of a council's Sustainability. Councils are required to develop effective Asset Management Plans that accurately measure the current values and the required maintenance levels to maximise the useful life of assets. Based on the reported infrastructure figures, infrastructure status ratios and management discussions it is apparent that Council have work to do to ensure the condition of their assets are accurately reported.

Council is looking at opportunities to improve efficiencies and generate extra profits where feasible. This is demonstrated by the investment in Waste Management Centre facilities and development of a new landfill to enable more efficient management of Council's waste. Council also operates a farm on the sewerage facility, using treated waste as fertiliser for the surrounding pasture. This reduces costs for the sewerage facility as the waste was going to landfill, while Council benefit from the profits of their highly productive cattle rearing and lucerne fodder growing activities.

Armidale-Dumaresq has three colleges in its LGA. Retention of students from these colleges has historically been strong and is considered to be important to the Sustainability of the LGA.

In considering the financial Sustainability of the Council TCorp's review supports the view that Council is moderately Sustainable. We make the following comments:

- Council's current LTFP shows the operating results being consistently in deficit, but with sound liquidity and capital expenditure that is at levels at, or above what is required to maintain its assets at an acceptable standard
- Council's LTFP includes a conservative assumption on increases in rates and annual charges that potentially overstates the deterioration in Council's operating result. Council is currently in consultation with the community to decide on whether the current Community Strategic Plan contains improvements that warrant an application for an SRV of 9% in 2014
- Council's DSCR and Interest Cover Ratio are above benchmark for the majority of the forecast period which indicates Council should have the capacity to service the additional borrowings forecast to fund its future capital works program
- Council needs to finalise their methodology for assessing their infrastructure status, particularly the Backlog, so more accurate targets can be put in place
- Council has not assumed approval of the application for formation of a Corporation in their forecasts. Should this be approved, Council should reassess their LTFP and efficiencies that may be achieved

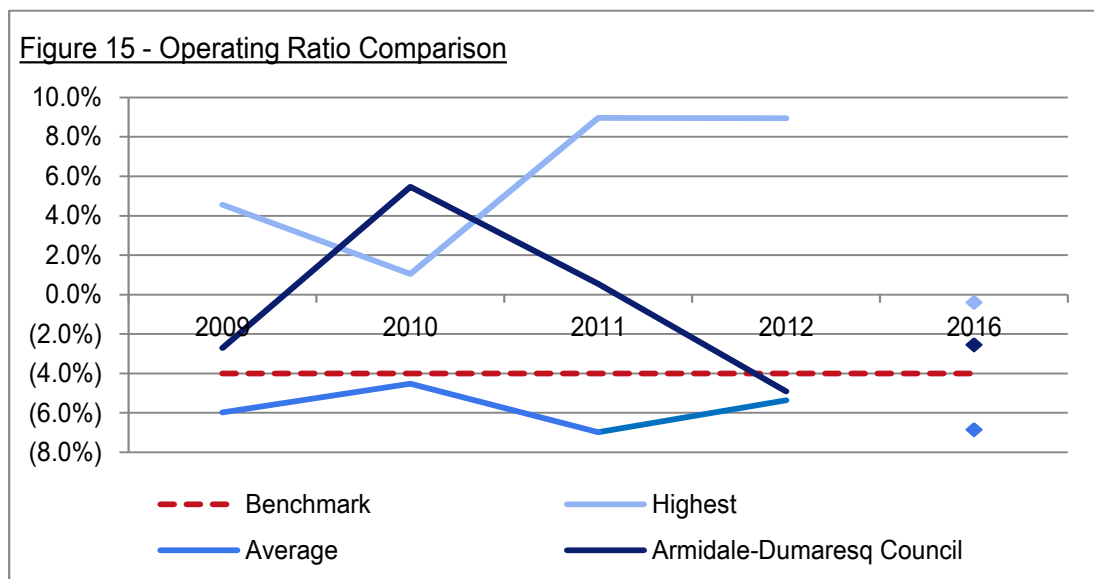
Section 5 Benchmarking and Comparisons with Other Councils

Each council's performance has been assessed against ten key benchmark ratios. The benchmarking assessment has been conducted on a consolidated basis for councils operating more than one fund. This section of the report compares the Council's performance with its peers in the same DLG Group. The Council is in DLG Group 4. There are 31 councils in this group and at the time of preparing this report, we have data for all of these councils.

