



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

2008 Review

July 2008



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Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

As assessed by:



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

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

Explanatory notes:

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

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

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

FiscalStar Services Pty Ltd accepts and uses information published by each Council in good faith. FiscalStar does not warrant, represent or guarantee the accuracy or completeness of this information. FiscalStar's ratings provide a summary of the subject matter covered, and do not purport to be comprehensive or to provide financial or other advice. To the extent permitted by law, FiscalStar, its employees and agents disclaim any liability for any loss or damage that may arise as a consequence of any person relying on or using the information or opinions provided by FiscalStar or its ratings.

About FiscalStar

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

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

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

FiscalStar is:

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

1. Introduction

1.1 Background

Review Today Pty Ltd (“Review Today”), on behalf of Dexia Credit Local Asia Pacific Pty Ltd (“Dexia”), has commissioned FiscalStar Services Pty Ltd (“FiscalStar”) to refine and update the financial sustainability assessments published in October 2007.¹

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

1.2 Coverage and scope

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

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

TABLE 1-1
Nature of Councils Included in this Study

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

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

1.3 Data used

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

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

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

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

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

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

**TABLE 1-2
Financial Data and Sources, NSW Councils**

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

GPFR = General Purpose Financial Report; SPFR = Special Purpose Financial Reports

** Indicates that, for some councils, information provided by the council is substituted for information otherwise based on published council sources or FiscalStar estimates.

2. Nature of the ‘Financial Sustainability’ Assessments

2.1 Ratings scale

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

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

A council’s existing financial and infrastructure policies are assessed as financially **sustainable** only if any present financial and infrastructure imbalances³ could be eliminated – and the council’s financial and infrastructure conditions brought to prudent and responsible levels – without resorting to substantial revenue-raising (and/or expenditure) adjustments.

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

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

2.2 The focus is on a council’s policy sustainability

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Indicators and Benchmarks

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

This chapter provides an overview of the methodology.

3.1 Key indicators

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

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

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

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

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

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

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

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

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

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

3.2 Core assumptions

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

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

Secondly, to judge whether any policy adjustments qualify as '**substantial**' in nature, FiscalStar focuses on the annual % increases necessary in a council's rates, fees & charges (per assessment) were any present financial and infrastructure imbalances to be phased out over a 10 year period. If the annual % increase in a council's rates, fees & charges necessary on average for 10 years is more than **double the annual inflation rate**, the associated policy adjustments are judged to be 'substantial'.⁹ Any average annual % increase necessary over 10 years that is below this threshold but is still **greater than 1½ times the annual inflation rate** is judged to run the risk of becoming substantial were unexpected developments to occur. On this basis, in FiscalStar's judgment:

- a council's existing policies are considered to be financially **unsustainable** if the council's present financial and infrastructure imbalances could be eliminated only by 10 years' worth of annual % increases in rates, fees & charges of in **excess of 2 times annual inflation** on average;
- a council's existing policies are considered to be financially **sustainable** if the council's present financial and infrastructure imbalances could be eliminated by 10 years' worth of annual % increases in rates, fees & charges at **less than 1½ times annual inflation** on average;¹⁰ and
- if a council's existing policies are somewhere between financially 'sustainable' and financially 'unsustainable', they are considered to be financially **vulnerable**.¹¹

3.3 Benchmarks

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

FiscalStar's criteria chart has:

