



# Dubbo City Council Long-Term Financial Outlook

an analysis on behalf of Review Today  
by TreEnt Advisory Services

April 2010

copyright © TreEnt Pty Ltd

This report is protected by copyright law, and may not be reproduced, distributed, displayed, published, performed or broadcast by anyone other than Review Today Pty Ltd or the local council to which the report applies without the prior written permission of the owner TreEnt Pty Ltd.

TreEnt Advisory Services  
a division of TreEnt Pty Ltd  
ABN: 075 110 431

PO Box 109  
Glenside, SA 5065

[www.treent.com.au](http://www.treent.com.au)

While every effort has been made to ensure the accuracy of this report, the uncertain nature of economic data, forecasting and analysis means that TreEnt Advisory Services is unable to make any warranties in relation to the information contained herein. TreEnt Advisory Services, its employees and agents disclaim liability for any loss or damage which may arise as a consequence of any person relying on the information contained in this report.

# Table of Contents

|  |     |
|--|-----|
| Foreword   | i   |
| Glossary   | iii |
| 1. Is Continuation of Council's Existing Policies Financially Sustainable? | 1   |
| 1.1 Analytical framework   | 1   |
| 1.2 Operating deficit and inter-generational equity                        | 3   |
| 1.3 Borrowing and debt   | 6   |
| 1.4 Annual renewals gap, and infrastructure backlog                        | 10  |
| 1.5 Overall assessment   | 12  |
| 2. The Council's Spending on Services                                      | 13  |
| 2.1 Description of existing policies                                       | 13  |
| 2.2 Policy adjustment: 'restrained' scenario                               | 15  |
| 2.3 Key findings   | 16  |
| 3. The Council's Spending on Assets  | 17  |
| 3.1 Description of existing policies                                       | 17  |
| 3.2 Policy adjustments: 'responsive' scenario                              | 23  |
| 3.3 Key findings   | 28  |
| 4. The Council's Funding Policies  | 29  |
| 4.1 Description of existing policies                                       | 29  |
| 4.2 Benchmarking effort against those of the Council's peers               | 34  |
| 4.3 Policy adjustments: 'ambitious' revenue scenario                       | 38  |
| 4.4 Key findings   | 42  |
| 5. Recommended Adjustments to the Council's Spending and Funding Policies  | 43  |
| 5.1 Changes necessary to key policy targets                                | 43  |
| 5.2 Suggested transition strategy  | 44  |
| 5.3 Impact on key financial indicators                                     | 46  |
| 5.4 Key findings   | 47  |
| 6. The Council's Financing Policies  | 49  |
| 6.1 Role of borrowing  | 49  |
| 6.2 Present sources and uses of capital employed                           | 50  |
| 6.3 Financing task under continuation of existing policies                 | 51  |
| 6.4 Financing task under the 'responsible' scenario                        | 53  |
| 6.5 Key findings   | 56  |
| Appendix A   | 57  |
| Appendix B   | 58  |
| Appendix C   | 59  |



## Foreword

TreEnt was engaged by Review Today Pty Ltd to undertake a financial analysis of Dubbo City Council. Review Today has been engaged by the Council to provide an independent assessment of the Council's infrastructure and finances. Separately, GHD has analysed the Council's asset management for Review Today.

### Caveats and disclaimers

We have relied upon financial data supplied by the Council and prepared in accordance with the accounting and financial reporting requirements embodied in the NSW Department of Local Government's Accounting Code. This information has not been subjected to an audit on our part. While we have made our best efforts to ensure that the information provided meets our requirements, we accept and use the information provided by the Council in good faith. We are unable to provide any warranties about the accuracy or completeness of the information provided to us by the Council.

In instances where key data are missing or inadequate, we have had to rely on certain estimation procedures. Where we exercise judgment (as is always necessary to complete analyses of this kind), this is based on our experience with these types of assessments and without any particular result in mind.

### Acknowledgements

We are grateful to Council officers for providing the financial and related data necessary to undertake our analysis, and for assisting with the interpretation of these data.

Our analysis also benefits from estimates prepared by GHD of the Council's various expenditures on its infrastructure assets (maintenance, renewals and enhancements) and the Council's existing infrastructure backlog.

TreEnt Advisory Services  
April 2010



## Glossary

All financial terms used in this report have the meaning given in the NSW Department of Local Government, Local Government Code of Accounting Practice and Financial Reporting, Update No. 17, July 2009, with the following additions and exceptions. All italicised terms below are defined elsewhere in this Glossary.

|                               |   |
|-------------------------------|---|
| above-the-line grants         | mean (i) operating grants provided by other governments, and (ii) any capital grants received specifically for the purpose of financing the maintenance or renewal or rehabilitation of existing assets which were spent during the year  |
| annual net borrowing          | means the increase over the course of a year in a council's net financial liabilities   |
| ambitious revenue option      | means a change to a council's funding policies so that (i) within five years the council's rating effort and cost recovery effort rise to at least the highest effort evident among its closest peers and (ii) if necessary, further increases to achieve the low end of the council's operating surplus target range by the end of the projection period |
| annual renewals gap           | means the extent to which a council's actual (or planned) amount of renewals capex in a particular year falls short of the amount necessary in a particular year (in addition to required maintenance) in order to keep the service capacity of those assets at a satisfactory level; a (positive) gap increases any infrastructure backlog               |
| below-the-line grants         | mean (i) any capital grants received specifically for the purpose of financing enhancement capital expenditure during the year, and (ii) any other grants recognised during the year but which remain unspent at the end of the year  |
| capex, or capital expenditure | means amounts expended on the purchase or construction of non-financial assets  |
| capital revenue               | means (i) capital contributions and asset donations, (ii) net gains from the disposal or revaluation of assets, and (iii) below-the-line grants from other governments  |
| enhancement                   | means increasing an asset's service capacity beyond that which existed originally   |
| existing policy scenario      | means a council's policy settings with regard to its funding policy, financing policy, spending on services policy and spending on assets policy all continue unchanged from their present settings   |
| external financing ratio      | means the proportion of a council's annual capital expenditure that is funded by annual net borrowing   |
| financial governance          | means the process by which an elected Council meets its accountability obligations to its ratepayers for the sustainability of the council's long-term finances   |
| financial sustainability      | means the extent to which a council's policy settings achieve – and sustain – financial and infrastructure conditions that are prudent and responsible in the long term   |
| financing policy              | means the mix chosen by a council between (i) borrowing (debt) and (ii) internally-generated sources (ratepayer-contributed equity) when it comes to the sourcing of finance employed by the council  |
| funding policy                | means, in relation to recovering a council's costs, the mix chosen by the council between property rates on the one hand and annual charges, fees, fines, user charges, recoveries and contributions, and so the levels of and annual % changes in these various forms of council revenue raising   |
| infrastructure assets         | means all council-owned buildings, roads, bridges, footpaths, stormwater drains, commercial assets, recreational assets and natural assets  |

|                              |  |
|------------------------------|--|
| infrastructure backlog       | means the estimated total cost of undertaking the required asset maintenance and renewal that the council's asset managers had programmed to occur prior to a year's end, but which had not been carried out by then (due to a lack of finance or other reasons) and is still required to be done  |
| interest cover ratio         | means the number of times a council's operating surplus before depreciation and interest is a multiple of its annual interest expense  |
| maintenance                  | means the regular repair and upkeep of assets so that they do not degrade at a rate faster than was originally intended; does not include rehabilitation or renewal  |
| net financial liabilities    | mean the net financial obligations of a council to other sectors of the economy, being total liabilities less (i) holdings of unrestricted cash and securities and any restricted cash and securities matching restricted liabilities, and (ii) receivables  |
| non-infrastructure assets    | mean land, inventories, plant and equipment, and furniture and fittings (these assets are outside of GHD analysis)   |
| operating revenue            | means total annual revenue <u>excluding</u> capital revenue  |
| operating surplus            | means the extent to which the total of a council's operating revenue in a particular year exceeds the total of annual expenses in that year <u>excluding</u> (i) any significant one-off expenses such as asset write downs expensed and (ii) any expenses funded during the year by grants received in previous years   |
| own-source operating revenue | means that part of operating revenue which is not received in the form of grants from the other tiers of government  |
| real-terms growth            | means the percentage change in a value or an amount between one year and another which has been adjusted to exclude the change associated with annual inflation  |
| rehabilitation               | means addressing any infrastructure backlog  |
| renewal(s)                   | means the total cost of restoring an asset's service capacity to that which existed originally, applying current construction standards and technology, once an asset has reached (i) the end of its economic or useful life or (ii) because it no longer provides an acceptable level of service and cannot be restored by normal maintenance   |
| responsible scenario         | means the mix of council funding and spending policies that achieves an optimal outcome in future in terms of sustainable finances (i.e., a modest operating surplus in conjunction with modest net financial liabilities), sustainable infrastructure (i.e., little or no infrastructure backlog), sustainable services (i.e., core service obligations are met) and affordable rates, fees and charges (relative to community household incomes) |
| responsive spending scenario | means a change to a council's spending policies so that any infrastructure backlog is eliminated within five years, future renewals and maintenance are undertaken when they fall due, and real spending on services and the non-financial asset base both increase by no more than population growth  |
| restrained spending scenario | means a change to a council's spending policies so that any infrastructure backlog is eliminated within 10 years, future renewals and maintenance are undertaken when they fall due, there are no increases in the non-financial asset base (i.e., enhancement capex is zero), and real spending on services is reduced sufficiently to achieve the low end of the council's operating surplus target range by the end of the projection period    |
| revenue-raising effort       | means revenue from rates, annual charges, fees & user charges collected annually by a council as a proportion of aggregate annual (after-tax) ratepayer income   |
| spending on assets policy    | means a council's policy settings in relation to the maintenance, renewal, rehabilitation and enhancement of the council's infrastructure assets   |
| spending on services policy  | means a council's policy settings in relation to the level and growth of its annual expenses (other than its maintenance, depreciation and interest expenses)  |

# 1. Is Continuation of Council's Existing Policies Financially Sustainable?

This chapter provides our assessment of Dubbo's financial position and performance, currently and over the coming 10 years, based upon continuation of existing policy. The impact of possible policy changes is dealt with in later chapters.

## 1.1 Analytical framework

### 1.1.1 Definition of 'existing policy'

By 'existing policy', we mean the situation where a council's key spending and revenue policy settings continue on in future in line with present settings. Essentially, such an assumption enables a council's financial outlook to be assessed were the council to leave its policy settings unchanged. Existing policy is therefore based on 'no policy change' assumptions. This assumption is a standard analytical approach, and establishes a baseline against which alternative policy change scenarios can be judged.

### 1.1.2 External parameters

Our projections rely on a number of parameters that are assumed to be invariant to a council's policy settings. These include:

- ❑ certain council-specific parameters such as annual growth in grants from other governments, the average lives of council assets, annual resident population growth, and annual growth in the number of assessable properties; and
- ❑ certain State-wide parameters such as annual % changes in the consumer price index (CPI) and average interest rates.

With regard to the average lives of council assets for annual depreciation purposes, it has been assumed that these average lives will be shortened over time from the average level inherent in 2008-09 depreciation rates, with a view over time to more closely aligning them with GHD's finding that Dubbo's infrastructure assets require renewal or replacement on average every 30 years or so. This would ensure that the cashflow generated by the depreciation component of the Council's annual expenses is sufficient in time to fully finance timely renewal or replacement of existing assets.

In respect of other external parameters, the assumptions used are based on, for council-specific parameters, values as agreed with the Council and, for State-wide parameters, forecasts published by Access Economics. Notably, over the projection period:

- ❑ the average annual growth in the Council's resident population is assumed to be 0.5%;
- ❑ the average annual growth in ratepayer numbers is assumed to be 1.0%; and
- ❑ the average annual growth in Sydney's CPI is assumed to be 3.0%.

### 1.1.3 Scope

The analysis in this report focuses on all the Council's activities except its water and sewerage operations. The water and sewerage operations are essentially commercial in nature, and are subject to strict regulatory oversight by the State government. It is a council's "General Fund" or tax-supported activities which are much more at the discretion of the council. Our focus is therefore on the Council's finances excluding its water and sewerage operations. Accordingly, all financial data and ratios presented in this report exclude Dubbo's water and sewerage operations.

### 1.1.4 Data

We have analysed Dubbo's financial position and performance based on data provided by the Council, with the following exceptions.

With respect to actual or historical data:

- ❑ the infrastructure backlog as at 30 June 2009 is as estimated by GHD; and
- ❑ the value of Dubbo's physical assets – both in before- and after-depreciation terms – has been put onto an approximate current cost (or 'fair value') basis. For the written down value of these assets, this involves increases ranging from around 10% in 2004-05 to around 17% in 2008-09.<sup>1</sup>

With respect to forecast or projected data:

- ❑ annual spending on infrastructure assets is as estimated by GHD; and
- ❑ all other financial projections are as derived by TreEnt, and do not necessarily reflect the Council's current projections.

The data used are explained further in Appendix A. It should be noted that, when using GHD's estimates of the components of a council's infrastructure spending, we convert GHD's constant-price estimates into current prices by applying Sydney's CPI. While the ratios we calculate are largely unaffected by this distinction, we find it less confusing for all concerned if dollar amounts – both projections and historical values – are reported in our tables and charts on a common (current-price) basis.

Appendix C re-presents Dubbo's finances into a summary format.

### 1.1.5 Benchmarks

In this chapter, rather than looking at policies per se, our focus is on financial "outcomes". Policy settings are the focus of later chapters.

Our focus in this chapter is mainly on the key financial outcomes identified by the Independent Inquiry into the Financial Sustainability of NSW Local Government (hereafter "LGI").<sup>2</sup> The key financial indicators used, and associated benchmark values, are set out in Table 1-1.

---

<sup>1</sup> No commensurate adjustments have been made to actual or historical data in relation to Dubbo's annual depreciation expense.

<sup>2</sup> NSW Inquiry (2006), pp.273-4. We have not referred to the net debt ratio, as there is a close relationship between it and the net financial liabilities ratio emphasised in this report.

Table 1-1  
Key Financial Indicators and Benchmarks Values  
Dubbo City Council

| Indicator  | Target range |      |
|--|--------------|------|
|  | low          | high |
| Operating surplus ratio <sup>(a)</sup>             | 2½%          | 7½%  |
| External financing ratio <sup>(b)</sup>            | 25%          | 50%  |
| Net financial liabilities ratio <sup>(c),(d)</sup> | 40%          | 80%  |
| Interest cover ratio <sup>(e),(f)</sup>            | 3x           | 5x   |
| Annual renewals gap ratio <sup>(g)</sup>           | -10%         | 10%  |
| Infrastructure backlog ratio <sup>(h)</sup>        | 0%           | 2%   |

<sup>(a)</sup> A council's operating surplus as a % of its own-source operating revenue. The operating surplus concept is defined in section 1.2.

<sup>(b)</sup> A council's annual increase in its net financial liabilities as a % of its annual capital expenditure; the LGI called this the "net borrowing ratio".

<sup>(c)</sup> A council's net financial liabilities as a % of its annual operating revenue. The net financial liabilities concept is defined in section 1.3.2.

<sup>(d)</sup> The LGI used "capital employed" as the denominator. The target range shown here is the LGI's range adjusted for our preference for operating revenue as the denominator.

<sup>(e)</sup> A council's operating surplus before depreciation and interest as a multiple of its annual interest expense.

<sup>(f)</sup> The LGI used the net interest ratio. The interest cover target range shown here is based on the LGI's net interest ratio target range translated into the equivalent for the interest cover indicator.

<sup>(g)</sup> A council's annual renewals gap (excluding any rehabilitation capital expenditure) as a % of its required renewals capital expenditure. The annual renewals gap concept is defined in section 1.4.1.

<sup>(h)</sup> A council's estimated infrastructure backlog as a % of the gross replacement value of its infrastructure assets. The infrastructure backlog concept is defined in section 1.4.2.

Each of these financial indicators is based upon a generally-accepted key analytical balance which has a strong predictive relationship with the degree to which a council's finances are likely to be sustainable in the long term.

The target ranges shown in Table 1-1 are based upon those suggested by the LGI. The 'low' and 'high' benchmarks or target values published by the LGI were those applying to an 'average' NSW council. The benchmarks shown in Table 1-1 have been adapted to Dubbo's general circumstances, in terms of its growth, size and grants dependency.

It should be noted that the low and high target values shown are not absolutes. They may be breached but ideally only for a limited period. Hence, these low and high values define a band of desirable medium-term values for the indicator concerned.

## 1.2 Operating deficit and inter-generational equity

### 1.2.1 Measurement issues

Following Access Economics, we consider the primary indicator of a council's operating financial performance to be the council's operating surplus/(deficit) before capital amounts. When

measured in this way, any operating deficits are indicative of services which are consumed by current ratepayers being paid for – one way or the other – by future ratepayers.<sup>3</sup>

As a general principle, operating expenses plus a fair measure of annual depreciation represent spending on outputs the consumption of which give rise to benefits derived wholly in the current period. Capital spending results in benefits largely beyond the current period. When the operating surplus – appropriately measured – is positive, operating revenue is more than sufficient to finance current operations. When the operating surplus is negative (indicating an operating deficit), operating revenue is insufficient to finance current operations.

In general, operating deficits should be avoided over the business cycle, by increasing own-source revenue effort (or reducing service levels). However, cyclical (as opposed to structural) deficits can be tolerated to ensure that tax smoothing occurs for ratepayers.

Funding the correction of current operating deficits should be the responsibility mainly of current ratepayers.

Avoidance of (additional) future operating deficits should be the responsibility of future ratepayers.

However, it may be that current operating deficits are too sizeable to be addressed entirely by current ratepayers. If so, it may be necessary to see a proportion of the current operating deficit offset by future ratepayers – to, in effect, phase out any operating deficit in a manageable way over time.

The apportionment of grants from other governments between ‘operating’ and ‘capital’ categories plays a critical role in the way we measure operating surpluses and deficits. We prefer to make the distinction between:

- ❑ above-the-line grants, comprising (i) all operating grants, and (ii) capital grants received specifically for the purpose of financing the maintenance or renewal of existing assets; and
- ❑ below-the-line grants, comprising (i) any capital grants received specifically for the purpose of financing enhancement capital expenditure during the year, and (ii) any other grants received during the year but which remain unspent at the end of the year.

In summary, we measure a council’s operating surplus as follows:

- ❑ total annual revenue excluding (i) capital contributions and asset donations, (ii) net gains from the disposal or revaluation of assets, (iii) any capital grants received specifically for the purpose of financing enhancement capital expenditure during the year (but not those ‘capital’ grants provided to finance the maintenance or renewal of existing assets), and (iv) any other grants received during the year but which remain unspent at the end of the year
- ❑ less total annual expenses excluding (i) any significant one-off expenses such as asset write downs expensed (or equivalent impairment amounts) and (ii) any of this year’s expenses which have been funded by grants received in previous years.

We measure the operating surplus ratio using a council’s own-source operating revenue as the denominator. This denominator is chosen as only a council’s own-source revenue is under its direct

---

<sup>3</sup> Under Australian Accounting Standards (AAS 27, Financial Reporting by Local Governments), capital revenue can be included when calculating an operating account surplus.

control, so that the resultant ratio provides an indication of the % change necessary in such revenues were any deficit to be eliminated by an increase in the council's revenue-raising effort.

Table 1-2 shows our calculation of the operating surplus/(deficit) for Dubbo for 2008-09, and the associated operating surplus ratio, from the relevant financial aggregates.

Table 1-2  
Operating Surplus Ratio  
Dubbo City Council (excluding Water & Sewerage), 2008-09

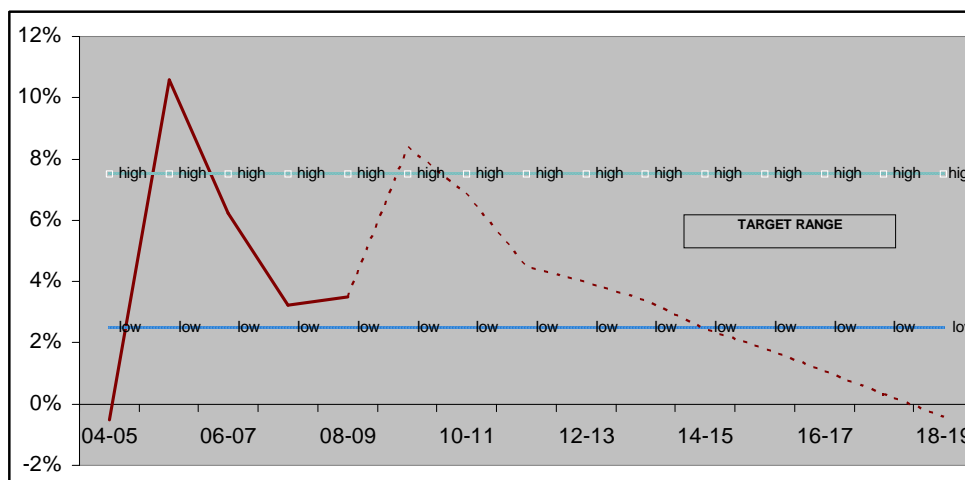
|                                       |        |
|---------------------------------------|--------|
| Operating revenue (\$M)               | 48.742 |
| less                                  |        |
| Operating expenses (\$M)              | 33.637 |
| less                                  |        |
| Interest expense (\$M)                | 1.823  |
| less                                  |        |
| Depreciation expense (\$M)            | 11.997 |
| equals                                |        |
| Operating surplus/(deficit) (\$M)     | 1.285  |
| divided by                            |        |
| Own-source operating revenue (\$M)    | 36.611 |
| equals                                |        |
| Operating surplus/(deficit) ratio (%) | 3.5%   |

<sup>(a)</sup> All key terms used in this Table are defined in the Glossary or otherwise have the meaning used in DLG's Accounting Code.

It is apparent that Dubbo ran a modest operating surplus in 2008-09.

Chart 1-1 shows the time series of Dubbo's operating surplus ratio (where negative values indicate an operating deficit), covering both actuals for the last five years and 10 years of forward projections based on continuation of existing policy.

Chart 1-1  
Operating Surplus Ratio  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



It should be noted that in this chart, as in all similar charts in the rest of this report:

- ❑ the solid line shows the actual figures for recent years; and
- ❑ the dotted line shows our projections beyond 2008-09.

Dubbo's operating surplus has emerged since 2003-04. As Table 1-3 shows, operating revenue have been increasing quite strongly in real terms, outpacing real-terms growth in total expenses by around 0.7 percentage points per annum since 2003-04. Growth in rates revenue has played the major role, reflecting a series of special variations.

Table 1-3  
Average Annual Real-terms Percentage Increases  
Dubbo City Council (excluding Water & Sewerage), 2003-04 to 2008-09

|   |      |
|---|------|
| Total expenses  | 3.1% |
| Operating revenue   | 3.8% |
| Own-source operating revenue                                | 3.6% |
| Rates revenue   | 5.6% |
| Other own-source operating revenue                          | 1.6% |
| Above-the-line grants from other governments <sup>(a)</sup> | 4.5% |

<sup>(a)</sup> Comprises all operating grants and those capital grants provided by other government for the purpose of financing the maintenance and renewal of a council's existing assets.

It is evident from Chart 1-1 that – under continuation of existing policy – the operating surplus looks set to continue.

## 1.3 Borrowing and debt

### 1.3.1 External financing ratio

Annual net borrowing/(lending) is the key analytical balance in relation to a council's overall annual financial performance, encapsulating annual 'capital' as well as 'operating' financial performance.

Under our measure of annual net borrowing (which accords with ABS as well as international (IMF) government finance statistics standards), positive annual net borrowing can occur even if a council does not increase its interest-bearing liabilities (or debt). Instead, any financing transaction that increases a council's net financial liabilities<sup>4</sup> is classified as 'annual net borrowing'. This can be a draw-down of financial assets (e.g., a cash withdrawal) as much as a run-up of debt or other liabilities.

[For the avoidance of confusion, it is worthwhile noting that "borrowing" indicates the process of increasing the stock of debt, whereas "borrowings" refers to the stock of debt itself.]