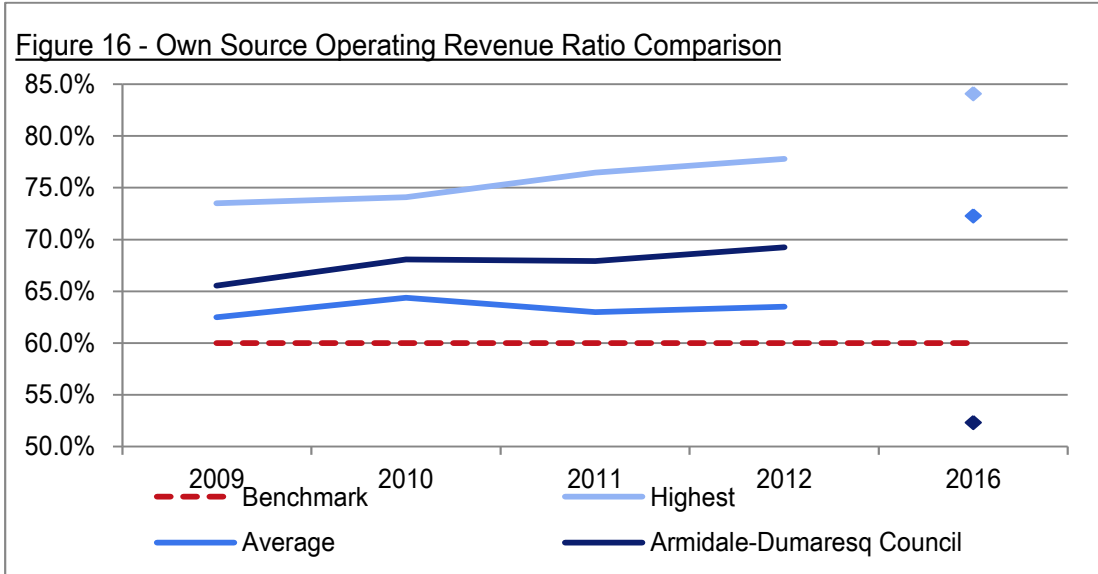
In Figure 15 to Figure 24, the graphs compare the historical performance of Council with the benchmark for that ratio, with the average for the Group, with the highest performance (or lowest performance in the case of the Infrastructure Backlog Ratio where a low ratio is an indicator of strong performance), and with the forecast position of the Council as at 2016 (as per Council's LTFP). Figures 22 to 24 do not include the 2016 forecast position as those numbers are not available.

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

Financial flexibility



Council's Operating Ratio outperformed the benchmark in three of the past four years and was consistently above the group average. Over the medium term, Council's ratio is forecast to remain above the benchmark and the peer group.



Council's Own Source Operating Revenue Ratio has consistently outperformed the benchmark and the group average over the review period. Over the medium term, Council's consolidated Own Source Operating Revenue Ratio is forecast to decline and be below the benchmark and the peer group.