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

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

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

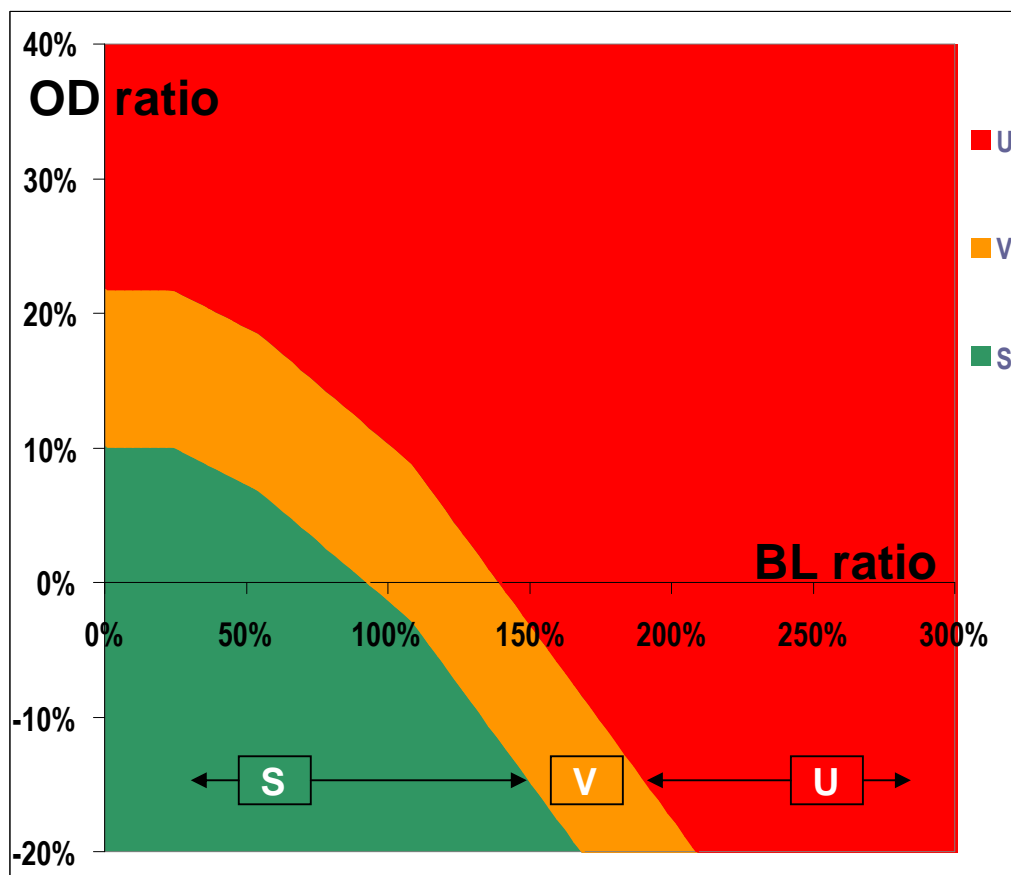
⁹ If annual inflation were to average 3%, this would involve annual increases in a council's (per assessment) rates, fees & charges averaging at least 6%.

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

¹¹ These are councils whose present financial and infrastructure imbalances could be eliminated by 10 years' worth of annual increases in rates, fees & charges averaging between 1½ and 2 times annual inflation.

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

CHART 3-1
Illustrative Criteria Chart**



OD ratio = a council's operating deficit as a % of its annual revenue from rates, fees & charges.

BL ratio = the sum of a council's long-term debt and an estimate of its infrastructure backlog, both at the end of the year, as a % of its total annual operating revenue.

**This particular chart applies only to councils with (i) financial characteristics (other than their OD and BL ratios) at about the State-wide average, (ii) existing operating expenditure and asset management policies that neither increase nor decrease the council's present OD and BL ratios (other things being equal), and (iii) depreciable assets that are valued on a current cost - rather than historical cost - basis.