Table 1-4 shows our calculation of Dubbo's external financing ratio for 2008-09.

<sup>4</sup> The net financial liabilities concept is defined in section 1.3.2.

Table 1-4  
External Financing Ratio  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|   |        |
|---|--------|
| Net acquisition of new and upgraded assets <sup>(a)</sup> (\$M)             | -1.662 |
| plus  |        |
| Increase/(decrease) in restricted net financial assets <sup>(b)</sup> (\$M) | 0.035  |
| less  |        |
| Operating surplus/(deficit) (\$M)   | 1.285  |
| equals  |        |
| Annual net borrowing/(lending) (\$M)  | -2.912 |
| divided by  |        |
| Capital expenditure (\$M)   | 17.689 |
| equals  |        |
| External financing ratio <sup>(c)</sup> (%)                                 | 0.0%   |

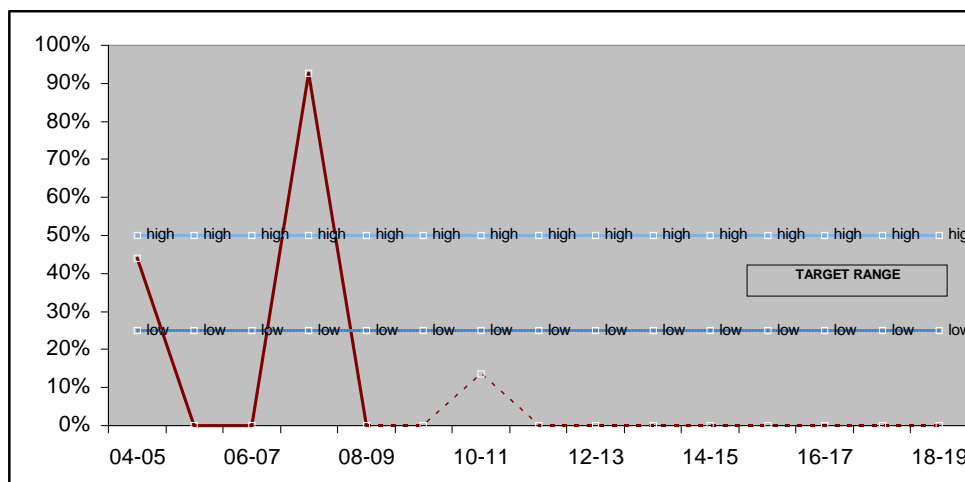
<sup>(a)</sup> Capital expenditure less capital revenue (comprising proceeds from the disposal of assets, capital contributions and capital grants from other governments for the purpose of funding asset enhancement).

<sup>(b)</sup> Also includes a balancing item to reconcile with annual movements in net financial liabilities.

<sup>(c)</sup> Constrained to 0% for years where there is negative annual net borrowing.

Chart 1-2 shows the time series of the external financing ratio for Dubbo, including projections on an existing policy basis.

Chart 1-2  
External Financing Ratio<sup>(a)</sup>  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



<sup>(a)</sup> Constrained to 0% for any year where there is negative annual net borrowing.

While relatively volatile, annual net borrowing has on average been within the recommended target range in recent years. If existing policies continue unchanged, annual net borrowing looks set to play a negligible role in the financing of capital expenditure over the projection period.

### 1.3.2 Net financial liabilities ratio

Table 1-5 shows our calculation of Dubbo's net financial liabilities ratio as at 30 June 2009. This ratio provides an indicator of 'broad debt', and so the Council's reliance on borrowed capital.<sup>5</sup>

Table 1-5  
Net Financial Liabilities Ratio  
Dubbo City Council (excluding Water & Sewerage), 30 June 2009

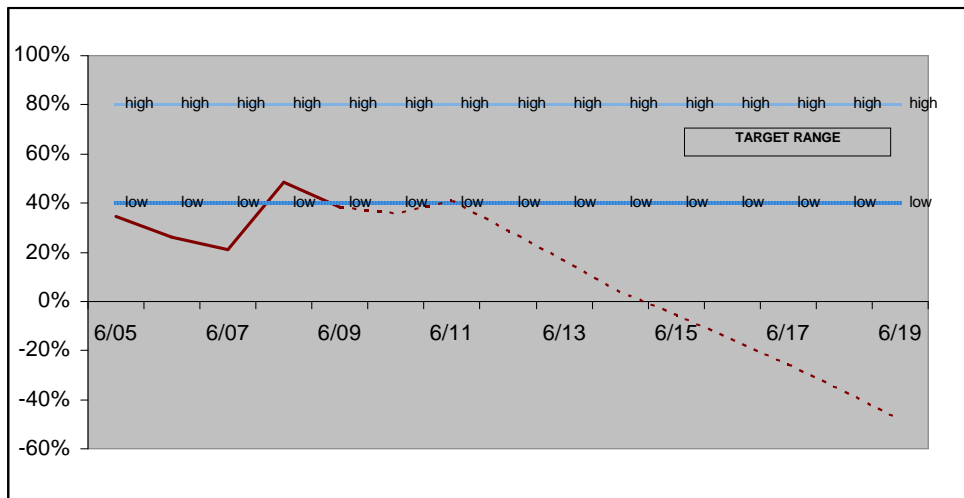
|  |        |
|--|--------|
| Net debt <sup>(a)</sup> (\$M)                        | 10.722 |
| plus   |        |
| Other net financial liabilities <sup>(b)</sup> (\$M) | 8.041  |
| equals   |        |
| Net financial liabilities (\$M)                      | 18.763 |
| divided by   |        |
| Operating revenue (\$M)                              | 48.742 |
| equals   |        |
| Net financial liabilities ratio (%)                  | 38.5%  |

<sup>(a)</sup> Total interest-bearing liabilities less cash and securities (excluding externally-restricted cash and securities).

<sup>(b)</sup> Payables less receivables plus provisions (excluding restricted liabilities) less any restricted cash and securities matching restricted liabilities.

Chart 1-3 shows the time series of Dubbo's net financial liabilities ratio, including projections on an existing policy basis.

Chart 1-3  
Net Financial Liabilities Ratio  
Dubbo City Council (excluding Water & Sewerage), 30 June 2004 to 30 June 2019



In recent years, Dubbo's reliance on borrowings – in all forms – has climbed into the 'low' end of the LGI's target range. If existing policies continue unchanged, however, the ratio is expected to fall well below the LGI's target range over the next 10 years.

<sup>5</sup> A council's net financial liabilities are its 'broad' debt in the sense that these liabilities include financing drawn not only from debt providers but also (in effect) from council employees (in the form of entitlements payable in the future) and service providers (in the form of payables).

### 1.3.3 Interest cover ratio

Table 1-6 shows our calculation of Dubbo's interest cover ratio for 2008-09.

Table 1-6<sup>(a)</sup>  
Interest Cover Ratio  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|  |        |
|--|--------|
| Operating revenue (\$M)                                  | 48.742 |
| less   |        |
| Operating and maintenance expenses <sup>(b)</sup> (\$M)  | 33.637 |
| equals   |        |
| Operating surplus before interest and depreciation (\$M) | 15.105 |
| divided by   |        |
| Interest expense (\$M)                                   | 1.823  |
| equals   |        |
| Interest cover ratio (times (x))                         | 8.3x   |

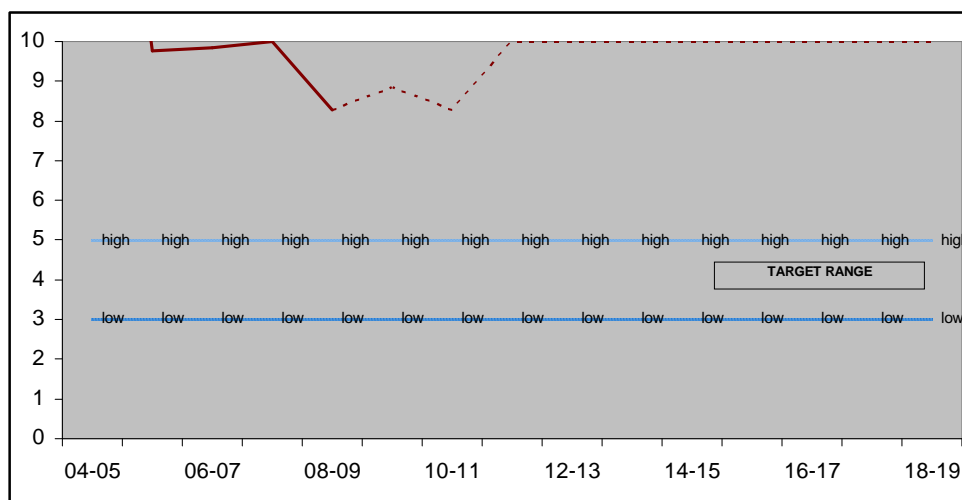
<sup>(a)</sup> This ratio has been constrained to a maximum of 10 times in this chart.

<sup>(b)</sup> Excludes depreciation and interest expenses, but includes maintenance spending.

The interest cover ratio indicates the number of times the council's annual interest expense (\$1.8 million in 2008-09) is 'covered' by its operating surplus before interest and depreciation (\$15.1 million in 2008-09) – which is 8.3 times. This confirms that Dubbo's debt burden is not currently excessive.

Chart 1-4 shows the time series of Dubbo's interest cover ratio, including projections on an existing policy basis.

Chart 1-4  
Interest Cover Ratio  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



Dubbo's interest cover ratio recently has been above the recommended target range, and looks set to remain so over the remainder of the projection period on a no-policy-change basis.

## 1.4 Annual renewals gap, and infrastructure backlog

A raft of obligations come with a council's infrastructure assets. Any infrastructure backlog in effect is a 'liability' facing the council much like borrowings, but one that does not show up on its balance sheet.

### 1.4.1 Annual renewals gap ratio

The annual renewals gap is defined as the difference between:

- ❑ the amount of capital expenditure that would have kept the service capacity of a council's infrastructure assets at a required standard ("required renewals capex"); and
- ❑ the renewals capex actually undertaken – or proposed to be undertaken – in a particular year ("actual renewals capex").

For this purpose, we only include renewals capital expenditure that falls due in the year in question. Capital expenditure classified as being for rehabilitation purposes – which in turn is due to the deferral of required renewal in previous years – is not included when measuring the annual renewals gap.

The financial data necessary to measure any future annual renewals gaps are developed and reported in the GHD report.

Table 1-7 shows our calculation of the annual renewals gap for Dubbo for 2008-09 based on data estimated by GHD for later years.

Table 1-7  
Annual Renewals Gap Ratio  
Dubbo City Council (excluding Water & Sewerage), 2008-09

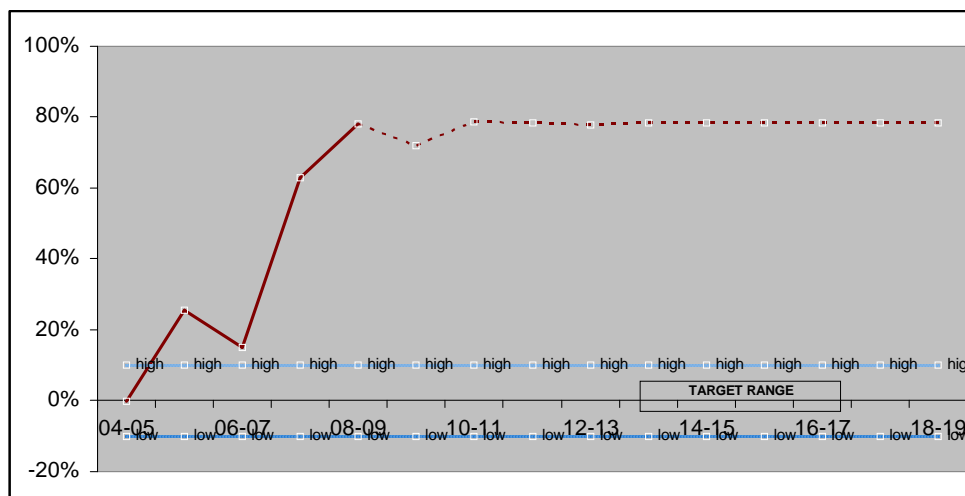
|  |       |
|--|-------|
| Required renewals capex <sup>(a)</sup> (\$M) | 9.313 |
| less   |       |
| Actual renewals capex (\$M)                  | 2.048 |
| equals                                       |       |
| Annual renewals gap (\$M)                    | 7.265 |
| divided by                                   |       |
| Required renewals capex (\$M)                | 9.313 |
| equals                                       |       |
| Annual renewals gap ratio (%)                | 78.0% |

<sup>(a)</sup> It should be noted that the required renewals capex numbers used in this report for 2008-09 and earlier years are GHD's estimates for 2009-10 extrapolated backwards over time ("backcast") by TreEnt in accordance with the process described in Appendix A.

Chart 1-5 shows the time series for Dubbo's annual renewals gap ratio, including projections on an existing policy basis.

Dubbo's annual renewals gap ratio on average is significantly above the targeted range. If existing policy settings continue unchanged, a major deterioration in the condition of the Council's existing assets is in prospect.

Chart 1-5  
Annual Renewals Gap Ratio  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



### 1.4.2 Infrastructure backlog

A council's infrastructure backlog is the estimated total cost of undertaking the maintenance and renewal that a council's asset managers had programmed to occur during the year in question or in preceding years but which have not been carried out (due to a lack of finance or other reasons) and are still required to be done. The backlog relates to buildings, roads and all other infrastructure assets (including stormwater assets, recreational assets, natural assets and commercial assets).

Table 1-8 shows our calculation of Dubbo's infrastructure backlog ratio at 30 June 2009.

Table 1-8  
Infrastructure Backlog Ratio  
Dubbo City Council (excluding Water & Sewerage), 30 June 2009

|   | Total   |
|---|---------|
| Infrastructure backlog <sup>(a)</sup> (\$M)                     | 25.480  |
| divided by  |         |
| Restoration value of infrastructure assets <sup>(b)</sup> (\$M) | 506.555 |
| equals  |         |
| Infrastructure backlog ratio (%)                                | 5.0%    |

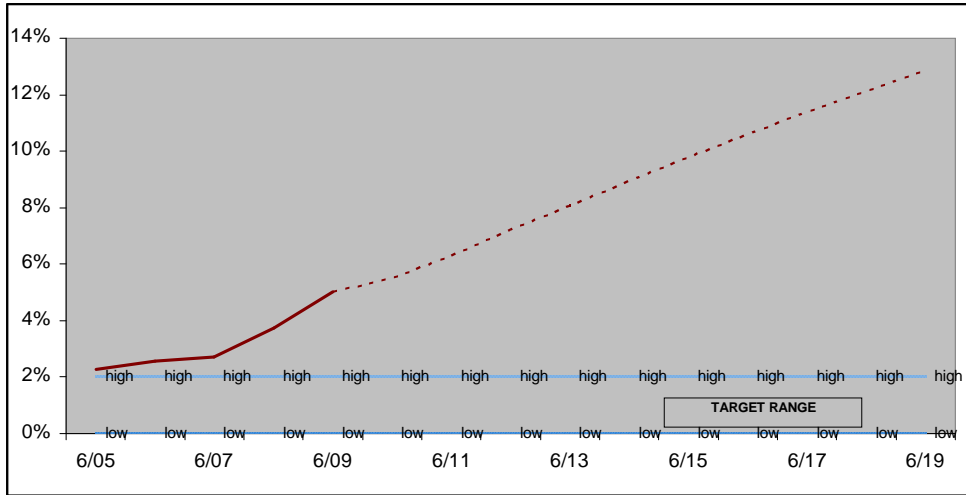
<sup>(a)</sup> As estimated by GHD. This is about one-half of the estimated cost of returning existing assets to a 'satisfactory' condition as published in the Council's Special Schedule No. 7.

<sup>(b)</sup> As estimated by GHD.

Chart 1-6 shows the time series of Dubbo's infrastructure backlog ratio, including projections on an existing policy basis.<sup>6</sup> Without any policy change, Dubbo is facing an ever-increasing infrastructure backlog.

<sup>6</sup> GHD's backlog estimate as at 30 June 2009 has been projected forward by adding GHD's estimates of future annual renewals gaps and subtracting any rehabilitation capex.

Chart 1-6  
Infrastructure Backlog Ratio  
Dubbo City Council (excluding Water & Sewerage), 30 June 2004 to 30 June 2019



### 1.5 Overall assessment

As summarised in Table 1-9, some important imbalances are presently evident and/or in prospect in Dubbo's financial performance and position.

Table 1-9  
Key Financial Indicators and Benchmarks Values  
Dubbo City Council (excluding Water & Sewerage)

| Indicator                       | Recommended target range |      | Actual/Forecast (under existing policy) |         |
|---------------------------------|--------------------------|------|---|---------|
|                                 | low                      | high | 2008-09                                 | 2018-19 |
| Operating surplus ratio         | 2.5%                     | 7.5% | 3.5%                                    | -0.4%   |
| External financing ratio        | 25%                      | 50%  | 0%                                      | 0%      |
| Net financial liabilities ratio | 40%                      | 80%  | 38%                                     | -48%    |
| Interest cover ratio            | 3x                       | 5x   | 8.3x                                    | 10.0x   |
| Annual renewals gap ratio       | -10%                     | 10%  | 78%                                     | 78%     |
| Infrastructure backlog ratio    | 0%                       | 2%   | 5%                                      | 13%     |

Dubbo's present annual renewals gap represents a major financial imbalance. As a consequence, the Council's infrastructure backlog is set to increase significantly over the next 10 years on a no-policy-change basis. Together, these financial imbalances – both present and in prospect – indicate that continuation of existing policies is not financially sustainable.

## 2. The Council's Spending on Services

This chapter provides our assessment of the impact of possible changes to Dubbo's policies relating to spending on services, aimed at improving the sustainability of the Council's long-term finances. This contrasts with the no-policy-change assumptions adopted in chapter 1.

In doing so, aside from additional borrowings, we leave all other aspects of the Council's existing policies unchanged. Asset spending policy changes are the focus of chapter 3. Funding policy changes are dealt with in chapter 4.<sup>7</sup>

### 2.1 Description of existing policies

#### 2.1.1 Spending on services

In this chapter, our focus is on "spending on services", namely expenses excluding maintenance, depreciation and interest.

The components of expenses incurred by Dubbo are set out in Table 2-1 as they relate to 2008-09.

Table 2-1  
Components of Annual Expenses  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|                      | 2008-09<br>(\$M) | % of total<br>expenses | avg annual<br>real-terms %<br>increase since<br>2003-04 |
|----------------------|------------------|------------------------|---|
| Total expenses       | 47.457           | 100.0%                 | 3.1%  |
| less                 |                  |                        |   |
| Maintenance expense  | 5.732            | 12.1%                  | 3.8%  |
| less                 |                  |                        |   |
| Depreciation expense | 11.997           | 25.3%                  | 2.2%  |
| less                 |                  |                        |   |
| Interest expense     | 1.823            | 3.8%                   | >100%   |
| equals               |                  |                        |   |
| Spending on services | 27.905           | 58.8%                  | 2.0%  |

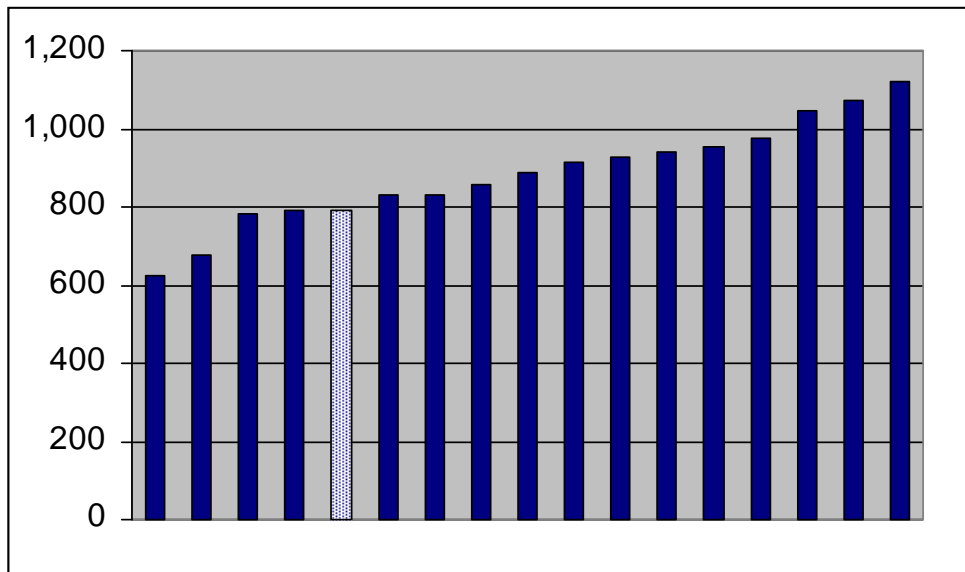
Dubbo's spending on services presently comprises nearly 60% of its total annual expenses.

It is evident that spending on services has been growing quite strongly in real terms over the last five years, but this spending has been outpaced by increases registered on average in maintenance, interest and depreciation expenses.

<sup>7</sup> This does not mean that own-source revenue is unchanged in this chapter, just a council's revenue-raising (policy) effort. For example, if operating expenses are increased, revenue from user charges is assumed to increase under no-(revenue) policy-change conditions as it is the cost recovery ratio/effort that is assumed to remain unchanged.

As to the level of such spending, Chart 2-1 compares Dubbo's average per-capita spending on services with that for a peer group of 16 other NSW larger regional urban councils with inland boundaries (hereafter "inland urban regional councils" <sup>8</sup>) in 2007-08, the latest year for which the necessary comparative data are published by the DLG.

Chart 2-1  
Average Per-Capita Spending on Services (excluding Water & Sewerage)  
NSW Inland Urban Regional Councils, 2007-08



Note: Dubbo is indicated by the lighter coloured bar in this chart. Interest and depreciation expenses are excluded. Estimates of resident population have been used as a basis of this comparison.

On this measure, Dubbo's per-capita spending on services is below-average among its peers.

### 2.1.2 Existing policy setting

We characterise Dubbo's policy setting with respect to spending on services by reference to the following indicator:

Real-terms growth in per-capita spending on services

$$= [(E''_1/E''_0) / (K_1/K_0)] - (P_1/P_0)$$

where:

E'' = spending on services (=expenses excluding maintenance, depreciation and interest)

K = estimated resident population

P = the State capital's consumer price index on average for the year in question

and subscripts:

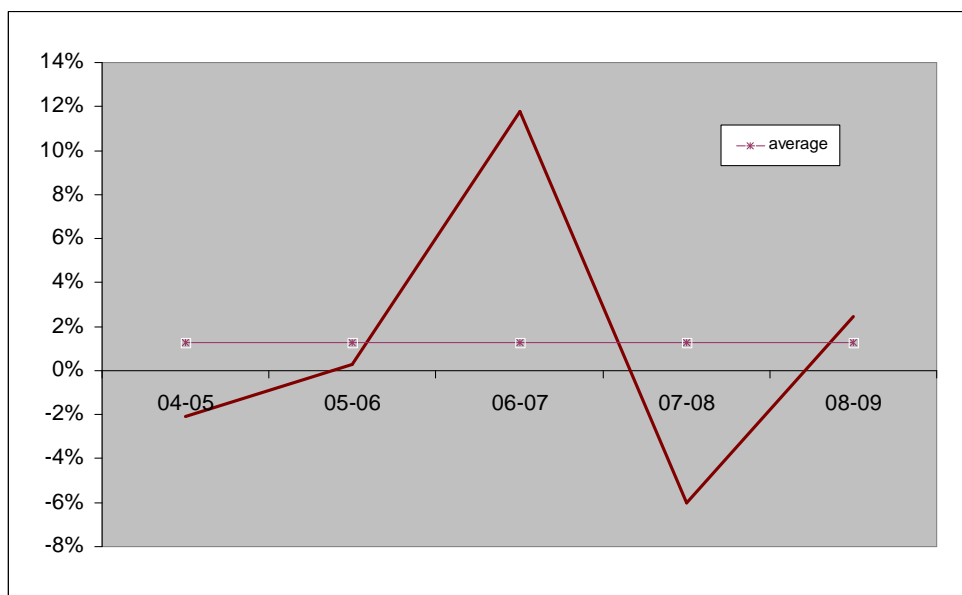
"1" denotes values for the year in question

"0" denotes values for the preceding year.