Liquidity

Figure 17 - Cash Expense Ratio Comparison

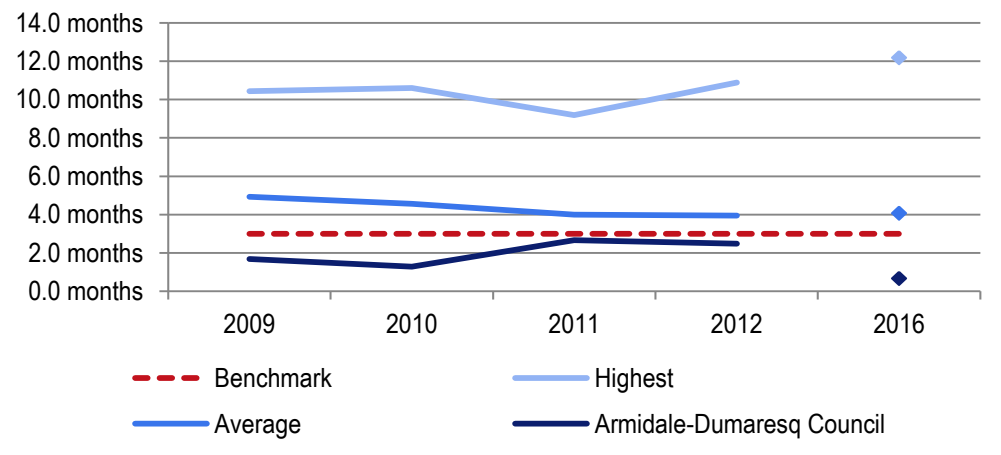
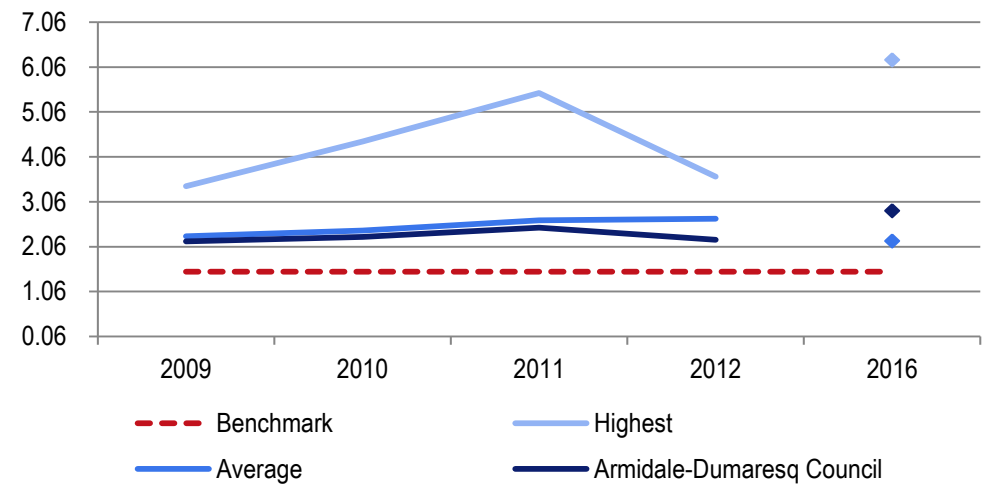


Figure 18 - Unrestricted Current Ratio Comparison



Council's Cash Expense Ratio was consistently below the benchmark and the group average while Council's Unrestricted Current Ratio was consistently above the benchmark but below the peer group.

Over the medium term, Council's liquidity position is forecast to remain sufficient with below above benchmark and average Unrestricted Current Ratio.

Debt servicing

Figure 19 - Debt Service Cover Ratio Comparison

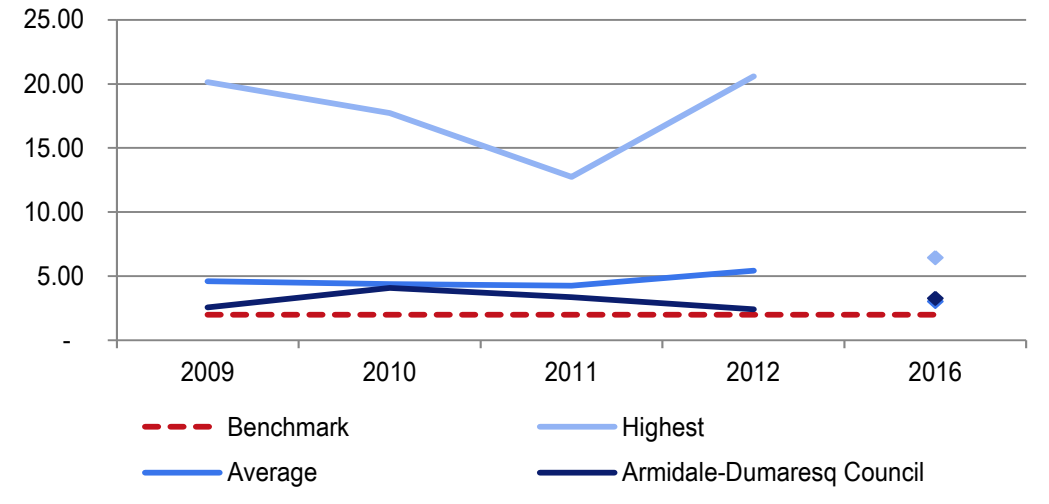
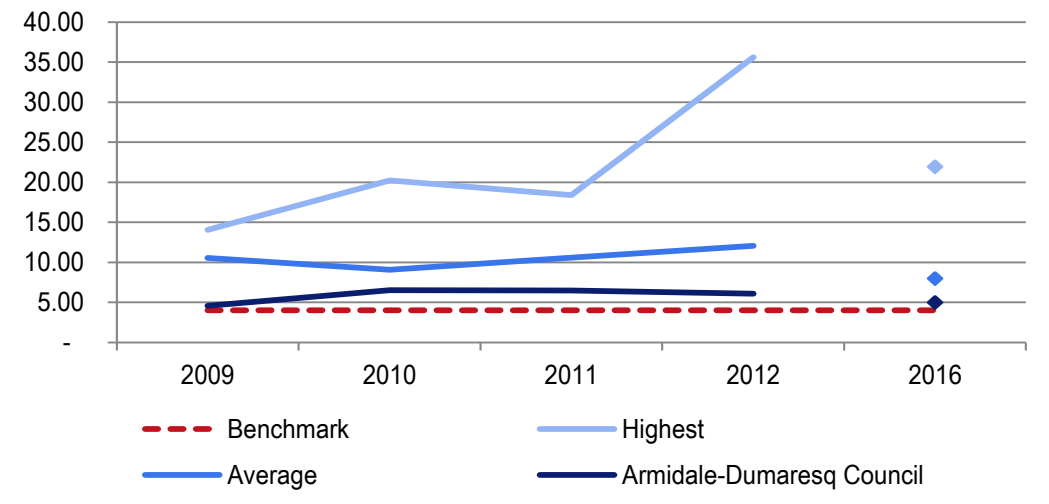