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

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

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

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

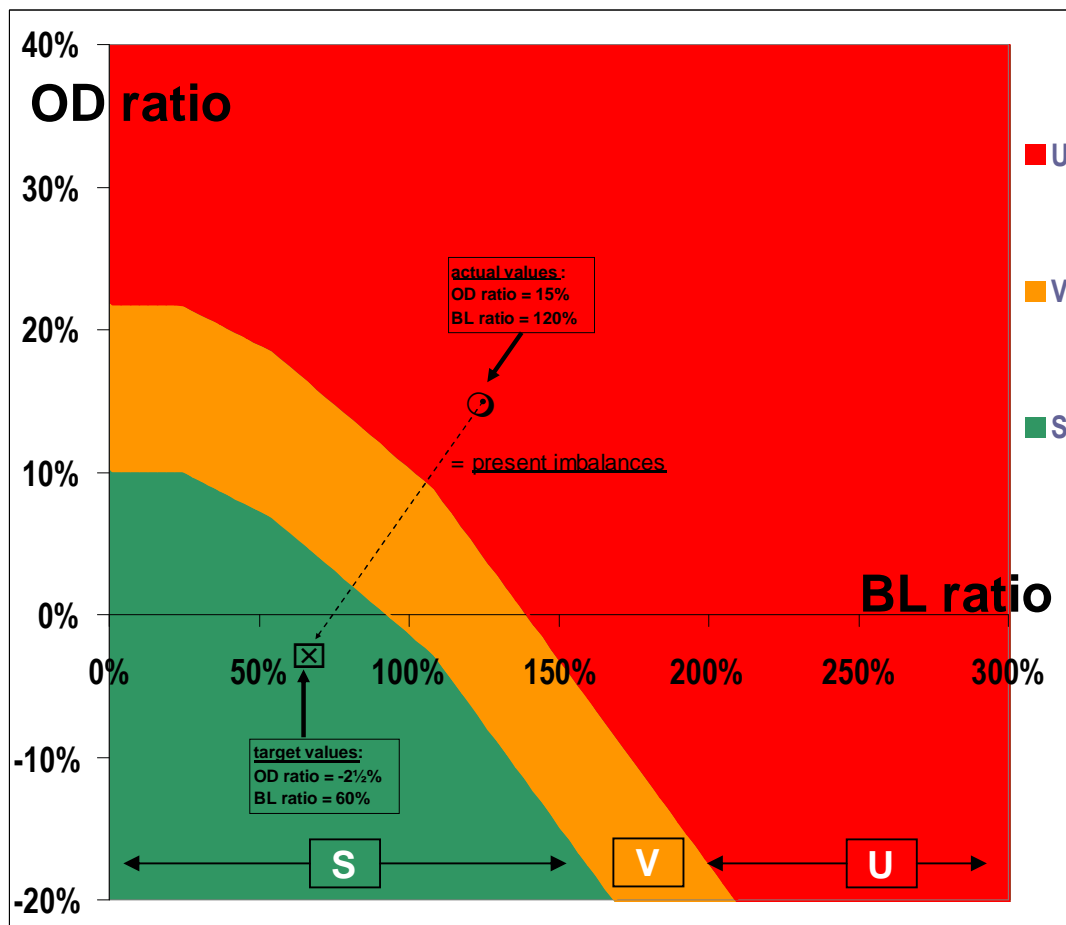
However, these particular OD ratio benchmark values apply only to a council with a zero BL ratio.

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

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

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

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



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

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

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

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

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

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

3.4 Role of a council's other financial characteristics

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

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

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

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

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

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

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

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

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

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

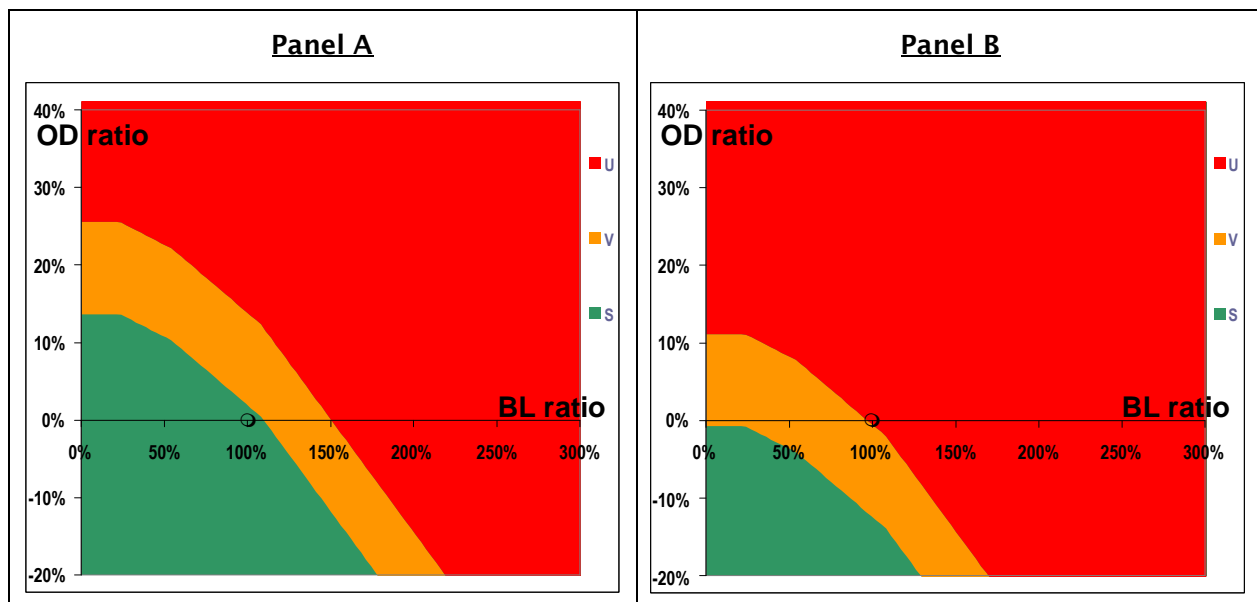
- the **greater** is the actual annual spending on renewals (and rehabilitation) inherent in its existing policy;¹⁹ and
- the **higher** is the proportion of its depreciable assets valued on a 'fair value' – rather than historical cost – basis.²⁰