<sup>8</sup> These councils are: Albury, Armidale Dumaresq, Bathurst, Broken Hill, Cessnock, Goulburn Mulwaree, Griffith, Lismore, Lithgow, Maitland, Orange, Queanbeyan, Singleton, Tamworth, Wagga Wagga and Wingecarribee.

Chart 2-1 shows the recent track record of Dubbo's spending on services effort:

Chart 2-2  
Real-terms Growth in Per-capita Spending on Services  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



While it is evident that year-on-year growth in spending on services has been quite volatile in recent years, the average annual increase per capita over the period shown in Chart 2-1 is 1.3%.

For the purposes of existing policy projections, it has been assumed that real-terms growth in per-capita spending on services would average 2% per annum over the next 10 years.

## 2.2 Policy adjustment: 'restrained' scenario

The extent to which spending on services would have to be adjusted were such spending to bear the sole burden of adjustment is illustrated under Review Today's restrained scenario. While any infrastructure backlog is eliminated within five years and future renewals and maintenance are undertaken when they fall due, under the restrained scenario:

- ❑ real spending on services is reduced sufficiently to achieve the low end of the Council's operating surplus target range (i.e., 2½%) by the end of the projection period; and
- ❑ enhancement capex and non-infrastructure capex are both set at zero.<sup>9</sup>

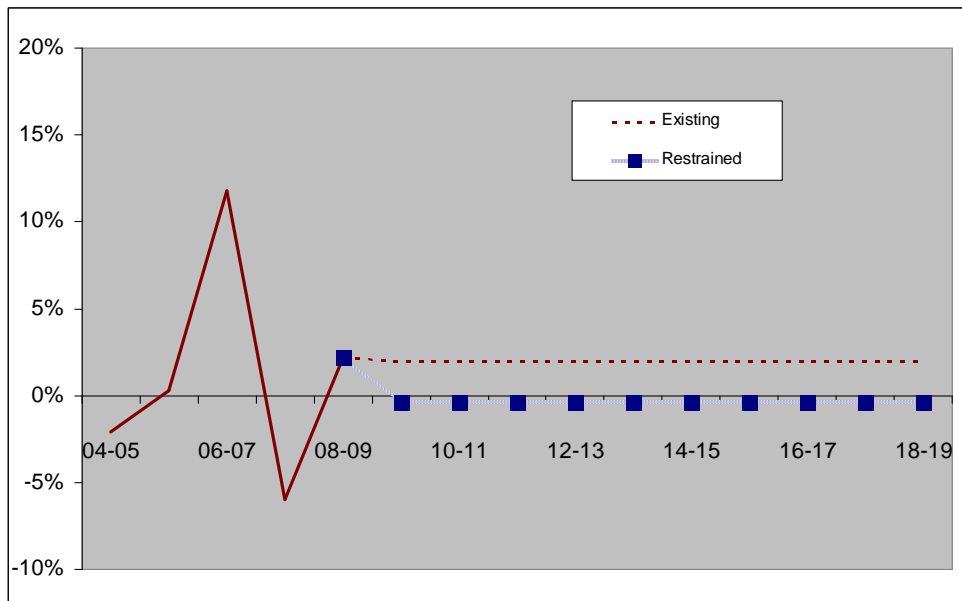
The financial outcomes under this alternative policy change scenario can be compared with those under the existing policy scenario (involving no policy change) from chapter 1.

At issue is whether the range of options on spending on service which are available to Dubbo (from 'existing policy' to 'restrained') gives rise to financial outcomes that fit within the LGI target ranges. The restrained scenario indicates the spending policy 'degrees of freedom' that the Council generally has in the absence of any revenue policy changes.

<sup>9</sup> Enhancement capex and non-infrastructure capex are examined in chapter 3, as are the other capital expenditure policy settings.

Chart 2-3 compares the assumptions regarding Dubbo’s annual real-terms growth in per-capita spending on services under the ‘restrained’ and ‘existing’ policy scenarios.

Chart 2-3  
 Real-terms Growth in Per-capita Spending on Services  
 Under the ‘Restrained’ and ‘Existing’ Revenue Policy Options  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



It is evident that, in order to achieve the restrained scenario (at least in respect of spending on services) without any increase in revenue effort, Dubbo would need to cut back on its spending on services on a per-capita basis by around 0.5% per annum in real-terms (i.e., excluding the effects of inflation) over the next 10 years. Cut backs of this magnitude are necessary not only to slow the decline in Dubbo’s annual operating surplus but also (under the restrained scenario) to accommodate the interest on additional borrowings made to finance the corrective capital expenditures on renewals and rehabilitation under the restrained scenario.

### 2.3 Key findings

In the absence of any revenue-raising policy change (and on top of a freeze in spending on new assets), the implications of our analysis in this chapter are clear:

- ❑ In order to achieve the low end of the operating surplus target range (but no other target range) without any increase in revenue effort, Dubbo would need to cut its per-capita spending on services over the 10 year forecasting period (other things being equal) on average by around ½% per annum in real-terms.
- ❑ Such a cutback in spending on services would present a challenge, as it would require total spending on services to contract by around 7% in real-terms by 2018-19. (This is on top of a freeze in spending on new assets.)

While restraint in spending on services may have to play some role in ensuring the Council’s long-term financial sustainability, other policy changes also appear inevitable (and necessary).

## 3. The Council's Spending on Assets

This chapter provides our assessment of the impact of possible changes to Dubbo's policies relating to its spending on assets, aimed at improving the sustainability of the Council's long-term finances. This contrasts with the no-policy-change assumptions underlying the analysis in chapter 1.

In doing so, aside from additional borrowings, we leave other aspects of the Council's existing policies largely unchanged. Revenue policy changes are the focus of chapter 4.

### 3.1 Description of existing policies

#### 3.1.1 Spending on assets

Maintenance expense is the expenditure on existing assets which is periodically or regularly required to ensure that a council's existing assets achieve their economic life or period of service between renewal.

By contrast, capital expenditure (or capex) refers to amounts expended on the purchase or construction of physical assets. Capex is generally of three types:

- ❑ Enhancement capex is the cost of expanding the service capacity of a council's infrastructure assets beyond their current capacity. It usually involves extending or expanding the council's assets as the service requirements of its community grows.
- ❑ Renewals capex is the cost of restoring the condition (and service capacity) of a council's existing infrastructure assets to 'as new' standard when such restoration falls due at the end of these assets' useful/economic lives, i.e., when an asset degrades to its intervention condition level, being the condition level at which a council's asset managers consider an asset should be renewed/replaced.
- ❑ Rehabilitation capex is the cost of restoring the condition (and service capacity) of a council's existing infrastructure assets as a result of past deferrals of programmed maintenance and/or renewals. Rehabilitation capex means capital expenditure aimed specifically at reducing a council's existing infrastructure backlog.

For the purpose of this study, it should be noted that "infrastructure assets" include buildings, roads, bridges, footpaths, stormwater drainage assets, recreational assets, natural assets, and any commercial assets. They are the asset classes included in GHD's analysis. As is the case throughout this report (and explained in chapter 1), the Council's water and sewerage assets and associated spending are outside the scope of our analysis.

In addition to the above capex categories related specifically to infrastructure assets, there is also capital expenditure on non-infrastructure assets (land, inventories, plant and equipment, and furniture and fittings). These are the asset classes outside of GHD's analysis.

The components of Dubbo's spending on assets are set out in Table 3-1 as they relate to 2008-09.

Table 3-1  
Annual Spending on Assets  
Dubbo City Council (excluding Water & Sewerage), 2008-09

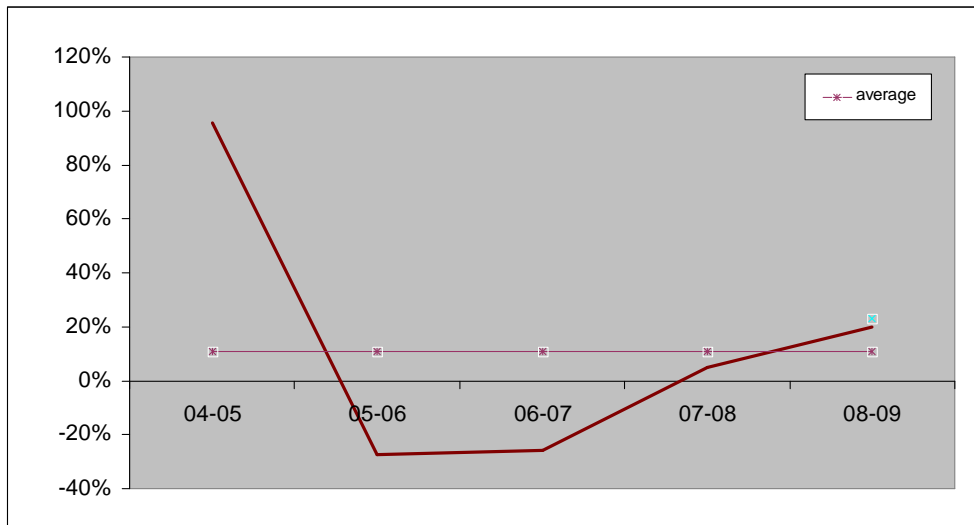
|   | 2008-09<br>(\$M) | % of total<br>spending<br>on assets | avg annual<br>real-terms %<br>increase since<br>2003-04 |
|---|------------------|-------------------------------------|---|
| Maintenance expense                                     | 5.732            | 24.5%                               | 5.5%  |
| plus<br>Renewals capex                                  | 2.048            | 8.7%                                | -27.0%  |
| plus<br>Rehabilitation capex                            | 0.000            | 0.0%                                | n.a.  |
| plus<br>Enhancement capex                               | 7.813            | 33.4%                               | 24.8%   |
| plus<br>Other (non-infrastructure) capex <sup>(a)</sup> | 7.829            | 33.4%                               | 38.6%   |
| equals<br>Spending on assets                            | 23.421           | 100%                                | 9.5%  |

<sup>(a)</sup> This capital expenditure is on assets not covered by GHD's analysis, but excludes expenditure on water and sewerage assets.

In 2008-09, it is evident that only around one-third of spending on assets was on the maintenance, renewal and rehabilitation of existing infrastructure assets. The majority was spent on new infrastructure and on non-infrastructure assets.

Chart 3-1 shows the recent track record of Dubbo's real-terms spending on assets:

Chart 3-1  
Real-terms Growth in Spending on Assets  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



While it is evident that year-on-year growth in spending on assets has been quite volatile in recent years, the average annual increase over the period shown in Chart 3-1 is around 10%.

### 3.1.2 Existing policy settings

#### Maintenance

We characterise Dubbo's policy setting with respect to maintenance spending by reference to the following indicator:

$$\begin{aligned} & \text{Actual (or projected) maintenance effort} \\ & = M_1/M^*_1 \end{aligned}$$

where:

M = actual/projected maintenance expenditure

M\* = required maintenance expenditure (if asset condition is at satisfactory levels)

subscript "1" denotes values for the year in question.

No historical series is available for this effort ratio. However, it appears that this ratio may have been in the order of 160% in 2008-09. Where this ratio is in excess of 100%, indications can be that asset condition is generally below satisfactory standards giving rise to maintenance expenditure well above the level necessary were asset condition generally at a satisfactory standard.

For the purposes of existing policy projections, estimates generated by GHD have been used.

#### Renewals

We characterise Dubbo's policy setting with respect to renewals capex by reference to the following indicator:

$$\begin{aligned} & \text{Actual (or projected) renewals effort} \\ & = L_1/L^*_1 \end{aligned}$$

where:

L = actual/projected renewals capital expenditure

L\* = required renewals capital expenditure

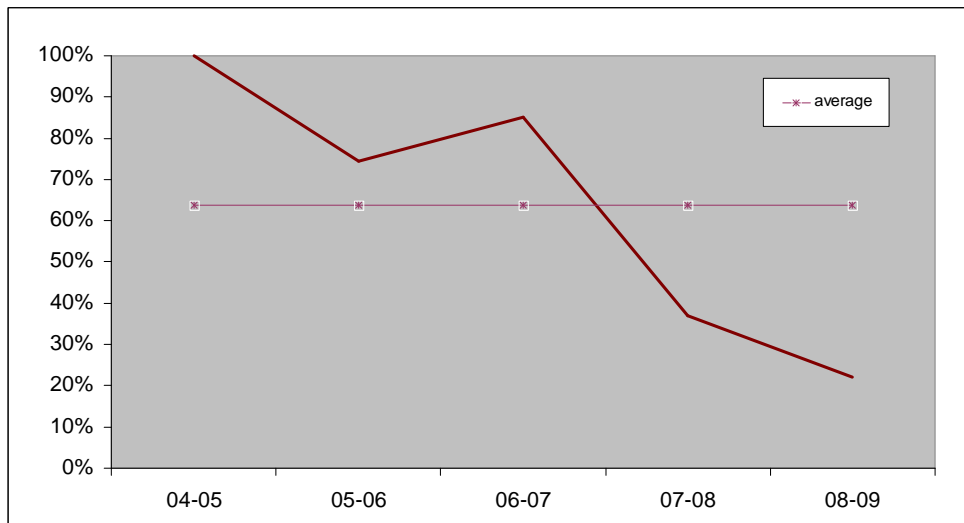
subscript "1" denotes values for the year in question.

While no historical series is available from the Council for this effort ratio, we have backcast required renewals capex from GHD's 2008-09 estimate using a method outlined in Appendix A. Chart 3-2 shows the recent track record of Dubbo's renewals effort based on this backcast series.

A steady deterioration in the Council's annual renewals effort has been apparent in recent years. Not surprisingly, this has given rise to a growing infrastructure backlog.

For the purposes of existing policy projections, estimates generated by GHD have been used.

Chart 3-2  
Annual Renewals Effort  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



### Rehabilitation

We characterise Dubbo's policy setting with respect to rehabilitation capex by reference to the following indicator:

$$\text{Actual (or projected) rehabilitation effort} = J_1/B_0$$

where:

- J = actual/projected rehabilitation capital expenditure during the year
- B<sub>0</sub> = the estimated infrastructure backlog at the commencement of a year
- subscript "1" denotes values for the year in question.

This indicator measures the proportion of a council's infrastructure backlog that is eliminated by one year's rehabilitation capex.

For the purposes of existing policy projections, estimates generated by GHD have been used.

### Enhancements

We characterise Dubbo's policy setting with respect to enhancement capex by reference to the following indicator:

$$\text{Actual (or projected) enhancement effort} = (H_1/A_0) / (K_1/K_0 - 1)$$

where:

- H = actual/projected enhancement capital expenditure
- A = gross replacement value of infrastructure assets
- K = estimated resident population

and subscripts:

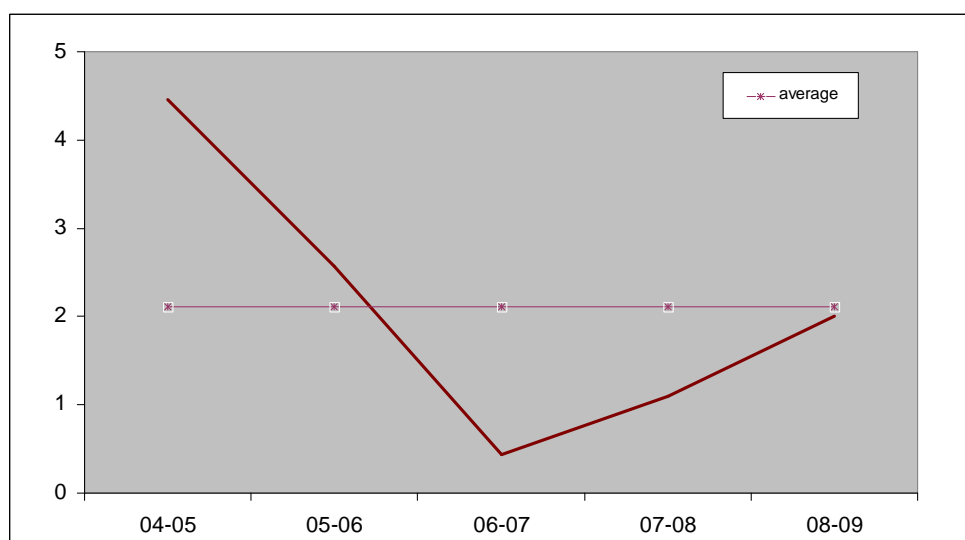
"1" denotes values for the year in question

"0" denotes values for the preceding year.

The effort ratio is expressed as a multiple of a council's average annual population growth rate. An effort ratio of, for example, 2.0 indicates that a year's capex implies an annual % increase in the value of the council's infrastructure assets which is two times the average annual % increase in the council's resident population.

Chart 3-3 shows the recent track record of Dubbo's enhancement effort:

Chart 3-3  
Annual Enhancement Effort  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



While it is evident that year-on-year annual enhancement effort has been relatively volatile in recent years, the average effort over the period shown in Chart 3-1 is around 2 times the annual rate of increase in resident population.

For the purposes of existing policy projections, estimates generated by GHD have been used.

#### Non-infrastructure capex

Non-infrastructure assets are a council's assets not covered in GHD's analysis. For the purposes of our financial analysis, non-infrastructure assets comprise land, inventories, plant and equipment, and furniture and fittings. GHD's focus is on "infrastructure assets" including buildings and other structures.

We characterise Dubbo's policy setting with respect to non-infrastructure capex by reference to the following indicator:

Actual (or projected) non-infrastructure capex effort

$$= (H''_1/A''_0) / (K_1/K_0 - 1)$$

where:

$H''$  = actual/projected non-infrastructure capital expenditure

$A''$  = gross replacement value of non-infrastructure assets

K = estimated resident population

and subscripts:

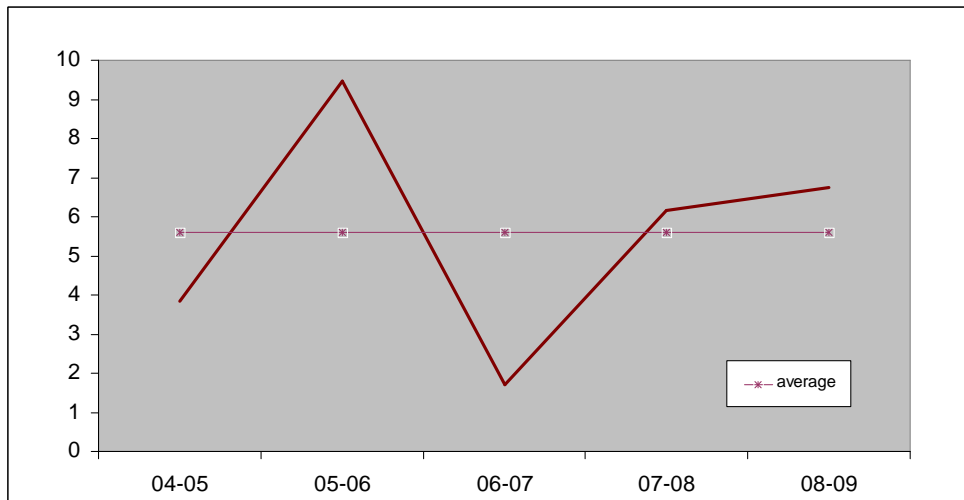
"1" denotes values for the year in question

"0" denotes values for the preceding year.

The effort ratio is expressed as a multiple of a council's average annual population growth rate. An effort ratio of, for example, 3.0 indicates that a year's capex implies an annual % increase in the value of the council's infrastructure assets which is three times the average annual % increase in the council's resident population.

Chart 3-4 shows the recent track record of Dubbo's non-infrastructure capex effort:

Chart 3-4  
Annual Non-infrastructure Capex Effort  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



Over the period shown in Chart 3-4, non-infrastructure assets have grown on average at an annual rate around 5½ times faster than the annual rate of increase in resident population.

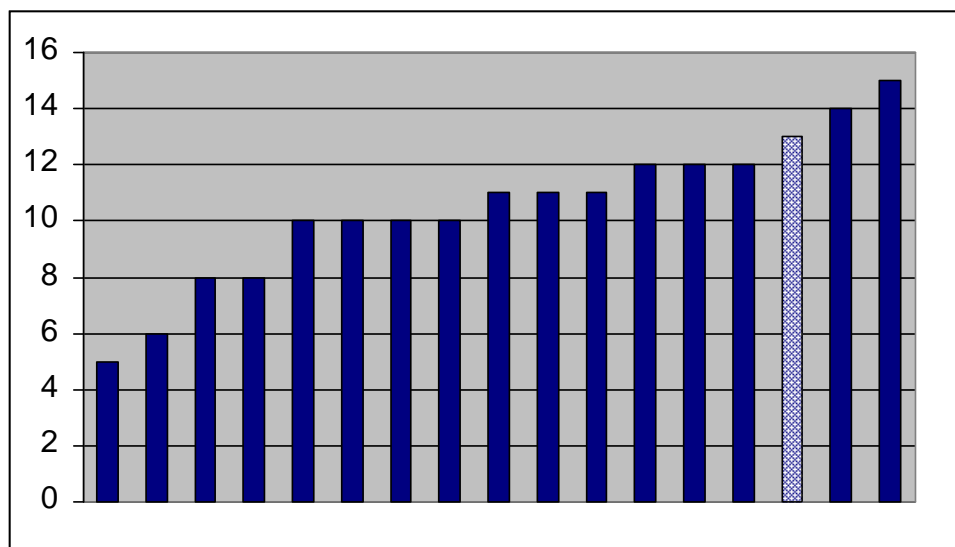
For the purposes of existing policy projections, we have assumed that the non-infrastructure capex effort ratio would involve annual growth in the associated assets at around 5 times the projected annual growth rate in resident population of ½%.

Does Dubbo have above-average levels of assets?

One possible explanation for the challenges Dubbo faces on the asset management front is that it has responsibility for a relatively large stock of infrastructure assets.

Chart 3-5 compares the gross book value of infrastructure assets expressed as a multiple of annual operating revenue for Dubbo with that for its peers in 2007-08 (the latest year for which comparative data are available). To compare like with like, we have chosen to restrict this comparison to a peer group of 16 other NSW inland urban regional councils.

Chart 3-5  
Gross Book Value of Infrastructure Assets as a Multiple of Operating Revenue  
(excluding water and sewerage infrastructure and revenue)  
NSW Inland Urban Regional Councils, 2007-08



Note: Dubbo is indicated by the lighter coloured bar in this chart. The other councils used for this comparison are: Albury, Armidale Dumaresq, Bathurst, Broken Hill, Cessnock, Goulburn Mulwaree, Griffith, Lismore, Lithgow, Maitland, Orange, Queanbeyan, Singleton, Tamworth, Wagga Wagga and Wingecarribee.

In 2007-08, the gross book value of Dubbo's infrastructure assets was 13 times the Council's annual operating revenue. This is above average compared with its peers, which indicates that Dubbo is confronted with above-normal infrastructure asset responsibilities.

### 3.2 Policy adjustments: 'responsive' scenario

The extent to which spending on assets deserves to be adjusted is illustrated under Review Today's responsive scenario, involving:

- ❑ any infrastructure backlog being eliminated within five years;
- ❑ future renewals and maintenance being undertaken when they fall due;
- ❑ enhancement capex at a level that would see the carrying value of infrastructure assets grow at an annual rate equal to that of resident population;
- ❑ non-infrastructure capex at a level that would see the carrying value of non-infrastructure assets grow at an annual rate equal to twice that of resident population, as – compared with enhancement capex – this capex covers the replacement as well as enhancement of plant and equipment, furniture and fittings, etc; and
- ❑ real-terms total spending on services increasing in line with population growth.

The financial outcomes under this alternative policy change scenario can be compared with that under the existing policy scenario (involving no policy change) from chapter 1.