Figure 20 - Interest Cover Ratio Comparison



Over the review period, Council's debt servicing capacity was sound but below the peer group. Council's DSCR and Interest Cover Ratio were consistently above their respective benchmarks but below the group average. Over the medium term, Council's debt servicing capacity is forecast to remain sound and in line with the peer group.

Asset Renewal and Capital Works

Figure 21 - Capital Expenditure Ratio Comparison

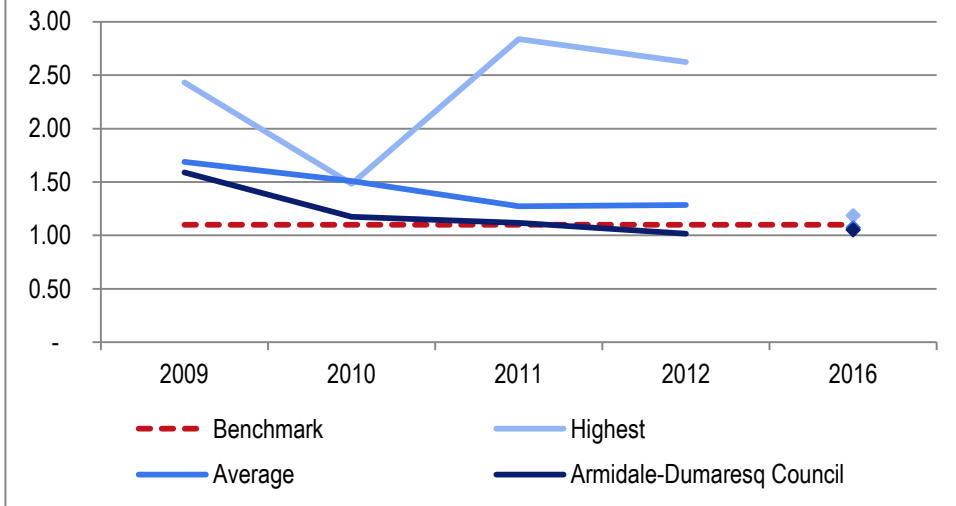


Figure 22 - Asset Maintenance Ratio Comparison