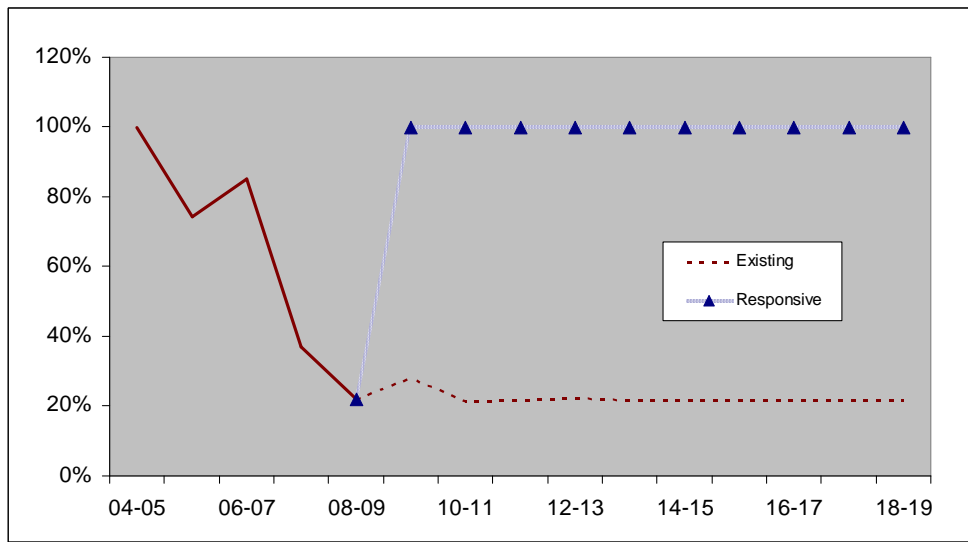
At issue is whether the range of spending on assets options available to a council (from 'existing policy' to 'responsive') generates financial outcomes that fit within the LGI target ranges.

### 3.2.1 Renewals

Chart 3-6 compares the assumptions made about Dubbo's annual renewals effort under the 'responsive' and 'existing' policy scenarios.

Reflecting future renewals being undertaken when they fall due under the responsive scenario, the renewals effort ratio is assumed to be set at 100%. This involves a significant increase in renewals capex over that projected under continuation of existing policy.

Chart 3-6  
Annual Renewals Effort<sup>(a)</sup>  
Under the 'Responsive' and 'Existing' Policy Scenarios  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



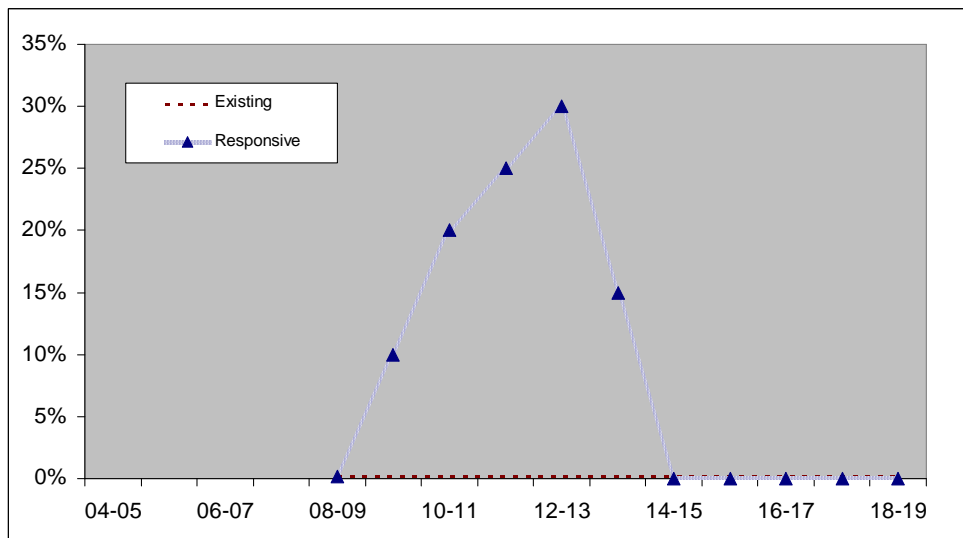
<sup>(a)</sup> This indicator is defined in section 3.1.2.

### 3.2.2 Rehabilitation

Chart 3-7 compares the assumptions made about Dubbo's annual rehabilitation effort under the 'responsive' and 'existing' policy scenarios.

Reflecting the infrastructure backlog being eliminated within five years, the rehabilitation effort ratio averages 20% over the next five years under the responsive scenario.

Chart 3-7<sup>(a)</sup>  
 Annual Rehabilitation Effort  
 Under the 'Responsive' and 'Existing' Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19

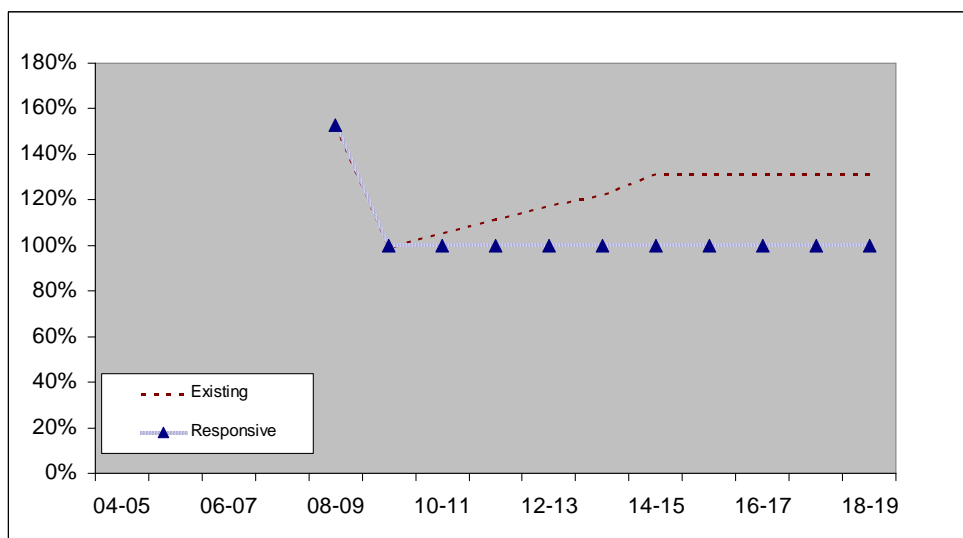


<sup>(a)</sup> This indicator is defined in section 3.1.2.

### 3.2.3 Maintenance

Chart 3-8 compares the assumptions made about Dubbo's annual maintenance effort under the 'responsive' and 'existing' policy scenarios.

Chart 3-8<sup>(a)</sup>  
 Annual Maintenance Effort  
 Under the 'Responsive' and 'Existing' Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



<sup>(a)</sup> This indicator is defined in section 3.1.2.

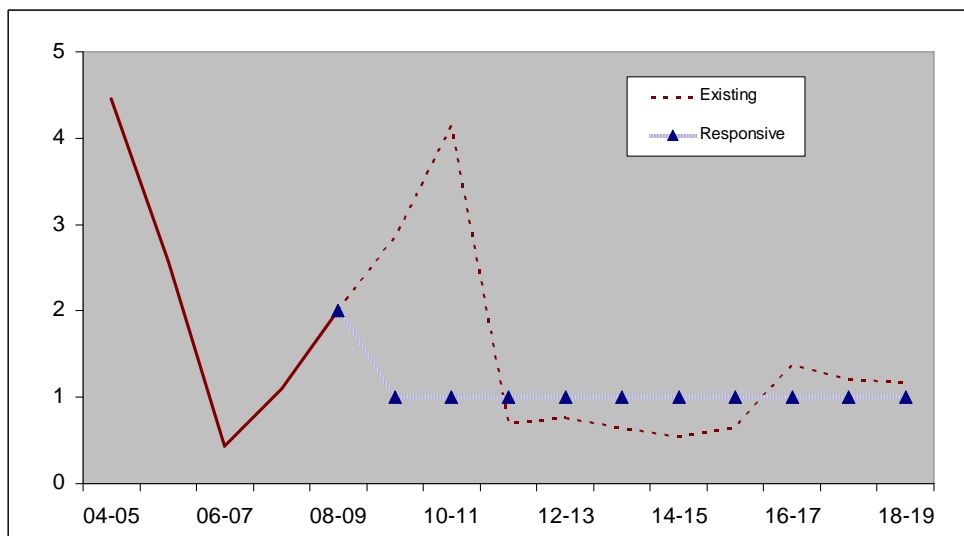
Reflecting elimination of the infrastructure backlog, the maintenance effort ratio is assumed to be at the ideal 100% under the responsive scenario.

### 3.2.4 Enhancements

Chart 3-9 compares the assumptions made about Dubbo’s annual enhancement effort under the ‘responsive’ and ‘existing’ policy scenarios.

The annual enhancement capex program under the responsive scenario (involving infrastructure expansion at the same rate as the estimated resident population growth rate) would generally be less than that planned under continuation of existing policy.

Chart 3-9<sup>(a)</sup>  
 Annual Enhancement Effort  
 Under the ‘Responsive’ and ‘Existing’ Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



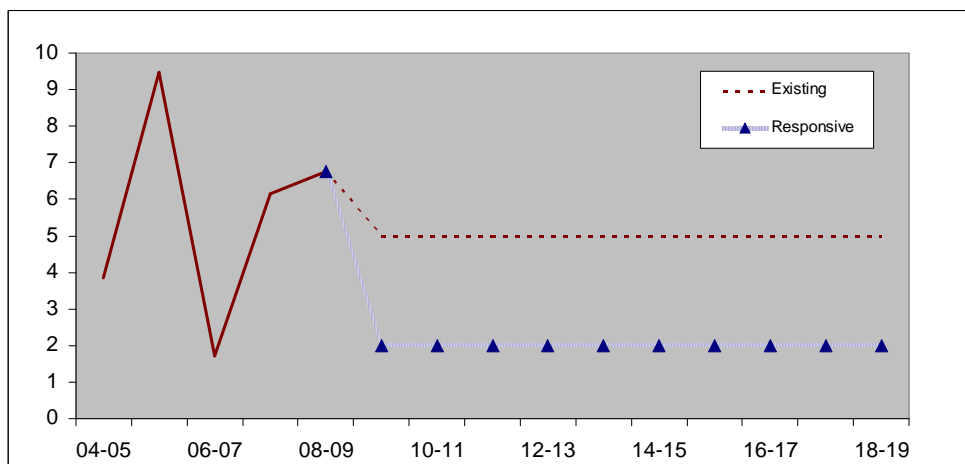
<sup>(a)</sup> This indicator is defined in section 3.1.2.

### 3.2.5 Non-infrastructure capex

Chart 3-10 compares the assumptions made about Dubbo’s annual non-infrastructure effort ratio under the ‘responsive’ and ‘existing’ policy scenarios.

The annual non-infrastructure capex program under the responsive scenario (involving growth in such assets at twice the population growth rate) involves annual increases that are on average less than one-half those expected under continuation of existing policy.

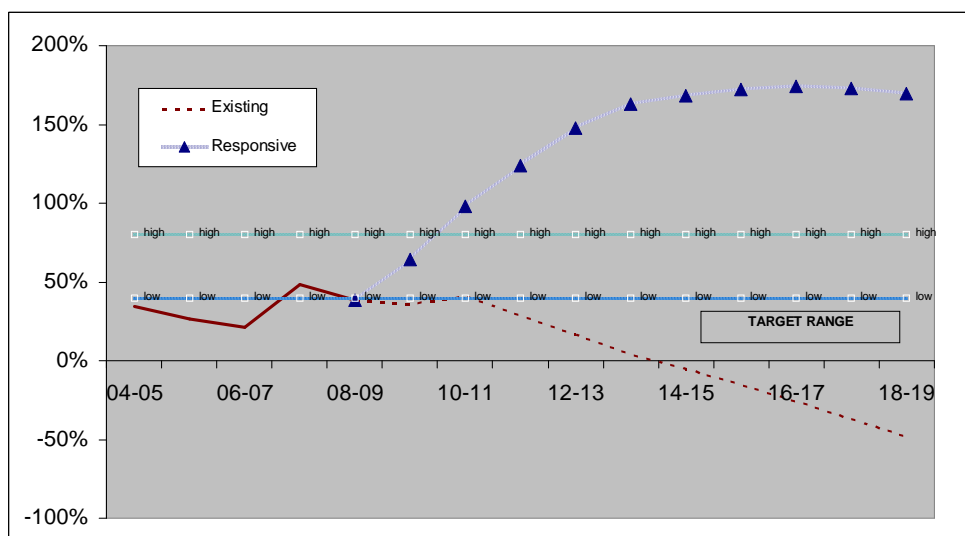
Chart 3-10  
 Annual Non-infrastructure Capex Effort<sup>(a)</sup>  
 Under the 'Responsive' and 'Existing' Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



### 3.2.6 Impact upon key financial indicators

Chart 3-11 shows our projections of Dubbo's net financial liabilities ratio under the responsive scenario compared with the continuation of existing spending policies.

Chart 3-11  
 Net Financial Liabilities Ratio  
 Under the 'Responsive' and 'Existing' Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 30 June 2004 to 30 June 2019

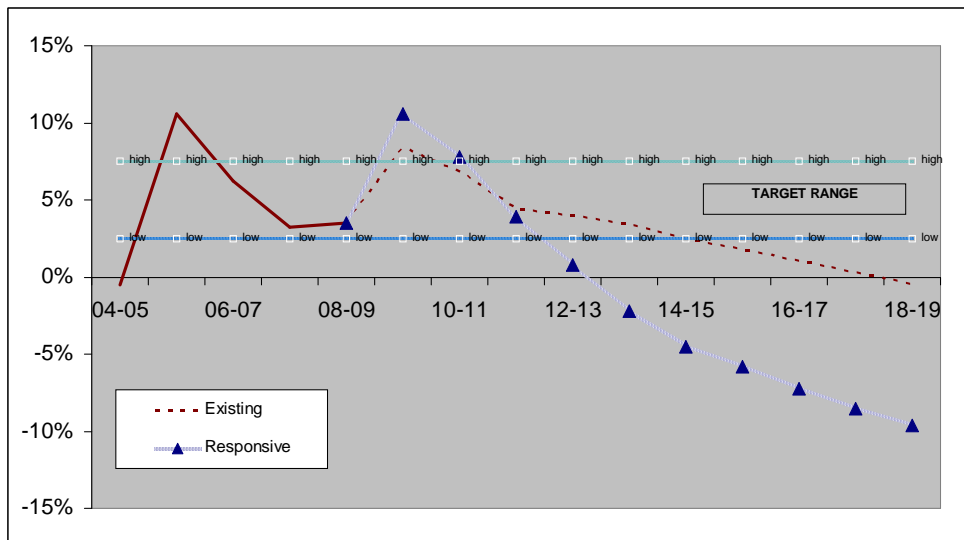


In the absence of any revenue policy adjustment, the increased borrowings needed to eliminate the infrastructure backlog within five years and undertake future renewals as they fall due would result in a three-fold increase in Dubbo's net financial liabilities ratio by 2018-19.

Clearly, the responsive (expenditure) scenario is financially unsustainable in the absence of any revenue-raising policy change.

Likewise, Chart 4-13 compares our projections of Dubbo's operating surplus ratio under the responsive spending scenario with those under continuation of existing policies. The expected fall-away in annual maintenance spending under the responsive spending scenario following increased renewals and rehabilitation capex would be overwhelmed in its effect upon the operating surplus by an ever increasing interest bill.

Chart 3-12  
 Operating Surplus Ratio  
 Under the 'Responsive' and 'Existing' Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



### 3.3 Key findings

The implications of our analysis in this chapter are clear. It is evident that Dubbo faces significant asset management challenges.

In order to fix its infrastructure as envisaged under the responsive scenario (i.e., catch up on backlog, meet renewals as they fall due in future and undertake adequate maintenance), Dubbo would experience a substantial deterioration against the LGI target for both the net financial liabilities ratio and the operating surplus ratio over the 10 year forecasting period (to 2018-19) if it did not also adopt complementary revenue measures.

In the next chapter, we examine whether adjustments to Dubbo's revenue-raising effort would fit the bill.

## 4. The Council's Funding Policies

This chapter provides our assessment of the impact of possible changes to Dubbo's funding policy, aimed at improving the sustainability of the Council's long-term finances.

Essentially, funding policy involves the choices made between both:

- ❑ rates (as a tax) versus user charges; and
- ❑ rates raised now versus rates raised in the future.

In particular, the focus is on the scope for an increase in the Council's own-source revenue effort (rates, fees and charges, and own-source capital revenue).

### 4.1 Description of existing policies

#### 4.1.1 Annual revenue

Table 4-1 summarises the sources of operating revenue available to Dubbo in 2008-09.

Table 4-1  
Components of Annual Operating Revenue  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|  | \$M    | % of own-source operating revenue | % of total operating revenue | avg annual real-terms % increase since 2003-04 |
|--|--------|-----------------------------------|------------------------------|--|
| Rates revenue  | 19.176 | 52.4%                             |                              | 8.8%   |
| plus Annual charges  | 3.090  | 8.4%                              |                              | 7.3%   |
| plus Fees and user charges                                       | 11.252 | 30.7%                             |                              | 5.3%   |
| plus Other own-source operating revenue <sup>(a)</sup>           | 3.093  | 8.4%                              |                              | 7.4%   |
| equals Own-source operating revenue                              | 36.611 | 100.0%                            | 75.1%                        | 7.4%   |
| plus Above-the-line grants from other governments <sup>(b)</sup> | 12.131 |                                   | 24.9%                        | 2.2%   |
| equals Total operating revenue                                   | 48.742 |                                   | 100.0%                       | 6.2%   |

<sup>(a)</sup> Includes any operating contributions and all investment income.

<sup>(b)</sup> Comprises all operating grants and those capital grants provided by other government for the purpose of financing the maintenance and renewal of a council's existing assets.

Own-source operating revenue is three times more important to Dubbo than above-the-line (mainly operating) grants from other governments.

Table 4-2 summarises the sources of Dubbo’s capital revenue in 2008-09.

Table 4-2  
Components of Capital Revenue  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|  | \$M   | % of total | % of total |
|--|-------|------------|------------|
| Capital contributions and donations <sup>(a)</sup>               | 7.296 | 82.5%      |            |
| plus Proceeds from the disposal of assets                        | 1.545 | 17.5%      |            |
| equals Own-source capital revenue                                | 8.841 | 100%       | 93.6%      |
| plus Below-the-line grants from other governments <sup>(b)</sup> | 0.600 |            | 6.4%       |
| equals Total capital revenue                                     | 9.441 |            | 100%       |

<sup>(a)</sup> Comprises any (cash) capital contributions and (non-cash) asset donations.

<sup>(b)</sup> Comprises those capital grants provided by other governments to finance new or enhanced assets and any other net unspent grants.

### 4.1.2 Existing policy settings

#### Rating effort

Table 4-3 shows our calculation of Dubbo’s per-property rates revenue for 2008-09. These figures exclude annual charges, which instead are included with the “fees and user charges” item.

Table 4-3  
Rates Revenue  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|                    | Rates revenue collected (\$M) | Number of ratepayers <sup>(a)</sup> (000s) | Revenue per ratepayer (\$) |
|--------------------|-------------------------------|--|----------------------------|
| Residential        | 11.676                        | 14.108                                     | \$828                      |
| Business           | 5.909                         | 1.283                                      | \$4,606                    |
| Farmland and other | 1.591                         | 0.663                                      | \$2,400                    |
| Total              | 19.176                        | 16.054                                     | \$1,194                    |

<sup>(a)</sup> Rateable properties

Nearly 90% of Dubbo’s rates revenue comes from residential rates.

We characterise Dubbo’s policy setting with respect to its rating effort by reference to the following indicator (which is inclusive also of revenue from annual charges):

Real-terms growth in the average annual rates bill

$$= [(R^t/R^0) / (Q_t/Q_0)] - (P^t/P_0)$$

where:

R<sup>t</sup> = annual revenue from rates and annual charges

Q = number of rateable properties (or assessments)

P = the State capital’s consumer price index on average for the year in question

and subscripts:

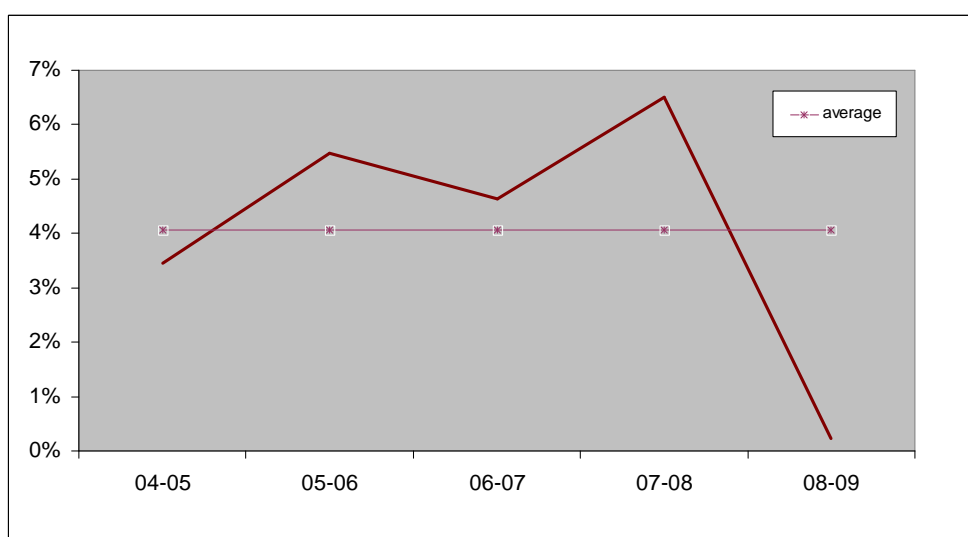
"1" denotes values for the year in question

"0" denotes values for the preceding year.

This effort indicator shows the differential (in percentage points) for a council between (i) the percentage increase in each year's average per-property revenue from rates and annual charges, and (ii) that year's percentage increase in the State's capital city consumer price index (CPI). A positive value indicates that rates (expressed in \$-per-property terms) are increasing annually faster than the CPI.

Chart 4-1 shows the recent track record of Dubbo's rating effort.

Chart 4-1  
Real-terms Growth in the Average Annual Rates Bill<sup>(a)</sup>  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



<sup>(a)</sup> As measured by revenue collected per rateable property. Also includes annual charges.

In the five years to (and including) 2008-09, the average rates bill increased by an average of 4.1% per annum in real terms. This reflects a series of special rates variations allowed by the State government that ended in 2007-08.

For the purposes of existing policy projections, it has been assumed that real-terms growth in per-property rates and annual charges would average 1.0% per annum over the next 10 years.

#### Fees and charges effort

We characterise Dubbo's policy setting with respect to its use of fees, user charges, annual charges, operating contributions and other (non-investment) operating revenue (altogether "fees and charges") by reference to the following indicator:

$$\text{operating cost recovery ratio} = \frac{V''}{(E_1 - I_1 - G_1)}$$

where:

$V''$  = other own-source operating revenue (excluding interest and other investment income)  
= total operating revenue less rates revenue less above-the-line annual grants from other governments less interest revenue less other investment income

= revenue from: annual charges, fees & user charges, operating contributions and other (non-investment) operating revenue

E = total annual expenses

I = interest expense

G = above-the-line annual grants from other governments

subscript "1" denotes values for the year in question.

Table 4-4 shows our calculation of this operating cost recovery ratio for 2008-09.

Table 4-4  
Operating Cost Recovery Ratio  
Dubbo City Council (excluding Water & Sewerage), 2008-09

|  | 2008-09<br>(\$M) | % of total<br>fees and<br>charges |
|--|------------------|-----------------------------------|
| Annual charges   | 3.090            | 19.0%                             |
| plus Fees and user charges   | 11.252           | 69.1%                             |
| plus Operating contributions                                       | 0.691            | 4.2%                              |
| plus Other income (not including investment income) <sup>(a)</sup> | 1.250            | 7.7%                              |
| equals Fees and charges  | 16.283           | 100.0%                            |
| divided by Own-purpose expenses before interest <sup>(b)</sup>     | 33.503           |                                   |
| equals Operating cost recovery ratio (%)                           | 48.6%            |                                   |

<sup>(a)</sup> Also excludes net gains from the disposal of assets.

<sup>(b)</sup> Total expenses (excluding interest) net of those expenses funded by below-the-line grants from other governments.

In 2008-09, Dubbo was recovering just under 50% of its own-purpose operating expenses through fees and charges.

Chart 4-2 (on the next page) shows the recent track record of Dubbo's operating cost recovery ratio.

For the purposes of existing policy projections, it has been assumed that Dubbo's operating cost recovery effort remains unchanged at the rate in 2008-09 over the next 10 years.

### 4.1.3 Capital contributions effort

We characterise Dubbo's policy setting with respect to its collection of capital contributions by reference to the following indicator:

capital cost recovery ratio

$$= C_1 / (H^{\text{infra}}_1 + H^{\text{other}}_1)$$

where:

C = capital contributions including government agency (e.g. RTA) and private developer contributions (but excluding donated assets)

H<sup>infra</sup> = enhancement capex (on infrastructure assets, including buildings & other structures)

H<sup>other</sup> = non-infrastructure capex

subscript "1" denotes values for the year in question.

Chart 4-2  
 Operating Cost Recovery Ratio  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09

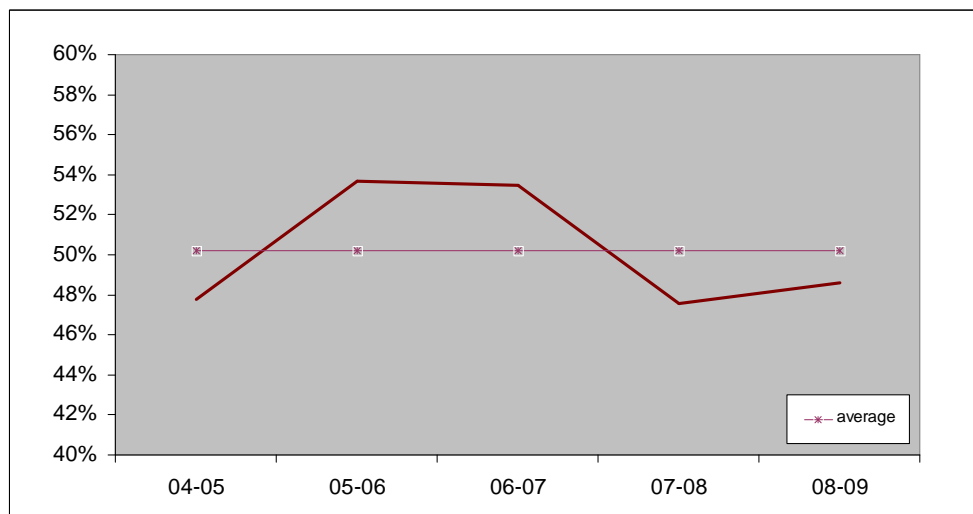


Table 4-5 shows our calculation of Dubbo's capital cost recovery ratio in 2008-09.

Table 4-5  
 Capital Cost Recovery Effort  
 Dubbo City Council (excluding Water & Sewerage), 2008-09

|   | 2008-09<br>(\$M) | % of total |
|---|------------------|------------|
| Developer contributions <sup>(a)</sup>          | 1.496            | 28.7%      |
| plus Other capital contributions <sup>(b)</sup> | 3.713            | 71.3%      |
| equals Capital contributions                    | 5.209            | 100.0%     |
| divided by Enhancement capex <sup>(c)</sup>     | 15.641           |            |
| equals Capital cost recovery effort             | 33.3%            |            |

<sup>(a)</sup> Development contributions under Section 94 of the Environmental Planning and Assessment Act.

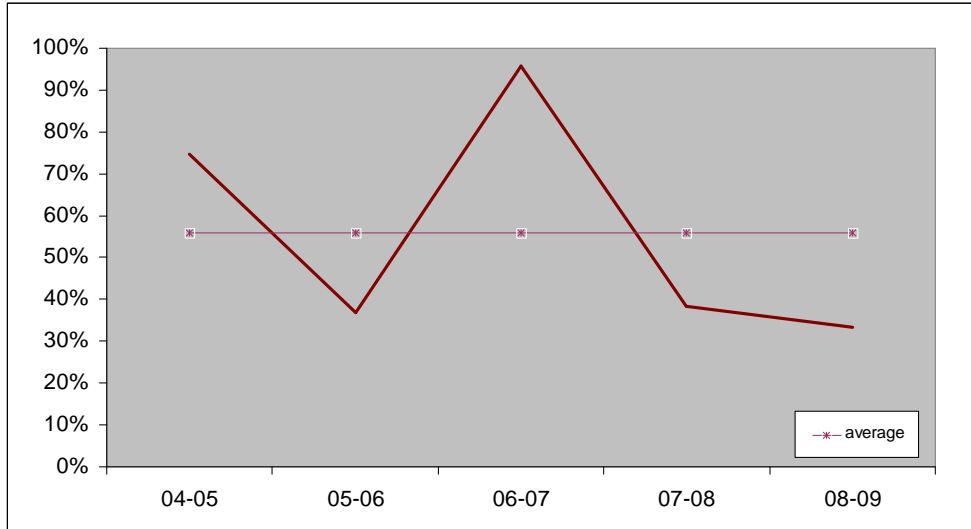
<sup>(b)</sup> Development contributions other than under Section 94 contributions, and contributions to works by adjoining owners.

<sup>(c)</sup> Also includes non-infrastructure capex.

Chart 4-3 shows the recent track record of Dubbo's capital cost recovery effort.

For the purposes of existing policy projections, it has been assumed that Dubbo's capital cost recovery ratio remains unchanged at the rate in 2008-09 over the next 10 years.

Chart 4-3  
Capital Cost Recovery Effort  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2008-09



## 4.2 Benchmarking effort against those of the Council’s peers

For the purposes of benchmarking Dubbo’s revenue-raising effort, we have chosen to compare this effort with those of a peer group of 16 other NSW inland urban regional councils.<sup>10</sup>

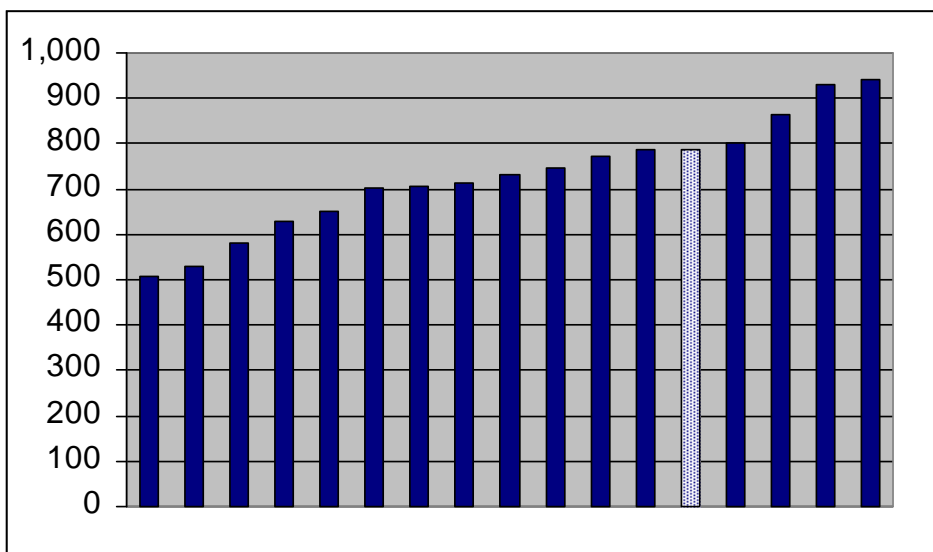
### 4.2.1 Rating effort

Chart 4-4 compares Dubbo’s average rates revenue per residential ratepayer with that for its peers in 2007-08, the latest year for which the necessary comparative data are published by the DLG.

Dubbo’s residential rating effort is higher than about three-quarters of its peers.

<sup>10</sup> These councils are: Albury, Armidale Dumaresq, Bathurst, Broken Hill, Cessnock, Goulburn Mulwaree, Griffith, Lismore, Lithgow, Maitland, Orange, Queanbeyan, Singleton, Tamworth, Wagga Wagga and Wingecarribee.

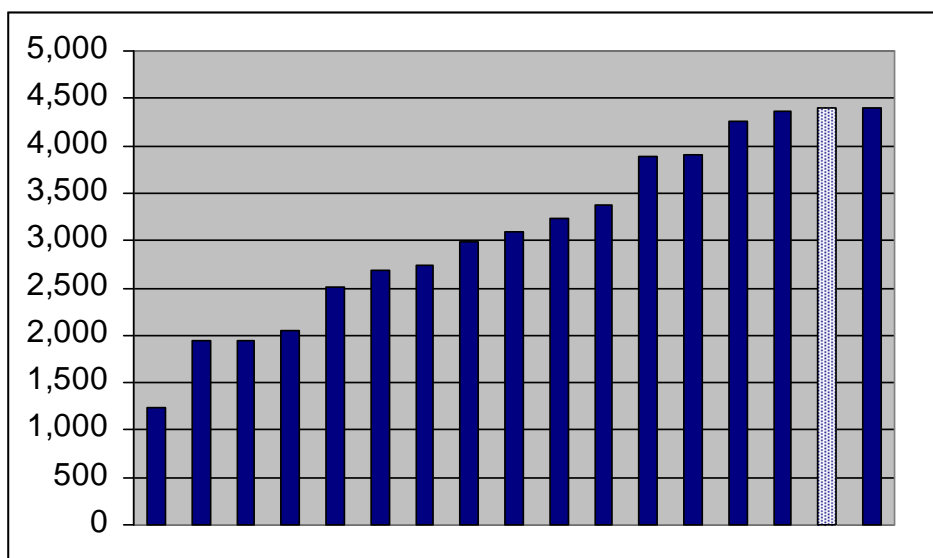
Chart 4-4  
Average Rates Revenue, \$ Per Assessment, Residential Ratepayers  
NSW Inland Urban Regional Councils, 2007-08



Note: Dubbo is indicated by the lighter coloured bar in this chart. Excludes annual charges.

Chart 4-5 compares Dubbo's average rates revenue per business ratepayer with that for its peers in 2007-08.

Chart 4-5  
Average Rates Revenue, \$ Per Assessment, Business Ratepayers  
NSW Inland Urban Regional Councils, 2007-08



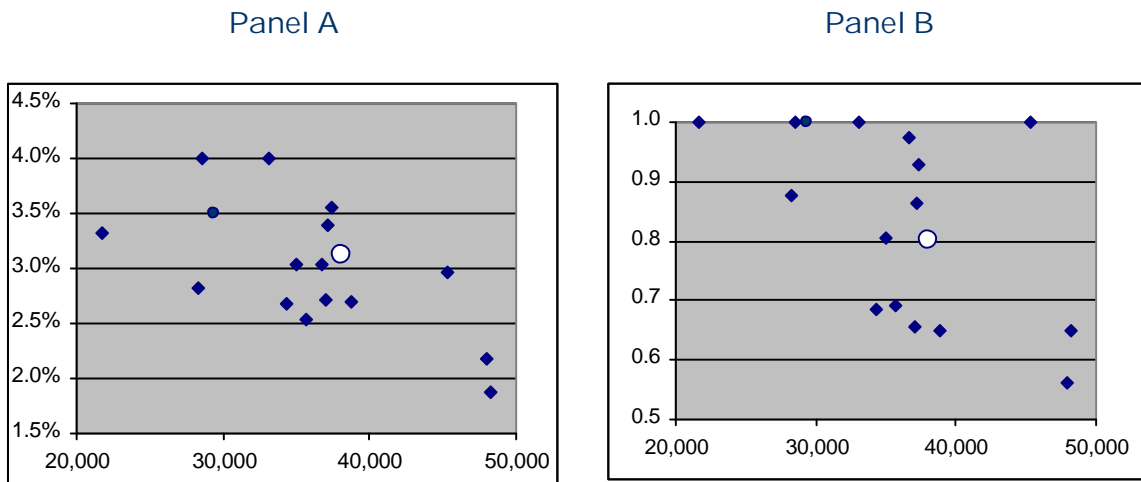
Note: Dubbo is indicated by the lighter coloured bar in this chart. Excludes annual charges. Does not include farmland rates.

Dubbo's business rating effort is the second highest among its peers.

However, differences in (for example) residents' disposable income may play a role in explaining these differentials. Panel A of Chart 4.6 shows:

- ❑ on the Y (or vertical) axis, a council's total rates revenue – combining residential and business rates – as a proportion of the aggregate after-tax income of its residents as derived from the ABS's regional profile publication (cat. no. 1379.0); and
- ❑ on the X (or horizontal) axis, a council's average per-resident after-tax income.

Chart 4-6  
Income-Adjusted Total Rating Effort  
NSW Inland Urban Regional Councils, 2007-08



Note: Dubbo is indicated by the white dot in this chart.

Panel B shows the results of applying a data envelopment analysis<sup>11</sup> to the observations in Panel A, along with other explanatory data such as a council's size (as measured by the total number of properties serviced), the proportion of properties that are residential, and the average number of people per residence/household. It shows that, after adjusting for income and other differences, Dubbo's rating effort – combining residential and business rates – is about 20% below the highest effort evident among its closest peers in 2007-08.

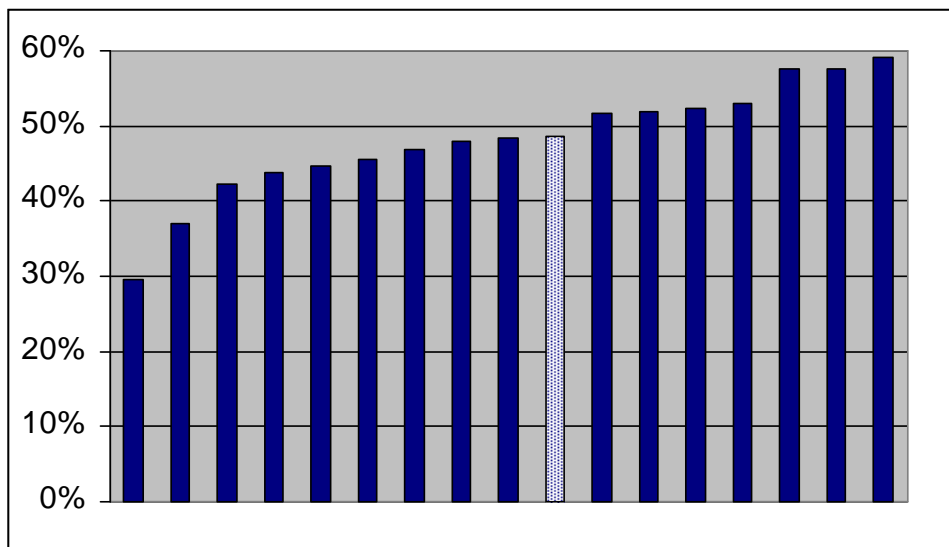
#### 4.2.2 Operating cost recovery effort

Chart 4-7 compares Dubbo's operating cost recovery ratio with that for its peers in 2007-08, the latest year for which the necessary comparative data are published.

Dubbo's operating cost recovery ratio is just above the average evident for its peers.

<sup>11</sup> Data envelopment analysis (or DEA) is a statistical technique which fits a best-practice frontier to performance data from comparable organisations. See Steering Committee for the Review of Commonwealth/State Service Provision, Data Envelopment Analysis: A technique for measuring the efficiency of government service delivery, AGPS, Canberra, 1997.

Chart 4-7  
 Operating Cost Recovery Ratio  
 (excluding water and sewerage charges and spending)  
 NSW Inland Urban Regional Councils, 2007-08

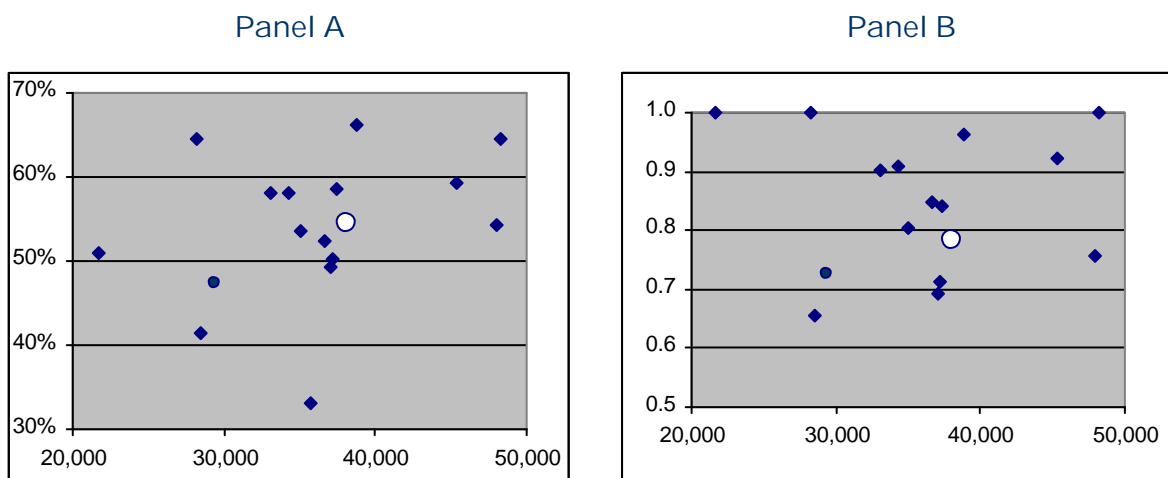


Note: Dubbo is indicated by the lighter coloured bar in this chart.

Once again, differences in residents' disposable income and other factors may play a role in explaining these differentials. Panel A of Chart 4.8 shows:

- on the Y (or vertical) axis, a council's operating cost recovery effort
- on the X (or horizontal) axis, a council's average per-resident after-tax income of its residents as derived from the ABS's regional profile publication (cat. no. 1379.0).

Chart 4-8  
 Operating Cost Recovery Ratios  
 NSW Inland Urban Regional Councils, 2007-08



Note: Dubbo is indicated by the white dot in this chart.

Panel B shows the results of applying a data envelopment analysis to the observations in Panel A along with other explanatory data such as a council's size (as measured by the total number of properties serviced), the proportion of properties that are residential, and the average number of

people per residence/household. It shows that, after adjusting for income and other differences, Dubbo's operating cost recovery ratio was just over 20% below the highest effort evident among its closest peers in 2007-08.

## 4.3 Policy adjustments: 'ambitious' revenue scenario

The extent to which Dubbo's revenue-raising effort could reasonably be increased is illustrated under Review Today's ambitious revenue scenario, involving:

- ❑ any below-par operating cost recovery effort and capital cost recovery effort being eliminated within five years; and
- ❑ the average (per-property) rates bill being increased by the greater of (i) the increases necessary to achieve the low end of the operating surplus target range by the end of the projection period and (ii) the highest effort currently evident among its closest peers.

In this chapter, we apply the ambitious revenue scenario in conjunction with the 'responsive' (spending) scenario outlined in chapter 3. At issue is whether the range of revenue-raising effort options available to a council (from 'existing policy' to 'ambitious') gives rise to financial outcomes that fit within the LGI target ranges. The ambitious revenue scenario indicates the revenue policy 'degrees of freedom' that a council generally has in the absence of any moderation of spending from the 'responsive' level of spending.

### 4.3.1 Rating effort

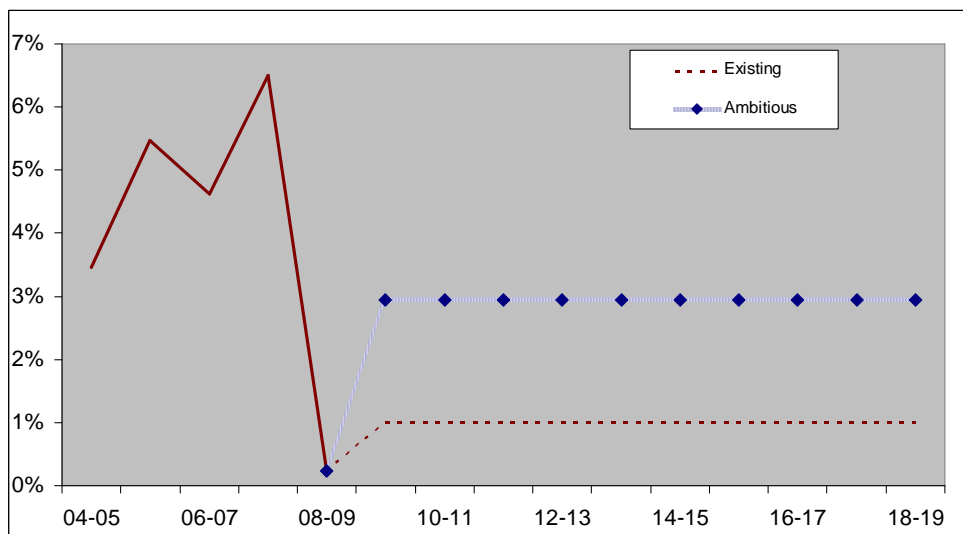
Under the 'ambitious' revenue scenario, Dubbo's rating effort is increased by the greater of:

- ❑ the increase necessary to achieve the low end of the operating surplus target range (2½%) by the end of the projection period; and
- ❑ the highest effort currently evident among its closest peers, shown in section 4.2.1 above to be about 20% higher than Dubbo's present effort.

Chart 4-9 compares the assumptions made about Dubbo's annual real-terms growth in rates under the 'ambitious' and 'existing' policy scenarios.

Under the ambitious revenue policy option, per-property rates collections would need to increase in conjunction with the responsive (spending) scenario at an annualised real-terms rate of around 3% over the next 10 years. This would entail a substantial increase compared with the projected 1.0% real-terms increase under existing policy settings. Dubbo's rating effort would end up well above that of its peers.

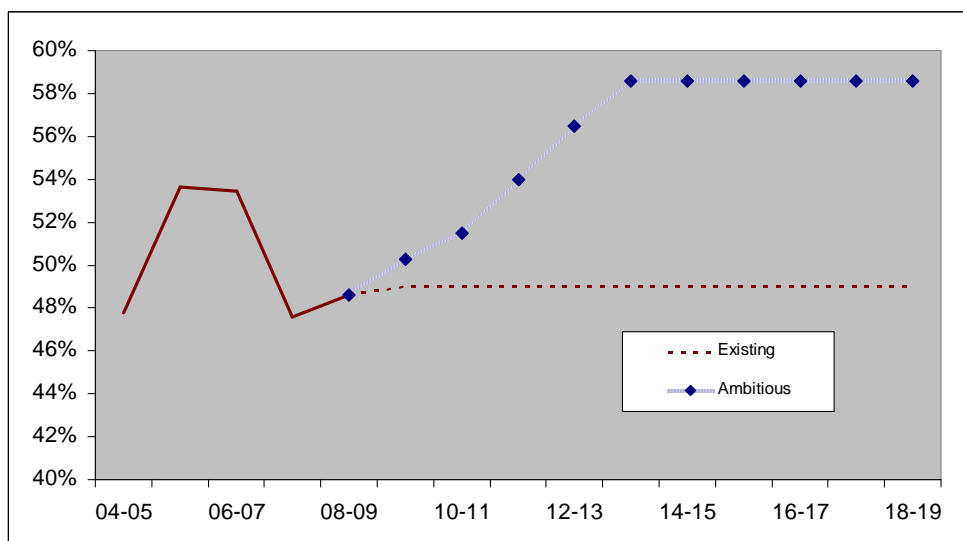
Chart 4-9  
 Real-terms Rating Effort  
 Under the 'Ambitious' and 'Existing' Revenue Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



### 4.3.2 Operating cost recovery effort

Chart 4-10 compares the assumptions about Dubbo's operating cost recovery ratio under the ambitious revenue policy option with that under existing policy settings.