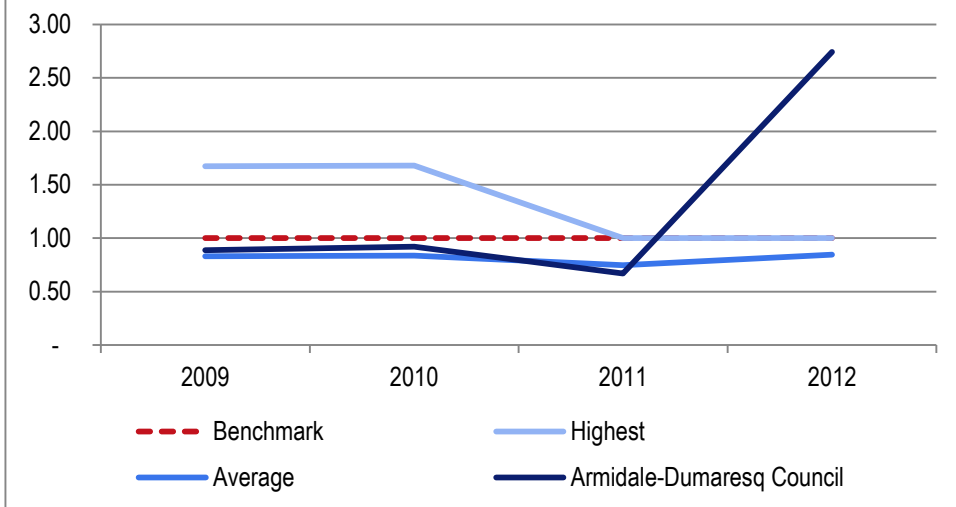


Figure 23 - Infrastructure Backlog Ratio Comparison

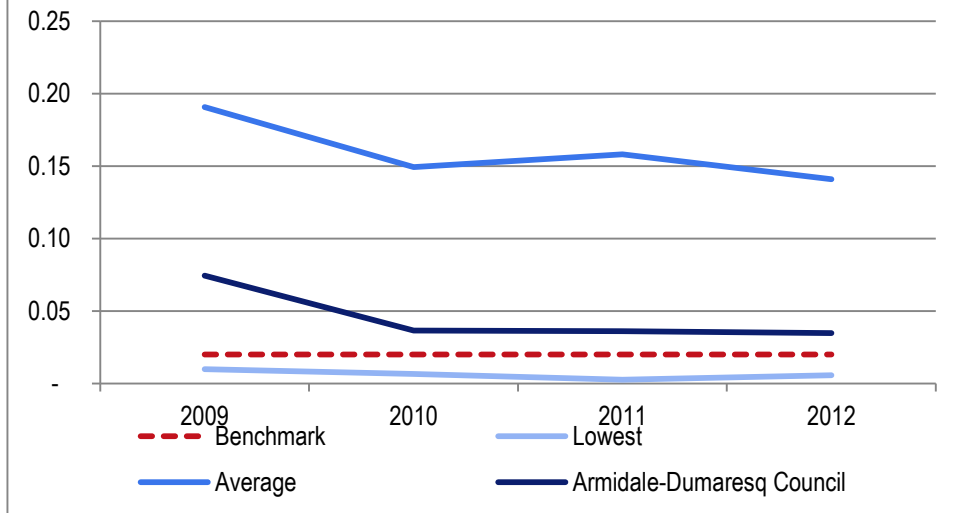
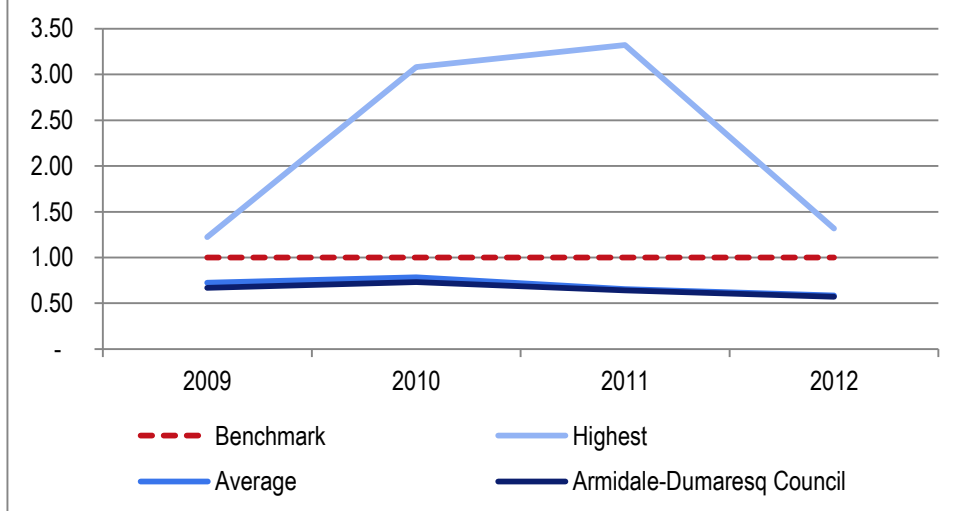


Figure 24- Building and Infrastructure Asset Renewal Ratio



Council's Infrastructure Backlog Ratio was consistently above the benchmark and below the group's average level of Backlog. Between 2009 and 2011, spending on maintenance of assets was on par with the peer group. In 2012, Council comparatively spent more than the group average in maintenance of assets.