Chart 4-10  
 Operating Cost Recovery Ratio  
 Under the 'Ambitious' and 'Existing' Revenue Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19

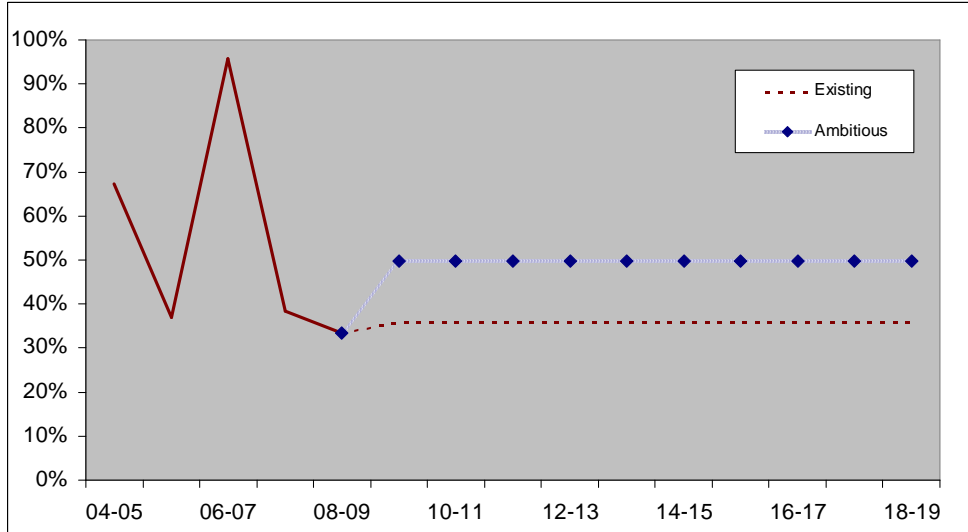


Under the ambitious revenue policy option, the operating cost recovery ratio is assumed to rise from its present level by nearly 10 percentage points over the next 5 years to bring it broadly in line with the highest (standardised) effort evident currently among its closest peers.

### 4.3.3 Capital cost recovery effort

Chart 4-11 compares the assumptions about Dubbo's capital cost recovery ratio under the ambitious revenue policy option with that under existing policy settings.

Chart 4-11  
 Capital Cost Recovery Effort  
 Under the 'Ambitious' and 'Existing' Revenue Policy Scenarios  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19

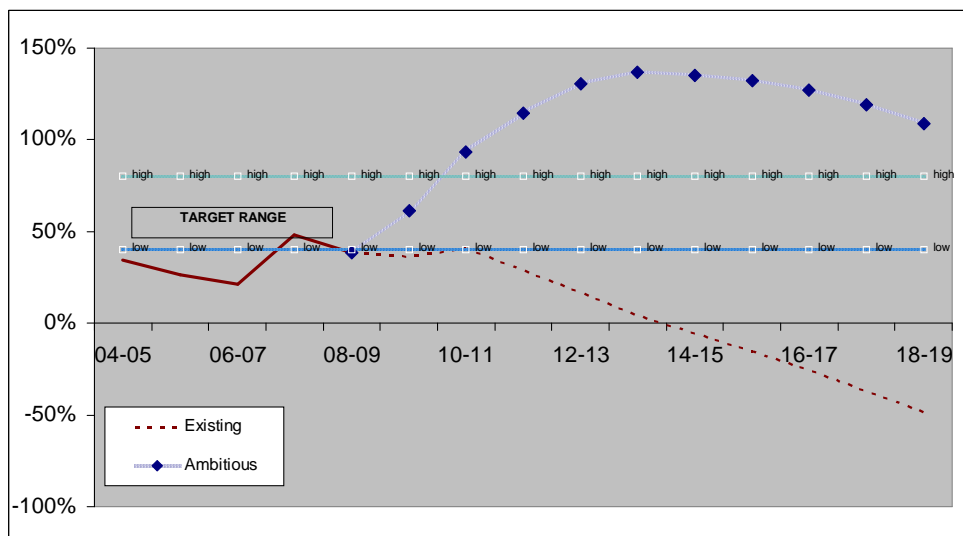


Under the ambitious revenue scenario, the capital cost recovery ratio is assumed to increase to 50%.

### 4.3.4 Impact upon key financial indicators

Chart 4-12 shows our projections of Dubbo's net financial liabilities ratio under the ambitious revenue scenario (in conjunction with the responsive spending scenario) with those under continuation of existing policies.

Chart 4-12  
 Net Financial Liabilities Ratio  
 Under the 'Ambitious' and 'Existing' Revenue Policy Scenarios<sup>(a)</sup>  
 Dubbo City Council (excluding Water & Sewerage), 30 June 2004 to 30 June 2019

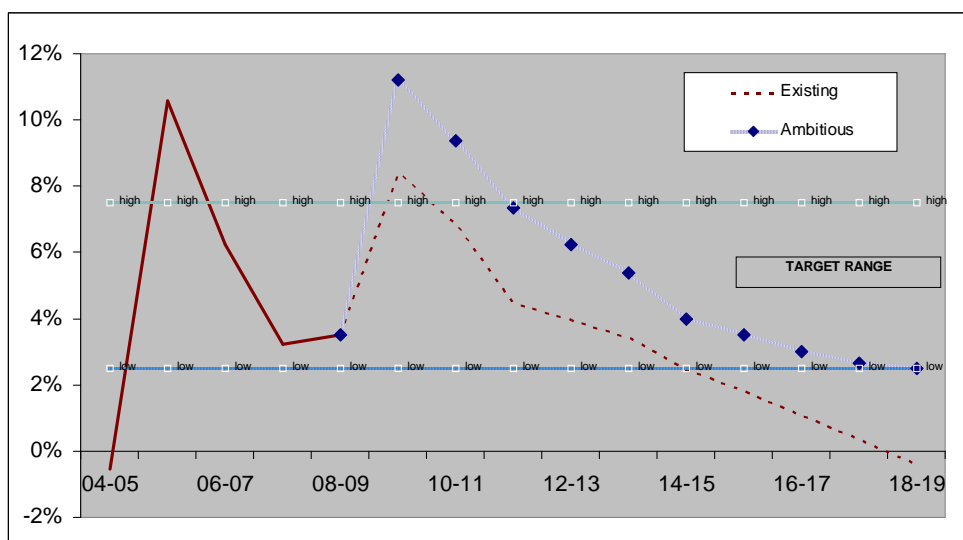


<sup>(a)</sup> Spending on both services and assets are based on the responsive scenario.

It is notable that the net financial liabilities ratio would peak at around 137% in 2013-14 before easing back to around 100% by 2018-19, which is still well above the 'high' end of the target range.

Likewise, Chart 4-13 compares our projections of Dubbo's operating surplus ratio under the ambitious revenue scenario (in conjunction with the responsive spending scenario) with those under continuation of existing policies. The improvement evident under the ambitious scenario is as assumed under that scenario.

Chart 4-13  
 Operating Surplus Ratio  
 Under the 'Ambitious' and 'Existing' Revenue Policy Scenarios<sup>(a)</sup>  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



<sup>(a)</sup> Spending on both services and assets are based on the responsive scenario.

Clearly, even the ambitious revenue scenario would be financially unsustainable in the absence of spending policy settings that are more modest than those in the 'responsive' scenario outlined in chapter 3. While an operating surplus is achieved, the net cash flows generated would not be sufficient to pull the net financial liabilities ratio back into the LGI target range.

In the next chapter, we formulate what might be an appropriate combination of policy adjustments – both spending and revenue.

## 4.4 Key findings

The ambitious revenue scenario involves very significant increases in the Council's rates. In nominal terms, it would require the Council's average rates bill to increase on average each year over the next 10 years by around twice the annual CPI inflation rate (i.e., around 6% per annum assuming future annual CPI increase of 3% per annum). This is likely to be well outside the community's willingness to pay.

Moreover, significant increases in rates, fees & charges would fail to put Dubbo's finances onto a long-term sustainable basis without adjustments also being made to spending on services and assets (from levels implied under the responsive scenario). In fact, the more reluctant the Council (and the community) is to increasing Dubbo's own revenue-raising effort, the greater is the need for spending restraint – both on services and on assets.

## 5. Recommended Adjustments to the Council's Spending and Funding Policies

This chapter provides our modelling of the impact of a package of spending and funding adjustments aimed at improving the sustainability of Dubbo's long-term finances.

### 5.1 Changes necessary to key policy targets

In the previous chapters, the focus on necessary changes in policy settings was placed first on spending (in chapters 2 and 3) and then on own-source revenue-raising (in chapter 4). In addition, the focus was on achieving just the LGI's operating surplus target on the annual financial performance front and, where applicable, the complete elimination of the infrastructure backlog and annual renewals gap on the asset management front.

This chapter explores an illustrative middle-ground scenario where:

- ❑ spending and revenue adjustments (and compromises) both play a role;
- ❑ addressing the infrastructure backlog is relaxed to achieve somewhere within the applicable LGI target range, that is up to 2% of the replacement value of existing infrastructure assets within 10 years; and
- ❑ in addition to the operating surplus and infrastructure backlog targets, the LGI's net financial liabilities target is also achieved (with such liabilities being no more than 80% of operating revenue).

The resultant "responsible scenario" examined in this chapter can be described in the following terms:

Responsible Scenario: spending and revenue adjustments are sufficient to achieve the key LGI fiscal sustainability goals (i.e., a maximum net financial liabilities ratio of 80%, a minimum operating surplus ratio of 2½% and a maximum infrastructure backlog of 2%) within 10 years, at the same time as allowing for:

- services sustainability on the one hand (defined by Review Today as per-capita spending on services at least being maintained over time in real terms), and
- community affordability on the other (defined by Review Today as a council's rates, fees and charges increasing in nominal terms by less than twice the annual CPI inflation rate).

## 5.2 Suggested transition strategy

### 5.2.1 Responsible spending on assets

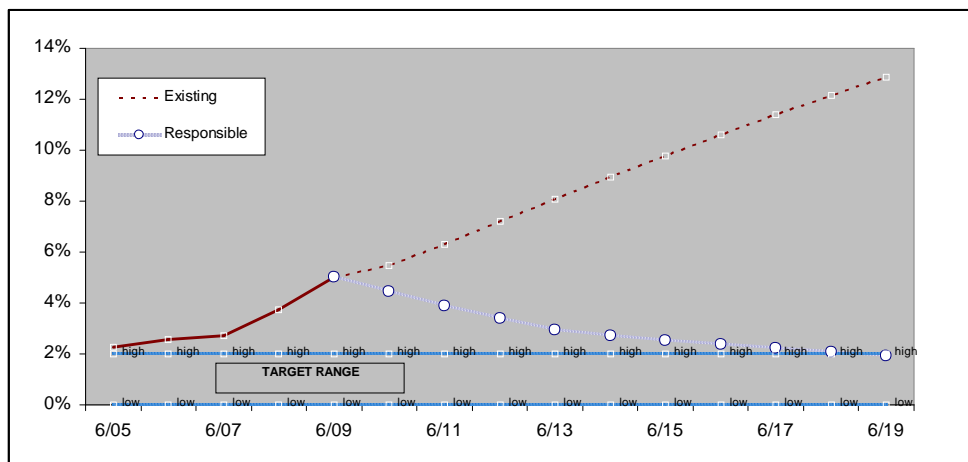
In Dubbo's case, the responsible scenario has to involve restraint in both its annual enhancement capex program and non-infrastructure capex program. Enhancement capex needs to be about two-thirds of that under continuation of existing policy, and non-infrastructure capex needs to be constrained to an annual expansion in such assets of about one-half the increase under continuation of existing policy.

However, such capital spending restraint is not sufficient by itself to achieve LGI targets.

Keeping the net financial liabilities ratio below the LGI's 80% ceiling only seems possible if Dubbo's annual rehabilitation capex program is also spread out over the next 10 years.

Chart 5-1 shows that adoption of these policy settings achieves an infrastructure backlog ratio within the LGI target range by the end of the 10-year forecasting period.

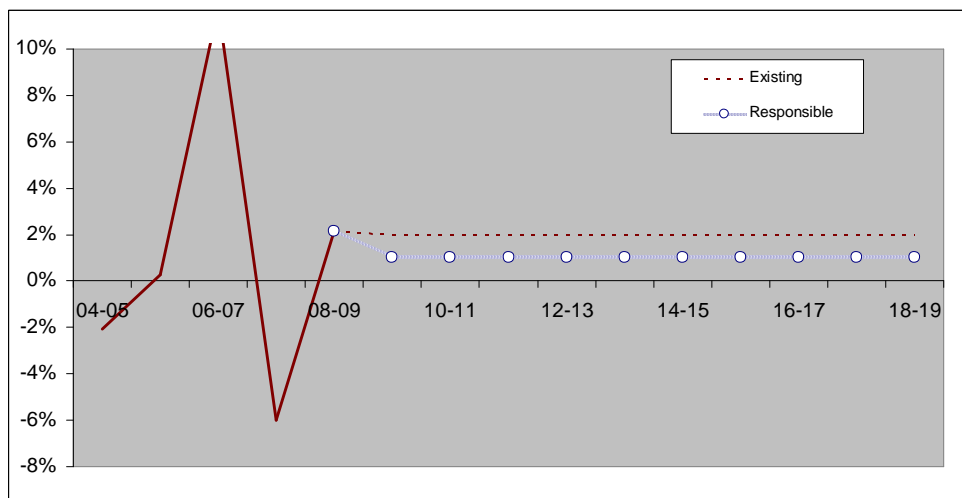
Chart 5-1  
Infrastructure Backlog Ratio  
Under a 'Responsible' Policy Scenario  
Dubbo City Council (excluding Water & Sewerage), 30 June 2005 to 30 June 2029



### 5.2.2 Responsible spending on services

The responsible scenario must also involve significant restraint in spending on services (as defined in chapter 2). Limiting the real-terms growth in Dubbo's per-capita spending on services to around 1% per annum seems necessary (in conjunction with the other policy settings proposed in this chapter), and is illustrated in Chart 5-2.

Chart 5-2  
 Real-terms Growth in Per-capita Spending on Services  
 Under a 'Responsible' Policy Scenario  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



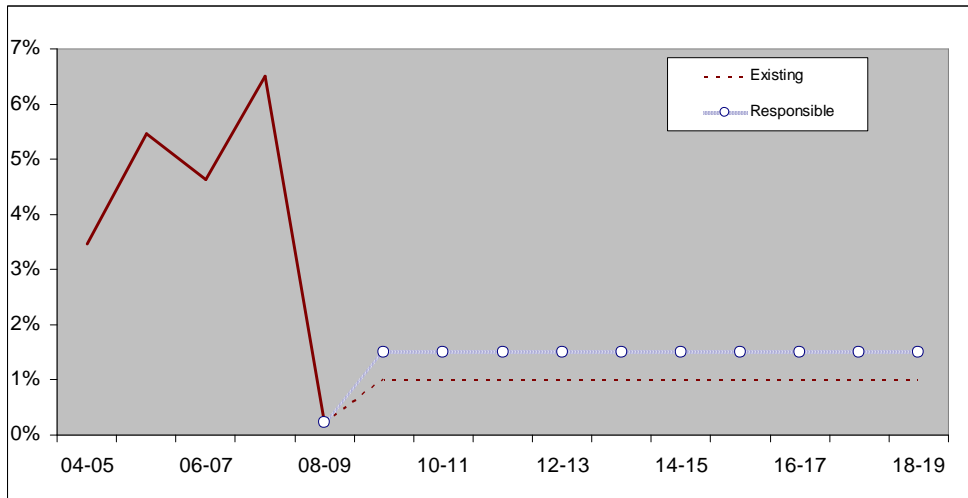
### 5.2.3 Responsible rating effort

Chart 5-3 shows our estimates of the real-terms growth in Dubbo's rates (i.e., rates revenue on a per-property basis) necessary to at least achieve – within 10 years – the LGI's minimum operating surplus target ratio of 2½% and a net financial liabilities ratio towards the lower end of the LGI's 40% to 80% target range after account is taken of both:

- moderation in annual real-terms spending on services as outlined in section 5.2.2;
- increases in fees and charges of about one-half the increases envisaged under the ambitious scenario – implying, for example, that the Council's operating cost recovery ratio is brought half-way up to levels commensurate with the highest (standardised) effort currently evident among its closest peers; and
- increases in capital contributions at about one-half the increases envisaged under the ambitious scenario.

It is evident that, to achieve both the minimum operating surplus ratio of 2½% and a net financial liabilities ratio that stays below the LGI's ceiling of 80% within 10 years (in conjunction with the maximum realistic spending constraint), Dubbo's average rates bill would need to increase by an average of around 1½% in real-terms each year in conjunction with the other policy settings proposed in this chapter. As a result, the average residential bill (including the annual charges component) would increase by 20% in constant-dollar terms over the next 10 years (from \$961 in 2008-09 to \$1,150 in 2018-19).

Chart 5-3  
 Real-terms Growth in Rates  
 Under a 'Responsible' Policy Scenario  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



### 5.3 Impact on key financial indicators

Chart 5-4 shows that the net financial liabilities ratio would peak at around 68% mark in 2013 before returning to just above the 'low' end of the LGI target range by 30 June 2019 under the responsible scenario. Dubbo would need to borrow on average around \$3¾ million annually over the next 7 years to finance the necessary rehabilitation and renewal.

Chart 5-4  
 Net Financial Liabilities Ratio  
 Under a 'Responsible' Policy Scenario  
 Dubbo City Council (excluding Water & Sewerage), 30 June 2005 to 30 June 2019

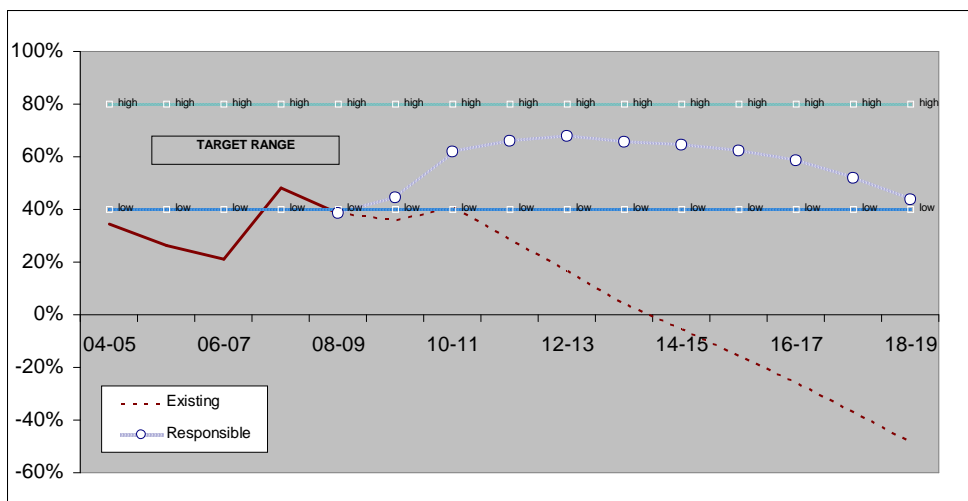
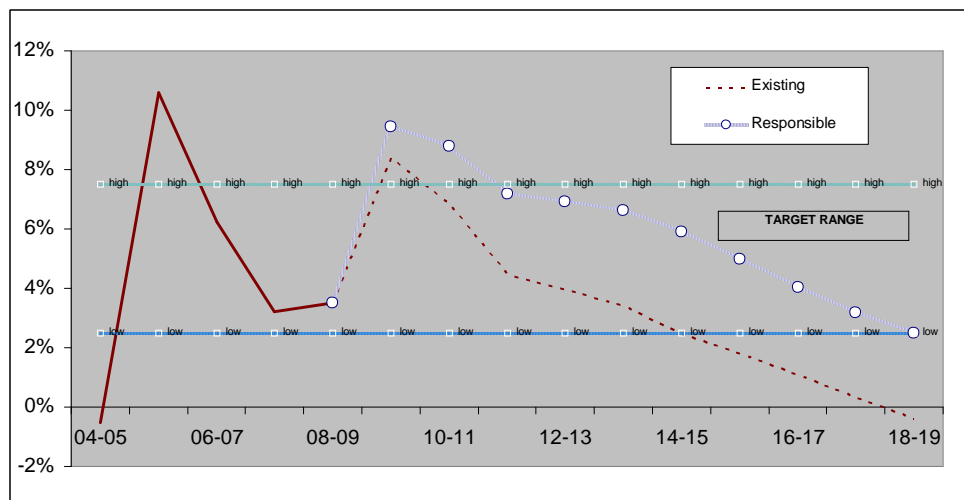


Chart 5-5 shows that the operating surplus ratio would achieve the 2½% 'low' end of the LGI target range by 2018-19 under the responsible scenario. The extra operating surplus beforehand is needed to generate internal financing for the Council's significant capital expenditure task.

Chart 5-5  
 Operating Surplus Ratio  
 Under a 'Responsible' Policy Scenario  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



## 5.4 Key findings

In order to achieve the key LGI fiscal sustainability goals (i.e., maximum net financial liabilities ratio of 80%, a minimum operating surplus ratio of 2½% and a maximum infrastructure backlog of 2%) within 10 years, our assessment is that Dubbo would need to put in place the following key fiscal changes:

- ❑ the annual rehabilitation capex necessary to address the present infrastructure backlog would have to be spread out over 10 years;
- ❑ relative to continuation of existing policy, spending on enhancement capex would need to be cut by around one-third and non-enhancement capex would have to be cutback by about one-half;
- ❑ growth in spending on services would need to be constrained to around a 1% annual real-terms increase on average on a per-capita basis, or about one-half the increase envisaged under continuation of existing policy;
- ❑ the average annual rates bill would have to be increased from present levels by an average of 1½% in real-terms each year for the next 10 years – or about ½ a percentage point higher per annum than the increase envisaged under continuation of existing policy;
- ❑ cost recovery via fees & charges would have to increase to the extent necessary to eliminate around one-half of the differential with the highest (standardised) cost recovery effort currently evident among other inland urban regional councils in NSW; and
- ❑ cost recovery via capital contributions would have to increase by around one-third.

This responsible scenario package indicates that the fiscal adjustment facing Dubbo is a manageable, albeit challenging, one.



## 6. The Council's Financing Policies

This chapter focuses on a council's borrowing task going forward, and the options available. It provides an assessment of Dubbo's capacity and suitability for using debt to fund its asset spending challenges.

Financing policy essentially involves the choice between debt (or external) and equity-like (or internally-generated) sources of financing or capital.<sup>12</sup> Borrowing therefore is a 'financing' issue, in contrast to the 'funding' options canvassed in chapter 4. Funding options can generate an income flow at a point later than the desirable timing of associated spending (especially on the provision of infrastructure). This income flow, however, provides the wherewithal to service the finance – debt or equity – that has to be raised earlier to allow capital works to proceed. Hence, appropriate funding mechanisms (which take the form of a stream of anticipated revenues) can be determined separately from decisions as to how best to finance the upfront investment that will generate these revenues.

A council's reliance on the borrowed (or debt) component of its financing task gives rise to some specific issues. Although the use of debt offers financial advantages even in a public sector context – notably to ensure inter-generational equity – the use of debt creates additional risk to the borrower due to the fixed contractual obligations associated with this source of financing. Hence, debt carries fixed charge burdens that must be supported by a council's income before any benefit is available to its ratepayers or other funders. The greater the percentage that debt-related fixed charges is to the net cash flow generated by the council, the greater the financial risk. Hence, the financing choices made by a council introduce variability into the pattern of a council's operating surplus over and above that already conferred by economic and operational risks.

### 6.1 Role of borrowing

When undertaken prudently, borrowing is an appropriate means for councils to finance long-lived infrastructure assets, the costs of which are often large or 'lumpy' and may be delayed in the absence of borrowing.

"The servicing of debt through rates or user charges (where appropriate) enables the cost of the asset to be matched with the benefits from consumption of the services over the life of the asset, thereby promoting inter-generational equity." (Productivity Commission (2008), p.182)

On inter-generational equity grounds, it is most appropriate that additional borrowings be used to fund both:

- ❑ enhancement capex, as such capex gives rise to infrastructure services benefiting future (as well as current) ratepayers; and
- ❑ rehabilitation capex, the need for which arises mainly because depreciation has been under-funded in the past and the renewal and replacement is deferred when it comes due because of the lack of finance.

---

<sup>12</sup> In a public sector context, equity-like capital is generated by the accumulation over time of retained earnings and by capital gains due to asset revaluations.

Only renewals capex should be funded to the maximum extent possible by past<sup>13</sup> and present ratepayers, with additional borrowings not being relied upon to finance such capex except in exceptional circumstances.<sup>14</sup> Fully funding depreciation is the most equitable (in an inter-generational sense) means of funding renewals capex. Borrowing to fund rehabilitation capex should only be tolerated where depreciation has been under-funded in the past.

Councils without operating deficits but with present infrastructure backlogs undoubtedly need to consider taking on more debt. Borrowing is an appropriate financing source for such councils to finance needed rehabilitation capex. Low-gearred councils without operating deficit problems have the requisite earnings (or cash flow) coverage of the resultant debt servicing. There is little doubt that many such councils are under-using debt. To an informed external observer, the level of indebtedness of such councils is well below levels appropriate to their circumstances, reflecting a widespread reluctance by councils to borrow even when it may be prudent to do so.

Only those councils currently still burdened with operating deficits (and so probably future annual renewals gaps) and significant present infrastructure backlogs face problems which may be outside their present financial capacity to address. Unless and until these councils are assisted by other spheres of government, such councils are confronted with the need for substantial changes in their spending and funding policy settings.

## 6.2 Present sources and uses of capital employed

Table 6-1 indicates the level and composition of capital employed – i.e., the uses of capital – by Dubbo as estimated at 30 June 2009.

Table 6-1  
Level and Composition of Capital Employed  
Dubbo City Council (excluding Water & Sewerage), 30 June 2009

|                                      | \$M     | %     |
|--------------------------------------|---------|-------|
| Non-financial assets <sup>(a)</sup>  | 471.146 | 94.5% |
| plus Financial assets <sup>(b)</sup> | 27.253  | 5.5%  |
| equals Total capital employed        | 498.399 | 100%  |

<sup>(a)</sup> After approximate adjustment of the value of infrastructure assets onto a 'fair value' basis.

<sup>(b)</sup> Externally-restricted cash and securities plus investments less restricted liabilities.

On this basis, the average capital employed by Dubbo at 30 June 2009 is estimated at around \$31,045 per ratepayer, based on our estimate if all of Dubbo's infrastructure assets are valued on a 'fair value' basis. Overwhelmingly, capital employed is in the form of non-financial assets.

Table 6-2 indicates the sources of capital employed by Dubbo at 30 June 2009.

<sup>13</sup> Past ratepayers will have funded past annual depreciation charges, and this would have seen (other things being equal) an accumulation of cash whenever (past) annual renewals spending falls short of the (past) annual depreciation charge. When in future annual renewals spending exceeds the depreciation charge, ideally the portion of renewals spending that cannot be funded by present ratepayers will then be funded by drawing down any previously accumulated cash balances – and hence be funded in effect by past ratepayers.

<sup>14</sup> Our view that annual depreciation be regarded solely as a source of funding future renewals brings with it a possible role for spreading the borrowed cost of existing assets over generations of taxpayers through a debt principal repayment component of a council's operating surplus. Within local government, some hold an alternate view, namely that depreciation should be regarded instead as itself funding the repayment of debt. Under this minority view (to which we do not subscribe), additional/new debt would finance asset renewals as well as new assets.

Table 6-2  
Sources of Capital Employed  
Dubbo City Council (excluding Water & Sewerage), 30 June 2009

|  | \$M     | %     |
|--|---------|-------|
| Net financial liabilities (or 'debt' capital)              | 18.763  | 3.8%  |
| plus Ratepayer equity (or 'equity' capital) <sup>(a)</sup> | 479.636 | 96.2% |
| equals Total capital employed                              | 498.399 | 100%  |

<sup>(a)</sup> Includes an estimated revaluation component (see chapter 1).

Overwhelmingly, ratepayer equity is the principal source of Dubbo's capital employed. Such 'equity' is contributed in the form of retained earnings and capital gains due to asset revaluations.

Table 6-3 shows the make-up of Dubbo's debt-sourced capital.

Table 6-3  
Components of 'Debt' Capital  
Dubbo City Council (excluding Water & Sewerage), 30 June 2009

|   |        |
|---|--------|
| Interest-bearing liabilities (or borrowings)                    | 25.732 |
| plus Other net financial liabilities <sup>(a)</sup>             | 8.041  |
| less Cash & securities unrestricted (and internally restricted) | 15.010 |
| equals Net financial liabilities                                | 18.763 |

<sup>(a)</sup> Excludes restricted liabilities matched by restricted cash and securities.

### 6.3 Financing task under continuation of existing policies

Table 6-4 highlights the annual financing task, comparing the average annual financing requirement in the recent past (the five years to 2008-09) with that under the continuation of existing policy (over the 10 years to 2018-19).

It is evident that in recent times Dubbo has sourced just over one-quarter of the average annual increase in its total capital employed from annual net borrowing. Going forward, under existing policy settings (which involves more modest planned growth in enhancement capex), any reliance on borrowed sources expected to be eliminated.

**Table 6-4**  
Average Annual Increases in Capital Employed  
Dubbo City Council (excluding Water & Sewerage)

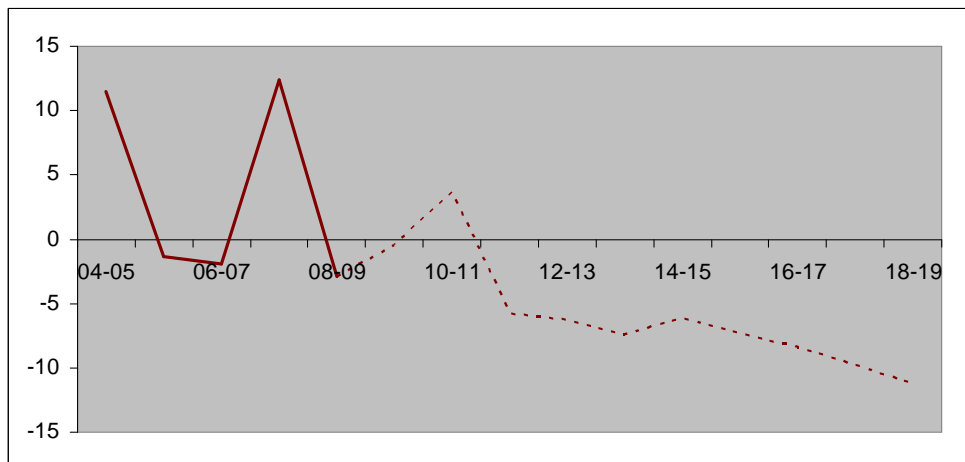
|   | 5 yrs to<br>2008-09<br>(\$M) | existing<br>policy<br>projections<br>to 2018-19<br>(\$M) | increase/<br>(decrease)<br>(\$M) |
|---|------------------------------|--|----------------------------------|
| annual increase/(decrease) in Ratepayer equity (Net assets)   | 9.052                        | 27.445   | 18.393                           |
| plus Annual increase/(decrease) in net financial liabilities <sup>(a)</sup>                           | 3.531                        | -5.914   | -9.445                           |
| comprising annual increase/(decrease) in:   |                              |  |                                  |
| Interest-bearing liabilities  | 4.974                        | -5.011   | -9.986                           |
| Other net financial liabilities   | 0.064                        | 0.277  | 0.213                            |
| less Cash & securities unrestricted (and internally restricted)                                       | 1.507                        | 1.179  | -0.328                           |
| equals annual increase/(decrease) in Total Capital Employed   | 12.583                       | 21.531   | 8.947                            |
| increase in Net Financial Liabilities as a % of the increase in Total Capital Employed <sup>(b)</sup> | 28%                          | -27%   |                                  |

<sup>(a)</sup> Equals annual net borrowing. This measure of annual net borrowing accords with ABS as well as international (IMF) government finance statistics standards. Positive annual net borrowing can occur even if a council does not increase its interest-bearing liabilities (or debt). This can involve a draw-down of financial assets as much as a run-up in non-debt other liabilities.

<sup>(b)</sup> Constrained to 0% for any years when a decrease in net financial liabilities and/or a decrease in total capital employed is observed.

Chart 6-1 shows Dubbo's recent annual net borrowing together with projections on an existing policy basis.

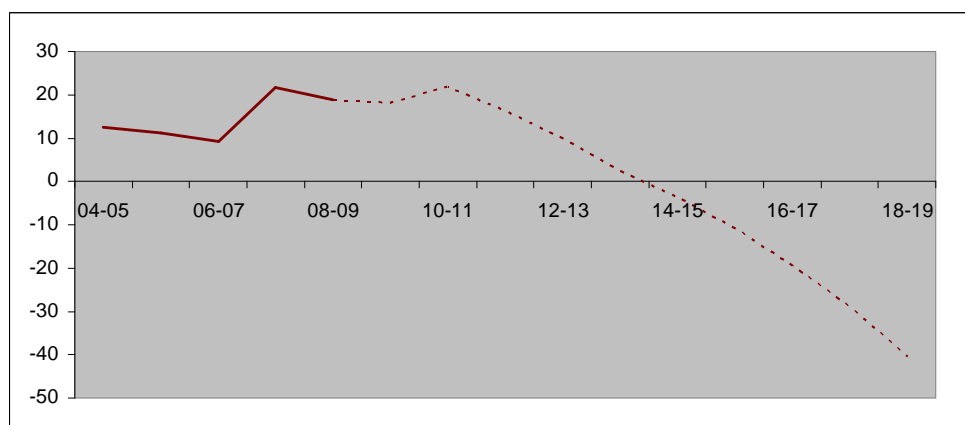
**Chart 6-1**  
Annual Net Borrowing (\$ million)<sup>(a)</sup>  
Under the 'Existing Policy' Scenario  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



<sup>(a)</sup> Annual increase/(decrease) in net financial liabilities. A negative indicates that borrowings are being repaid and/or cash and securities are being built up.

Chart 6-2 shows Dubbo's recent net financial liabilities levels together with projections on an existing policy basis.

Chart 6-2  
Net Financial Liabilities (\$ million) <sup>(a)</sup>  
Under the 'Existing Policy' Scenario  
Dubbo City Council (excluding Water & Sewerage), 30 June 2004 to 30 June 2019



<sup>(a)</sup> Net financial liabilities comprise total liabilities less (i) holdings of unrestricted cash and securities and any restricted cash and securities matching restricted liabilities, and (ii) receivables.

## 6.4 Financing task under the 'responsible' scenario

Table 6-5 shows the annual financing task envisaged under the responsible scenario outlined in chapter 5, compared with that under the continuation of existing policy.

The average annual increase in net financial liabilities under the responsible scenario through to 2018-19 is \$1.9 million, for a total of \$19 million in additional borrowings. This would provide around 6% of the financing required for the Council's spending on assets including addressing its infrastructure backlog at the same time as it strives to meet future renewals as they fall due.

Table 6-5  
Average Annual Increases in Capital Employed  
10 years to 2018-19  
Dubbo City Council (excluding Water & Sewerage)

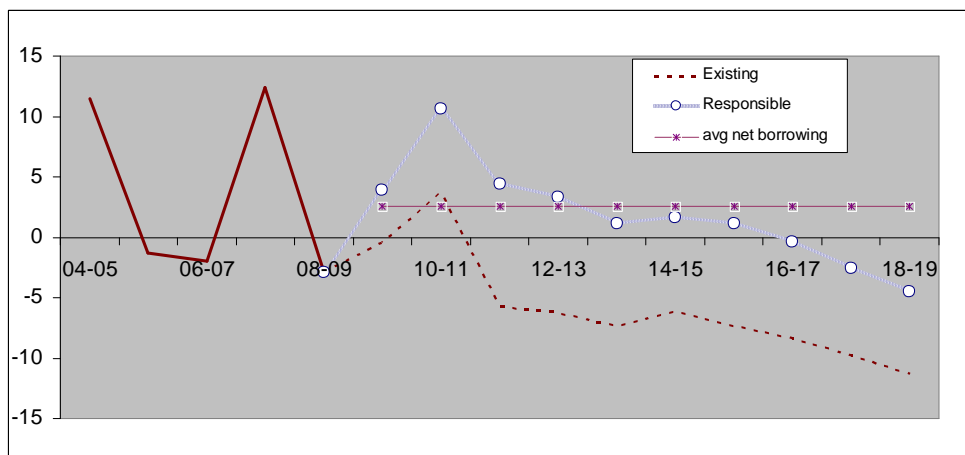
|   | existing policy (\$M) | responsible scenario (\$M) |
|---|-----------------------|----------------------------|
| annual increase/(decrease) in Ratepayer equity (Net assets)   | 27.445                | 28.857                     |
| plus Annual increase/(decrease) in net financial liabilities <sup>(a)</sup>                           | -5.914                | 1.882                      |
| comprising annual increase/(decrease) in:   |                       |                            |
| Interest-bearing liabilities  | -5.011                | 2.469                      |
| Other net financial liabilities   | 0.277                 | 0.277                      |
| less Cash & securities unrestricted (and internally restricted)                                       | 1.179                 | 0.863                      |
| equals annual increase/(decrease) in Total Capital Employed   | 21.531                | 30.739                     |
| increase in Net Financial Liabilities as a % of the increase in Total Capital Employed <sup>(b)</sup> | -27%                  | 6%                         |

<sup>(a)</sup> Equals annual net borrowing. This measure of annual net borrowing accords with ABS as well as international (IMF) government finance statistics standards.

<sup>(b)</sup> Constrained to 0% for years when a decrease in net financial liabilities and/or a decrease in total capital employed is observed.

Chart 6-3 shows Dubbo's projected annual net borrowing under the responsible scenario together with projections under continuation of existing policy.

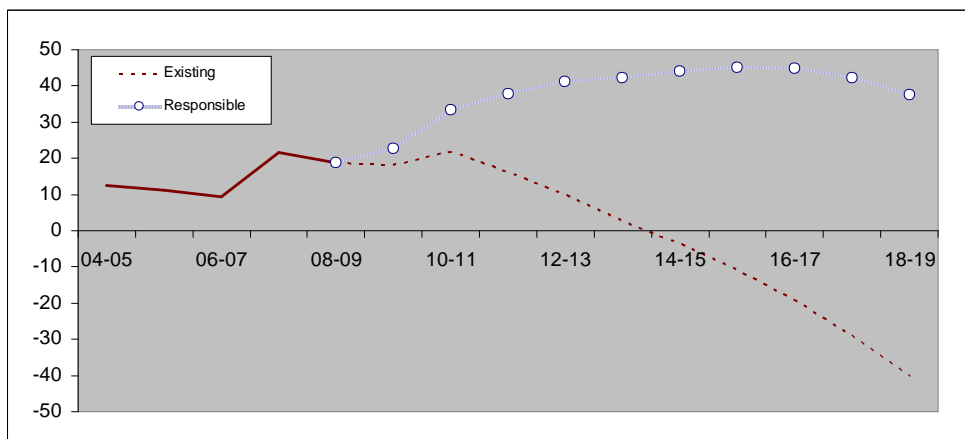
Chart 6-3  
Annual Net Borrowing (\$ million)<sup>(a)</sup>  
Under a 'Responsible' Policy Scenario  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



<sup>(a)</sup> Annual change in net financial liabilities.

Chart 6-4 shows Dubbo's projected net financial liabilities levels under the responsible scenario together with projections under continuation of existing policy.

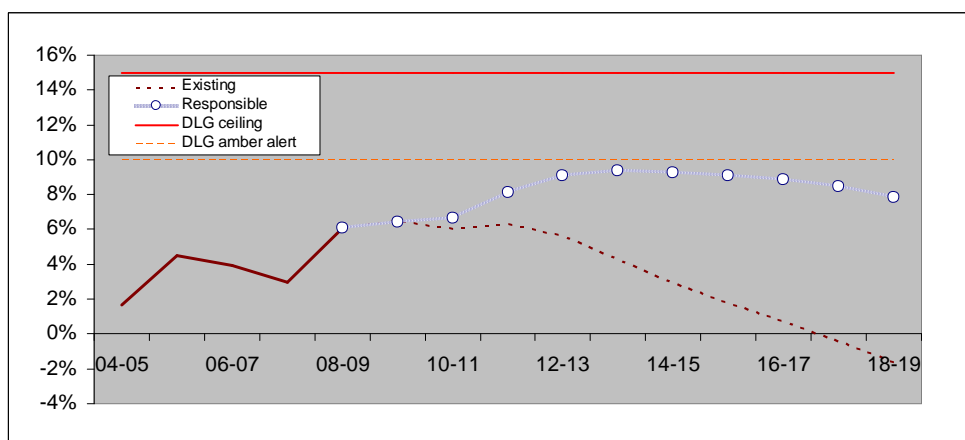
Chart 6-4  
 Net Financial Liabilities (\$ million) <sup>(a)</sup>  
 Under a 'Responsible' Policy Scenario  
 Dubbo City Council (excluding Water & Sewerage), 30 June 2004 to 30 June 2019



<sup>(a)</sup> Net financial liabilities comprise total liabilities less (i) holdings of unrestricted cash and securities and any restricted cash and securities matching restricted liabilities, and (ii) receivables.

Chart 6-5 shows the expected time series under the responsible scenario for the DLG's debt service indicator, which involves a council's annual debt servicing payments (both principal and interest) expressed as a % of the council's annual revenue from continuing operations excluding capital items, specific purpose payments and contributions. We understand that the DLG considers 15% to be around the ceiling for this debt service ratio, with any instances of a debt service ratio in the 10% to 15% (or "amber") range attracting closer scrutiny.

Chart 6-5  
 DLG's Debt Service Ratio <sup>(a),(b)</sup>  
 Under a 'Responsible' Policy Scenario  
 Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19

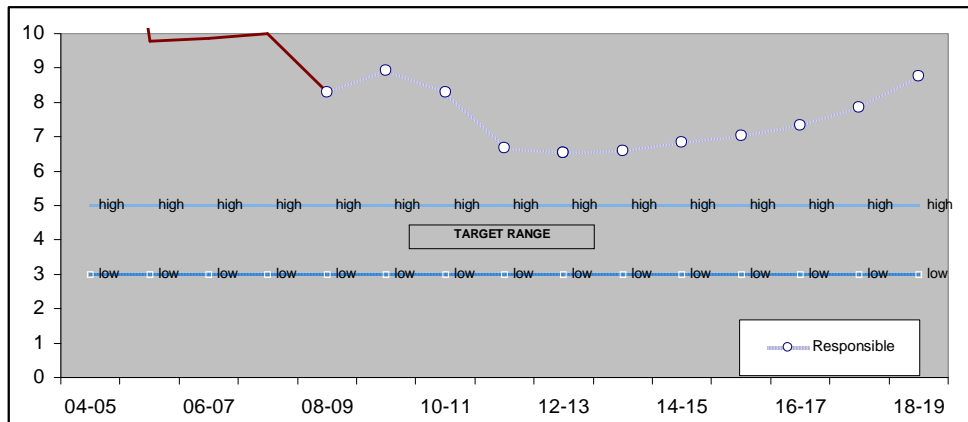


<sup>(a)</sup> A council's annual debt servicing payments (both principal and interest) expressed as a % of its annual operating revenue excluding specific purpose operating grants, above-the-line capital grants and operating contributions. Excludes water and sewerage debt servicing and revenue.

<sup>(b)</sup> Assumes 4% of outstanding debt is repaid each year over the forecast period (= average debt maturity of 25 years).

Chart 6-6 shows the expected time series of the interest cover ratio under the responsible scenario. We consider this ratio to be more robust than the DLG's debt service ratio,<sup>15</sup> and for this reason is used in chapter 1. The interest cover ratio involves the number of times a council's annual operating surplus before depreciation and interest is a multiple of its annual interest payments.

Chart 6-6  
Interest Cover Ratio<sup>(a)</sup>  
Under a 'Responsible' Policy Scenario  
Dubbo City Council (excluding Water & Sewerage), 2004-05 to 2018-19



<sup>(a)</sup> Assumes an average long-term interest rate of 8%.

Chart 6-6 indicates that Dubbo has the financial capacity to prudently undertake the borrowing program envisaged under the responsible scenario, provided it commits to the policy adjustments involved. The interest cover ratio in prospect under the responsible scenario would remain well above the 5 times level in each of the next 10 years.

## 6.5 Key findings

While challenging, we consider the borrowing program implied by the responsible scenario to be within Dubbo's financial capacity.

<sup>15</sup> Our preference for reliance on the interest cover ratio (even while local government retains an appetite for asset-related lines of debt and for repaying debt over the course of a loan) mainly reflects two considerations.

First, the 'principal repayment' element of debt servicing deserves to be funded out of capital revenue and by draw-downs in a council's cash and securities as much as by annual operating revenue. Only the 'interest payment' element of debt servicing deserves to be funded just from operating revenue. When such additional funding sources are added to the debt service ratio (which is not done in the DLG's ratio), our experience is that the picture generally does not change much from that implied by an interest (only)-to-operating revenue ratio.

Secondly, using operating revenue as the denominator in effect puts debt servicing ahead of all other calls on a council's revenue. This assumption is not favoured in a private sector context, and it is difficult to think of a valid justification in a public sector context, as some expenditures effectively have a higher claim over a council's revenues than debt servicing. Wages are the most obvious example. A council's underlying debt servicing capacity therefore depends on revenue net of the types of spending that may take priority over debt servicing.

In this regard, we consider "net" revenue to be best measured by a council's operating surplus before depreciation and interest. This is the approach generally favoured by the credit rating agencies when assessing a corporation's creditworthiness, and is based on the creditor perspective that any cash flow retained as a result of the funding of annual depreciation charges can easily be used to meet a council's debt servicing instead of the alternative use of funding renewals capex. In effect, using "net" revenue recognises that a council's capacity to service its debt depends fundamentally not on the council's annual revenues per se but on the council's ability to generate annual net cash flows.

---

# Appendix A

## Sources of financial data

### Financial data provided by a council

We have generally used financial data provided by the Council, namely:

- ❑ for the years 2003-04 to 2007-09, actual numbers consistent with the Council's audited financial statements for the year in question.

### Financial data provided by GHD

We have also used the following data prepared by GHD based upon its discussion with council officers:

- ❑ for the years 2009-10 and beyond, projected enhancement capex;
- ❑ for the years 2009-10 and beyond, projected and required maintenance expense;
- ❑ for the years 2009-10 and beyond, projected and required renewals capex; and
- ❑ at 30 June 2009, an estimate of the council's infrastructure backlog.

### Financial data estimated by TreEnt

For the years from 2003-04 to 2008-09, we backcast:

- ❑ both required maintenance spending and required renewals capex, by applying the annual percentage rates of change observed for depreciation expense during preceding year starting with GHD's estimates for 2009-10; and
- ❑ the infrastructure backlog, by subtracting the annual gap between the (estimated) required and actual renewals capex during the preceding year starting with GHD's estimate for 30 June 2009.