Over the review period, Council's Building and Infrastructure Renewal Ratio was consistently below the benchmark but in line with the group average.

Council's performance in terms of capital expenditure was mixed, with generally above benchmark ratio but below average Capital Expenditure Ratio. Over the medium term, Council's capital expenditure is forecast to be in line with the benchmark and the peer group.

Section 6 Conclusion and Recommendations

Based on our review of both the historic financial information and the 10 year financial forecast within Council's long term financial plan we consider Council to be reasonably sustainable, however Council will require tight operational controls to ensure Sustainability.

We base our recommendation on the following key points:

- The Council has been reasonably well managed over the review period
- Council has some capacity to undertake additional borrowings to support its capital expenditure program in future years. The DSCR and Interest Cover Ratio are well above benchmark for the entire forecast period indicating Council have flexibility in regard to carrying the additional debt forecast for future capital works programs. This will assist in Council maintaining sustainability of its infrastructure
- Council's performance indicators were above or broadly in line with benchmark between 2009 and 2012, with the exception of the Cash Expense ratio which was below benchmark for the reporting period
- Based on a benchmark of DSCR>2x, Council would be unable to take on any additional debt following the drawdown of the \$14.9m landfill loan in 2013 until 2015, when \$4.9m could be borrowed in addition to borrowings already included in the LTFP

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

- Council needs to continue to seek ways to reduce its operating deficits to assist in achieving Sustainability
- Council needs to complete its AMP and build the requirements into its LTFP to determine all of its future funding needs
- Council's Unrestricted Current Ratio is above benchmark for the forecast period indicating sound liquidity. However Council's forecast Cash Expense Ratio is below benchmark and this may pose issues in the event of an unforeseen liability
- The potential negative impact on the operating result and Net Assets of the carrying amount of CDO investments.

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	18,431	18,071	17,973	15,877	2.0%	0.5%	13.2%
User charges and fees	13,651	12,673	11,942	10,274	7.7%	6.1%	16.2%
Interest and investment revenue	2,160	1,571	1,302	0	37.5%	20.7%	N/A
Grants and contributions for operating purposes	8,525	8,744	9,095	9,701	(2.5%)	(3.9%)	(6.2%)
Other revenues	1,865	1,971	2,119	2,521	(5.4%)	(7.0%)	(15.9%)
Total revenue	44,632	43,030	42,431	38,373	3.7%	1.4%	10.6%
Expenses							
Employees	17,374	16,925	17,108	16,385	2.7%	(1.1%)	4.4%
Borrowing costs	1,274	1,522	1,822	1,442	(16.3%)	(16.5%)	26.4%
Materials and contract expenses	14,175	11,331	9,202	10,291	25.1%	23.1%	(10.6%)
Depreciation and amortisation	8,674	8,116	7,761	6,213	6.9%	4.6%	24.9%
Other expenses	5,324	4,899	4,222	5,083	8.7%	16.0%	(16.9%)
Total expenses	46,821	42,793	40,115	39,414	9.4%	6.7%	1.8%
Operating result (excluding capital grants and contributions)	(2,189)	237	2,316	(1,041)	(1023.6%)	(89.8%)	322.5%
Operating result (including capital grants and contributions)	(488)	2,472	3,823	491	(119.7%)	(35.3%)	678.6%

Table 2 - Items excluded from Income Statement

Excluded items				
Grants and contributions for capital purposes	1,701	2,235	1,507	1,532
Interest losses	N/A	N/A	N/A	(2,584)
Net gain from the disposal of assets	N/A	283	384	512