## Appendix B

### References

- |                                |  |
|--------------------------------|--|
| Access Economics (2006a)       | Access Economics, 'Local Government Finances in NSW: An Assessment', Interim Report, Volume 2, Independent Inquiry into the Financial Sustainability of NSW Local Government, Sydney, January 2006 |
| Access Economics (2006b)       | Access Economics, Local Government Finances in Western Australia: An Assessment, Canberra, June 2006   |
| Access Economics (2007)        | Access Economics, A Review of the Financial Sustainability of Local Government Finances in Tasmania, Canberra, March 2007  |
| FiscalStar (2009)              | FiscalStar Services Pty Ltd, 2009 NSW Local Government Financial Sustainability Review, Adelaide, April 2009   |
| NSW Inquiry (2006)             | Independent Inquiry into the Financial Sustainability of NSW Local Government, Are Councils Sustainable?, Sydney, May 2006   |
| Productivity Commission (2008) | Productivity Commission, Assessing Local Government Revenue Raising Capacity, Research Report, Canberra, April 2008  |
| PWC (2006)                     | PriceWaterhouseCoopers, National Financial Sustainability Study of Local Government in Australia, Commissioned by the Australian Local Government Association, Sydney, November 2006               |
| SA Inquiry (2005)              | Financial Sustainability Review Board, Rising To The Challenge: Towards Financially Sustainable Local Government in South Australia, Volume 2: Supporting Analysis, Adelaide, August 2005          |
| WA Inquiry (2006)              | Systemic Sustainability Study, In Your Hands: Shaping the Future of Local Government in Western Australia, Final Report, Perth, December 2006  |

# Appendix C

## Summary Tables

The LGI report<sup>16</sup> proposed a uniform presentation of a council's financial performance and position suitable for internal and external 'financial governance' reporting purposes. This presentation departs in certain respects from the standard treatment required for external accounting reporting purposes. These departures are necessary for the purposes of assisting councillors to make assessments related to the appropriate levels of council operating revenues and expenses, capital income and outlays, and borrowing and debt based on consideration for financial sustainability/inter-generational equity.

This Appendix re-presents Dubbo's financial data used in our analysis into the LGI's proposed format, with the projections based on:

- in Table C-1: continuation of existing policy; and
- in Table C-2: the 'responsible' policy scenario.

NOTE: The Tables in this Appendix, like all tables in this report, include the likely effects of inflation over the forecast period.

---

<sup>16</sup> NSW Inquiry (2006), Appendix B.

## Dubbo City Council

|   | 2007-08      | 2008-09      | 2009-10      | 2010-11      | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      | 2016-17      | 2017-18      | 2018-19      |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Table C-1: Continuation of Existing Policy</b>   | actual       | actual       | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   |
|   | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  |
| <b>FINANCIAL PERFORMANCE</b>  |              |              |              |              |              |              |              |              |              |              |              |              |
| Operating grants from other governments   | 9.0          | 12.1         | 12.5         | 12.8         | 13.2         | 13.6         | 14.0         | 14.4         | 14.8         | 15.2         | 15.6         | 16.1         |
| Rates and annual charges  | 21.3         | 22.3         | 23.4         | 24.7         | 26.0         | 27.4         | 28.8         | 30.3         | 31.9         | 33.6         | 35.4         | 37.2         |
| plus Fees and user charges  | 11.5         | 11.3         | 11.2         | 12.3         | 13.5         | 14.8         | 16.1         | 17.7         | 19.2         | 20.9         | 22.7         | 24.7         |
| plus Other own-source operating revenue   | 3.1          | 3.1          | 3.6          | 3.8          | 4.0          | 4.1          | 4.4          | 4.6          | 4.8          | 5.0          | 5.3          | 5.5          |
| <b>Own-source operating revenue (before interest and realised gains on asset sales)</b>       | <b>35.8</b>  | <b>36.6</b>  | <b>38.3</b>  | <b>40.7</b>  | <b>43.5</b>  | <b>46.3</b>  | <b>49.2</b>  | <b>52.5</b>  | <b>55.9</b>  | <b>59.5</b>  | <b>63.3</b>  | <b>67.4</b>  |
| <b>Total operating revenue</b>  | <b>44.9</b>  | <b>48.7</b>  | <b>50.8</b>  | <b>53.6</b>  | <b>56.7</b>  | <b>59.8</b>  | <b>63.2</b>  | <b>66.9</b>  | <b>70.7</b>  | <b>74.7</b>  | <b>78.9</b>  | <b>83.5</b>  |
| annual % increase   |              | 8.6%         | 4.1%         | 5.6%         | 5.7%         | 5.6%         | 5.6%         | 5.9%         | 5.6%         | 5.7%         | 5.7%         | 5.8%         |
| Interest expense  | 0.8          | 1.8          | 1.8          | 1.8          | 2.1          | 1.8          | 1.4          | 0.9          | 0.6          | 0.1          | -0.4         | -1.0         |
| % of total operating revenue  | 1.8%         | 3.7%         | 3.5%         | 3.4%         | 3.7%         | 2.9%         | 2.2%         | 1.4%         | 0.8%         | 0.2%         | -0.5%        | -1.2%        |
| Maintenance expense   | 5.7          | 5.7          | 5.5          | 6.0          | 6.4          | 6.9          | 7.4          | 8.3          | 8.7          | 9.2          | 9.6          | 10.1         |
| plus Operating expenses (before any realised losses on asset sales)                           | 26.3         | 27.9         | 29.6         | 31.3         | 33.1         | 35.1         | 37.2         | 39.4         | 41.7         | 44.1         | 46.7         | 49.5         |
| plus Depreciation expense   | 10.9         | 12.0         | 10.6         | 11.7         | 13.0         | 14.2         | 15.5         | 17.0         | 18.7         | 20.6         | 22.7         | 25.2         |
| <b>Other expenses (before any realised losses on asset sales)</b>                             | <b>42.9</b>  | <b>45.6</b>  | <b>45.7</b>  | <b>49.0</b>  | <b>52.6</b>  | <b>56.2</b>  | <b>60.1</b>  | <b>64.7</b>  | <b>69.1</b>  | <b>73.9</b>  | <b>79.1</b>  | <b>84.8</b>  |
| <b>Total expenses (before any realised losses on asset sales, and net of interest income)</b> | <b>43.7</b>  | <b>47.5</b>  | <b>47.5</b>  | <b>50.8</b>  | <b>54.7</b>  | <b>58.0</b>  | <b>61.5</b>  | <b>65.6</b>  | <b>69.7</b>  | <b>74.0</b>  | <b>78.7</b>  | <b>83.8</b>  |
| annual % increase   |              | 8.6%         | 0.2%         | 6.8%         | 7.7%         | 6.0%         | 6.1%         | 6.6%         | 6.2%         | 6.3%         | 6.3%         | 6.4%         |
| <b>Operating surplus/(deficit)</b>  | <b>1.2</b>   | <b>1.3</b>   | <b>3.2</b>   | <b>2.8</b>   | <b>1.9</b>   | <b>1.8</b>   | <b>1.7</b>   | <b>1.3</b>   | <b>1.0</b>   | <b>0.6</b>   | <b>0.2</b>   | <b>-0.3</b>  |
| % of own-source operating revenue   | 3.2%         | 3.5%         | 8.4%         | 6.8%         | 4.5%         | 4.0%         | 3.4%         | 2.5%         | 1.8%         | 1.1%         | 0.3%         | -0.4%        |
| Total capital expenditure   | 13.4         | 17.7         | 20.3         | 26.9         | 12.8         | 13.6         | 13.5         | 16.6         | 17.3         | 17.9         | 18.4         | 19.1         |
| plus Capital receipts   | 17.0         | 0.0          | 1.2          | 1.8          | 1.9          | 2.0          | 2.1          | 2.5          | 2.2          | 2.4          | 2.5          | 2.6          |
| less Acquisition of net financial assets (restricted)   |              |              |              |              |              |              |              |              |              |              |              |              |
| Carrying amount of non-financial assets sold  | -0.1         | 0.7          | 0.7          | 0.7          | 0.7          | 0.7          | 0.8          | 0.8          | 0.8          | 0.8          | 0.9          | 0.9          |
| plus Net gain/(loss) from the disposal of non-financial assets                                | 1.3          | 0.9          | 0.9          | 0.9          | 1.0          | 1.0          | 1.0          | 1.1          | 1.1          | 1.1          | 1.2          | 1.2          |
| plus Capital grants from other governments  | 0.7          | 0.6          | 0.6          | 0.6          | 0.7          | 0.7          | 0.7          | 0.8          | 0.8          | 0.8          | 0.8          | 0.9          |
| plus Developer and other capital contributions  | 3.9          | 5.2          | 5.9          | 8.2          | 3.1          | 3.3          | 3.3          | 4.3          | 4.5          | 4.7          | 4.9          | 5.1          |
| less Cashflow generated by annual depreciation charge   | 10.9         | 12.0         | 10.6         | 11.7         | 13.0         | 14.2         | 15.5         | 17.0         | 18.7         | 20.6         | 22.7         | 25.2         |
| <b>Capital deficit/(surplus)</b>  | <b>13.5</b>  | <b>-1.6</b>  | <b>2.7</b>   | <b>6.4</b>   | <b>-3.8</b>  | <b>-4.4</b>  | <b>-5.7</b>  | <b>-4.8</b>  | <b>-6.3</b>  | <b>-7.7</b>  | <b>-9.6</b>  | <b>-11.5</b> |
| <b>Net borrowing/(lending)</b>  | <b>12.4</b>  | <b>-2.9</b>  | <b>-0.5</b>  | <b>3.7</b>   | <b>-5.8</b>  | <b>-6.3</b>  | <b>-7.4</b>  | <b>-6.1</b>  | <b>-7.3</b>  | <b>-8.4</b>  | <b>-9.8</b>  | <b>-11.3</b> |
| where applicable, % of total capital expenditure  | 92.6%        | ..           | ..           | 13.6%        | ..           | ..           | ..           | ..           | ..           | ..           | ..           | ..           |
| <b>Table C-1: Continuation of Existing Policy</b>   | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         | 2019         |
|   | actual       | actual       | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   |
|   | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  |
| <b>FINANCIAL POSITION</b>   |              |              |              |              |              |              |              |              |              |              |              |              |
| Non-financial assets  | 510.0        | 471.1        | 496.4        | 527.9        | 545.1        | 562.4        | 578.9        | 597.6        | 615.9        | 633.5        | 650.1        | 665.4        |
| plus Net financial assets (restricted)  | 30.6         | 27.3         | 28.4         | 30.2         | 32.1         | 34.0         | 36.1         | 38.6         | 40.8         | 43.2         | 45.7         | 48.3         |
| <b>Total capital employed</b>   | <b>540.6</b> | <b>498.4</b> | <b>524.8</b> | <b>558.1</b> | <b>577.2</b> | <b>596.5</b> | <b>615.1</b> | <b>636.2</b> | <b>656.8</b> | <b>676.8</b> | <b>695.8</b> | <b>713.7</b> |
| annual % increase   |              | -7.8%        | 5.3%         | 6.4%         | 3.4%         | 3.3%         | 3.1%         | 3.4%         | 3.2%         | 3.0%         | 2.8%         | 2.6%         |
| Interest bearing liabilities  | 26.3         | 25.7         | 25.8         | 30.2         | 25.2         | 19.7         | 13.2         | 8.3          | 1.9          | -5.5         | -14.2        | -24.4        |
| less Cash and securities (externally unrestricted only)                                       | 12.8         | 15.0         | 15.8         | 16.8         | 17.8         | 18.9         | 20.1         | 21.5         | 22.7         | 24.0         | 25.4         | 26.8         |
| <b>Net debt</b>   | <b>13.5</b>  | <b>10.7</b>  | <b>10.0</b>  | <b>13.4</b>  | <b>7.4</b>   | <b>0.8</b>   | <b>-6.8</b>  | <b>-13.2</b> | <b>-20.8</b> | <b>-29.5</b> | <b>-39.6</b> | <b>-51.2</b> |
| % of total operating revenue  | 30%          | 22%          | 20%          | 25%          | 13%          | 1%           | -11%         | -20%         | -29%         | -39%         | -50%         | -61%         |
| <b>Other net liabilities</b>  | <b>8.1</b>   | <b>8.0</b>   | <b>8.3</b>   | <b>8.5</b>   | <b>8.8</b>   | <b>9.1</b>   | <b>9.3</b>   | <b>9.6</b>   | <b>9.9</b>   | <b>10.2</b>  | <b>10.5</b>  | <b>10.8</b>  |
| <b>Net financial liabilities</b>  | <b>21.7</b>  | <b>18.8</b>  | <b>18.3</b>  | <b>21.9</b>  | <b>16.1</b>  | <b>9.9</b>   | <b>2.5</b>   | <b>-3.6</b>  | <b>-10.9</b> | <b>-19.3</b> | <b>-29.1</b> | <b>-40.4</b> |
| % of total operating revenue  | 48%          | 38%          | 36%          | 41%          | 28%          | 16%          | 4%           | -5%          | -15%         | -26%         | -37%         | -48%         |
| <b>Ratepayer equity</b>   | <b>518.9</b> | <b>479.6</b> | <b>506.5</b> | <b>536.2</b> | <b>561.0</b> | <b>586.6</b> | <b>612.6</b> | <b>639.8</b> | <b>667.7</b> | <b>696.1</b> | <b>724.9</b> | <b>754.1</b> |

| <b>Dubbo City Council</b>   |             |             |             |             |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Table C-2: Responsible Scenario</b>  | 2007-08     | 2008-09     | 2009-10     | 2010-11     | 2011-12     | 2012-13     | 2013-14     | 2014-15     | 2015-16     | 2016-17     | 2017-18     | 2018-19     |
|   | actual      | actual      | projection  | projection  | projection  | projection  | projection  | projection  | projection  | projection  | projection  | projection  |
|   | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions | \$ millions |
| <b>FINANCIAL PERFORMANCE</b>  |             |             |             |             |             |             |             |             |             |             |             |             |
| Operating grants from other governments   | 9.0         | 12.1        | 12.5        | 12.8        | 13.2        | 13.6        | 14.0        | 14.4        | 14.8        | 15.2        | 15.6        | 16.1        |
| Rates and annual charges  | 21.3        | 22.3        | 23.6        | 24.9        | 26.4        | 27.9        | 29.5        | 31.2        | 33.1        | 35.0        | 37.0        | 39.2        |
| <i>plus</i> Fees and user charges   | 11.5        | 11.3        | 11.3        | 12.3        | 13.7        | 15.2        | 16.8        | 18.2        | 19.7        | 21.4        | 23.3        | 25.4        |
| <i>plus</i> Other own-source operating revenue  | 3.1         | 3.1         | 3.6         | 3.8         | 3.9         | 4.1         | 4.2         | 4.4         | 4.6         | 4.8         | 5.0         | 5.2         |
| <b>Own-source operating revenue (before interest and realised gains on asset sales)</b>       | <b>35.8</b> | <b>36.6</b> | <b>38.5</b> | <b>41.0</b> | <b>44.0</b> | <b>47.2</b> | <b>50.6</b> | <b>53.8</b> | <b>57.4</b> | <b>61.2</b> | <b>65.3</b> | <b>69.7</b> |
| <b>Total operating revenue</b>  | <b>44.9</b> | <b>48.7</b> | <b>50.9</b> | <b>53.8</b> | <b>57.2</b> | <b>60.7</b> | <b>64.5</b> | <b>68.2</b> | <b>72.1</b> | <b>76.4</b> | <b>80.9</b> | <b>85.8</b> |
| <i>annual % increase</i>  |             | 8.6%        | 4.5%        | 5.7%        | 6.3%        | 6.2%        | 6.2%        | 5.7%        | 5.8%        | 5.9%        | 5.9%        | 6.0%        |
| Interest expense  | 0.8         | 1.8         | 1.8         | 2.1         | 2.9         | 3.2         | 3.5         | 3.6         | 3.8         | 3.9         | 3.9         | 3.8         |
| <i>% of total operating revenue</i>   | 1.8%        | 3.7%        | 3.5%        | 3.9%        | 5.0%        | 5.3%        | 5.4%        | 5.3%        | 5.2%        | 5.1%        | 4.8%        | 4.4%        |
| Maintenance expense   | 5.7         | 5.7         | 5.6         | 5.7         | 5.8         | 5.9         | 6.1         | 6.4         | 6.7         | 7.0         | 7.3         | 7.7         |
| <i>plus</i> Operating expenses (before any realised losses on asset sales)                    | 26.3        | 27.9        | 29.3        | 30.7        | 32.2        | 33.7        | 35.4        | 37.1        | 38.9        | 40.8        | 42.8        | 44.9        |
| <i>plus</i> Depreciation expense  | 10.9        | 12.0        | 10.6        | 11.8        | 13.2        | 14.6        | 16.2        | 17.9        | 19.9        | 22.2        | 24.8        | 27.7        |
| <b>Other expenses (before any realised losses on asset sales)</b>                             | <b>42.9</b> | <b>45.6</b> | <b>45.5</b> | <b>48.1</b> | <b>51.2</b> | <b>54.3</b> | <b>57.7</b> | <b>61.4</b> | <b>65.5</b> | <b>70.0</b> | <b>74.9</b> | <b>80.2</b> |
| <b>Total expenses (before any realised losses on asset sales, and net of interest income)</b> | <b>43.7</b> | <b>47.5</b> | <b>47.3</b> | <b>50.2</b> | <b>54.0</b> | <b>57.5</b> | <b>61.2</b> | <b>65.0</b> | <b>69.3</b> | <b>73.9</b> | <b>78.8</b> | <b>84.0</b> |
| <i>annual % increase</i>  |             | 8.6%        | -0.3%       | 6.2%        | 7.6%        | 6.4%        | 6.4%        | 6.3%        | 6.5%        | 6.7%        | 6.7%        | 6.6%        |
| <b>Operating surplus/(deficit)</b>  | <b>1.2</b>  | <b>1.3</b>  | <b>3.6</b>  | <b>3.6</b>  | <b>3.2</b>  | <b>3.3</b>  | <b>3.4</b>  | <b>3.2</b>  | <b>2.9</b>  | <b>2.5</b>  | <b>2.1</b>  | <b>1.7</b>  |
| <i>% of own-source operating revenue</i>  | 3.2%        | 3.5%        | 9.4%        | 8.8%        | 7.2%        | 6.9%        | 6.6%        | 5.9%        | 5.0%        | 4.0%        | 3.2%        | 2.5%        |
| Total capital expenditure   | 13.4        | 17.7        | 23.7        | 33.3        | 24.0        | 24.5        | 24.0        | 26.9        | 28.2        | 28.7        | 28.9        | 29.8        |
| <i>plus</i> Capital receipts  | 17.0        | 0.0         | 1.0         | 1.2         | 1.3         | 1.4         | 1.5         | 1.6         | 1.7         | 1.8         | 1.9         | 2.0         |
| <i>less</i> Acquisition of net financial assets (restricted)                                  |             |             |             |             |             |             |             |             |             |             |             |             |
| Carrying amount of non-financial assets sold  | -0.1        | 0.7         | 0.7         | 0.7         | 0.7         | 0.7         | 0.8         | 0.8         | 0.8         | 0.8         | 0.9         | 0.9         |
| <i>plus</i> Net gain/(loss) from the disposal of non-financial assets                         | 1.3         | 0.9         | 0.9         | 0.9         | 1.0         | 1.0         | 1.0         | 1.1         | 1.1         | 1.1         | 1.2         | 1.2         |
| <i>plus</i> Capital grants from other governments   | 0.7         | 0.6         | 0.6         | 0.6         | 0.7         | 0.7         | 0.7         | 0.8         | 0.8         | 0.8         | 0.8         | 0.9         |
| <i>plus</i> Developer and other capital contributions   | 3.9         | 5.2         | 4.3         | 6.2         | 2.1         | 2.3         | 2.3         | 3.1         | 3.3         | 3.5         | 3.7         | 3.9         |
| <i>less</i> Cashflow generated by annual depreciation charge                                  | 10.9        | 12.0        | 10.6        | 11.8        | 13.2        | 14.6        | 16.2        | 17.9        | 19.9        | 22.2        | 24.8        | 27.7        |
| <b>Capital deficit/(surplus)</b>  | <b>13.5</b> | <b>-1.6</b> | <b>7.6</b>  | <b>14.2</b> | <b>7.6</b>  | <b>6.6</b>  | <b>4.5</b>  | <b>4.8</b>  | <b>4.0</b>  | <b>2.1</b>  | <b>-0.5</b> | <b>-2.8</b> |
| <b>Net borrowing/(lending)</b>  | <b>12.4</b> | <b>-2.9</b> | <b>3.9</b>  | <b>10.6</b> | <b>4.5</b>  | <b>3.3</b>  | <b>1.2</b>  | <b>1.7</b>  | <b>1.1</b>  | <b>-0.3</b> | <b>-2.6</b> | <b>-4.5</b> |
| <i>where applicable, % of total capital expenditure</i>                                       | 92.6%       | ..          | 16.6%       | 32.0%       | 18.6%       | 13.4%       | 4.8%        | 6.2%        | 3.9%        | ..          | ..          | ..          |

| <b>Table C-2: Responsible Scenario</b>                         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         | 2019         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | actual       | actual       | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   | projection   |
|  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  | \$ millions  |
| <b>FINANCIAL POSITION</b>                                      |              |              |              |              |              |              |              |              |              |              |              |              |
| Non-financial assets   | 510.0        | 471.1        | 499.8        | 537.8        | 566.3        | 594.8        | 622.1        | 651.4        | 681.0        | 709.8        | 737.1        | 763.2        |
| <i>plus</i> Net financial assets (restricted)                  | 30.6         | 27.3         | 28.2         | 29.4         | 30.7         | 32.1         | 33.6         | 35.2         | 36.9         | 38.7         | 40.6         | 42.6         |
| <b>Total capital employed</b>                                  | <b>540.6</b> | <b>498.4</b> | <b>528.1</b> | <b>567.3</b> | <b>597.0</b> | <b>626.9</b> | <b>655.7</b> | <b>686.6</b> | <b>717.9</b> | <b>748.5</b> | <b>777.7</b> | <b>805.8</b> |
| <i>annual % increase</i>                                       |              | -7.8%        | 6.0%         | 7.4%         | 5.2%         | 5.0%         | 4.6%         | 4.7%         | 4.6%         | 4.3%         | 3.9%         | 3.6%         |
| Interest bearing liabilities                                   | 26.3         | 25.7         | 30.1         | 41.2         | 46.1         | 49.9         | 51.6         | 53.9         | 55.6         | 56.0         | 54.2         | 50.4         |
| <i>less</i> Cash and securities (externally unrestricted only) | 12.8         | 15.0         | 15.7         | 16.4         | 17.1         | 17.8         | 18.7         | 19.6         | 20.5         | 21.5         | 22.6         | 23.6         |
| <b>Net debt</b>  | <b>13.5</b>  | <b>10.7</b>  | <b>14.4</b>  | <b>24.8</b>  | <b>29.0</b>  | <b>32.0</b>  | <b>32.9</b>  | <b>34.3</b>  | <b>35.1</b>  | <b>34.5</b>  | <b>31.6</b>  | <b>26.8</b>  |
| <i>% of total operating revenue</i>                            | 30%          | 22%          | 28%          | 46%          | 51%          | 53%          | 51%          | 50%          | 49%          | 45%          | 39%          | 31%          |
| <b>Other net liabilities</b>                                   | <b>8.1</b>   | <b>8.0</b>   | <b>8.3</b>   | <b>8.5</b>   | <b>8.8</b>   | <b>9.1</b>   | <b>9.3</b>   | <b>9.6</b>   | <b>9.9</b>   | <b>10.2</b>  | <b>10.5</b>  | <b>10.8</b>  |
| <b>Net financial liabilities</b>                               | <b>21.7</b>  | <b>18.8</b>  | <b>22.7</b>  | <b>33.3</b>  | <b>37.8</b>  | <b>41.1</b>  | <b>42.2</b>  | <b>43.9</b>  | <b>45.0</b>  | <b>44.7</b>  | <b>42.1</b>  | <b>37.6</b>  |
| <i>% of total operating revenue</i>                            | 48%          | 38%          | 45%          | 62%          | 66%          | 68%          | 65%          | 64%          | 62%          | 58%          | 52%          | 44%          |
| <b>Ratepayer equity</b>  | <b>518.9</b> | <b>479.6</b> | <b>505.4</b> | <b>533.9</b> | <b>559.2</b> | <b>585.8</b> | <b>613.5</b> | <b>642.7</b> | <b>672.9</b> | <b>703.9</b> | <b>735.6</b> | <b>768.2</b> |

TreEnt Advisory Services  
a division of TreEnt Pty Ltd  
ABN: 075 110 431

PO Box 109  
Glenside, SA 5065

[www.treent.com.au](http://www.treent.com.au)