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	7,641	7,388	3,274	4,476	3.4%	125.7%	(26.9%)
Investments	12,851	13,404	14,311	10,362	(4.1%)	(6.3%)	38.1%
Receivables	6,399	6,457	7,517	6,919	(0.9%)	(14.1%)	8.6%
Inventories	881	848	726	827	3.9%	16.8%	(12.2%)
Other	511	29	431	167	1662.1%	(93.3%)	158.1%
Total current assets	28,283	28,126	26,259	22,751	0.6%	7.1%	15.4%
Non-current assets							
Investments	782	792	-	-	(1.3%)	N/A	N/A
Receivables	-	-	835	885	N/A	(100.0%)	(5.6%)
Inventories	-	-	-	-	N/A	N/A	N/A
Infrastructure, property, plant & equipment	722,024	702,869	691,225	651,904	2.7%	1.7%	6.0%
Intangible Assets	389	469	508	590	(17.1%)	(7.7%)	(13.9%)
Total non-current assets	723,195	704,130	692,568	653,379	2.7%	1.7%	6.0%
Total assets	751,478	732,256	718,827	676,130	2.6%	1.9%	6.3%
Current liabilities							
Payables	2,829	1,651	2,926	3,730	71.4%	(43.6%)	(21.6%)
Borrowings	2,476	1,116	1,127	1,099	121.9%	(1.0%)	2.5%
Provisions	4,709	4,838	3,597	3,292	(2.7%)	34.5%	9.3%
Total current liabilities	10,014	7,605	7,650	8,121	31.7%	(0.6%)	(5.8%)
Non-current liabilities							
Borrowings	17,399	20,622	22,036	23,163	(15.6%)	(6.4%)	(4.9%)
Provisions	2,727	2,997	3,736	3,214	(9.0%)	(19.8%)	16.2%
Total non-current liabilities	20,126	23,619	25,772	26,377	(14.8%)	(8.4%)	(2.3%)
Total liabilities	30,140	31,224	33,422	34,498	(3.5%)	(6.6%)	(3.1%)
Net assets	721,338	701,032	685,405	641,632	2.9%	2.3%	6.8%

Table 4-Cashflow

Cash Flow Statement (\$'000s)	Year ended 30 June			
	2012	2011	2010	2009
Cash flows from operating activities	8,078	10,438	9,401	11,379
Cash flows from investing activities	(5,962)	(4,899)	(9,504)	(6,787)
Proceeds from borrowings and advances	0	0	0	0
Repayment of borrowings and advances	(1,935)	(1,425)	(1,099)	(1,135)
Cash flows from financing activities	(1,935)	(1,425)	(1,099)	(1,135)
Net increase/(decrease) in cash and equivalents	181	4,114	(1,202)	3,457
Cash and equivalents	7,641	7,388	3,274	4,476

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 2009², 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.

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

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

EBITDA

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

Grants and Contributions for Capital Purposes

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

Grants and Contributions for Operating Purposes

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

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

Independent Commission Against Corruption (ICAC)

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

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

Independent Pricing and Regulatory Tribunal (IPART)

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

Infrastructure Backlog

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

Integrated Planning and Reporting (IP&R) Framework

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

Local Government Cost Index (LGCI)

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

Net Assets

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

Roads and Maritime Services (RMS)

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

Section 64 Contribution

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

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

Section 94 Contribution

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

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

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

Special Rate Variation (SRV)

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

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

The applications are reviewed and approved by IPART.

Sustainability

A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community

Ratio Explanations

Asset Maintenance Ratio

Benchmark = Greater than 1.0x

Ratio = actual asset maintenance / required asset maintenance

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

Building and Infrastructure Renewals Ratio

Benchmark = Greater than 1.0x

Ratio = Asset renewals / depreciation of building and infrastructure assets

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

Cash Expense Cover Ratio

Benchmark = Greater than 3.0 months

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

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

Capital Expenditure Ratio

Benchmark = Greater than 1.1x

Ratio = annual capital expenditure / annual depreciation

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

Debt Service Cover Ratio (DSCR)

Benchmark = Greater than 2.0x

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

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

Building and Infrastructure Backlog Ratio

Benchmark = Less than 0.02x

Ratio = estimated cost to bring assets to a satisfactory condition (from Special Schedule 7) / total infrastructure assets (from Special Schedule 7)

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

Interest Cover Ratio

Benchmark = Greater than 4.0x

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

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

Operating Ratio

Benchmark = Better than negative 4%

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

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

Own Source Operating Revenue Ratio

Benchmark = Greater than 60%

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

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

Unrestricted Current Ratio

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

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

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