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

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

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

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



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

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

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

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

4. Findings

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

4.1 Financial sustainability of existing policies

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

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

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

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

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

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

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

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

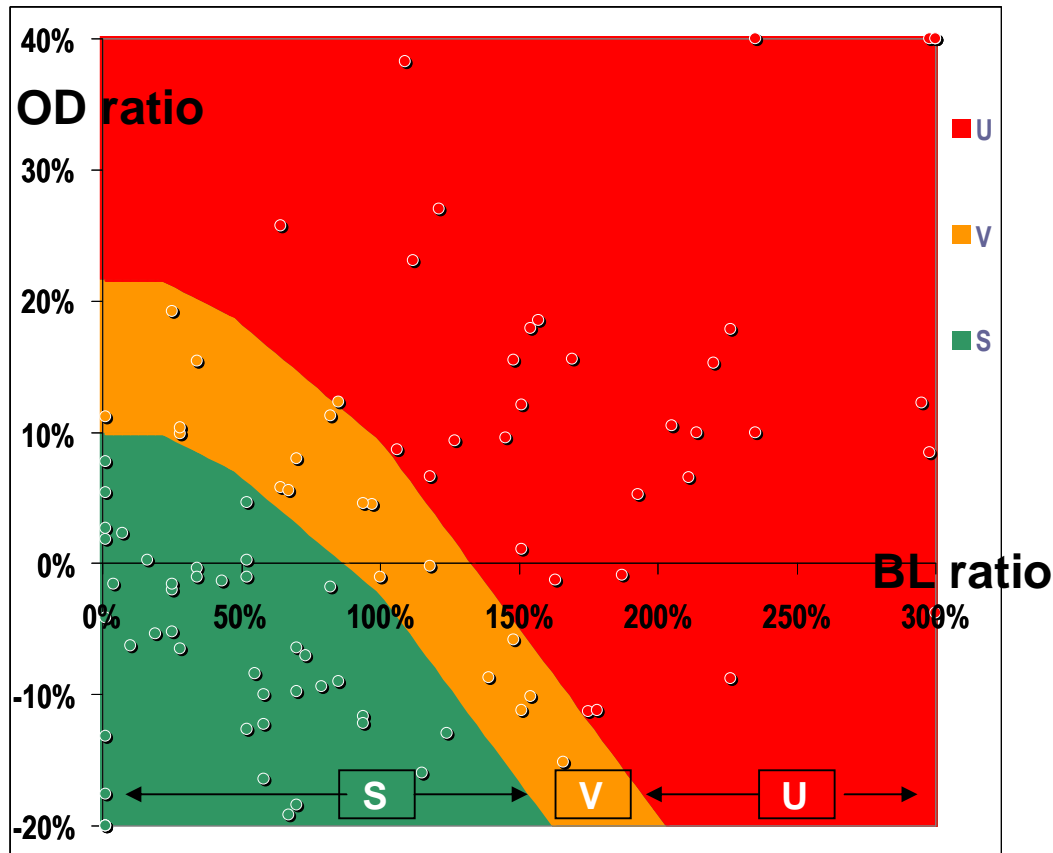
Finally, the existing financial and infrastructure policies of around one in every three councils surveyed are assessed as financially 'unsustainable'.

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

Different councils' OD and BL ratios can be directly compared only after allowance is made for differences in their other financial characteristics. The resultant comparison is illustrated in Chart 4-1.²¹

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

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



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

4.2 Comparison with the 2007 assessments

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

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

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

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

(b) Excludes the results for the four councils assessed only in the latest (July 2008) update. The October 2007 assessments only covered 96 councils.

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

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

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

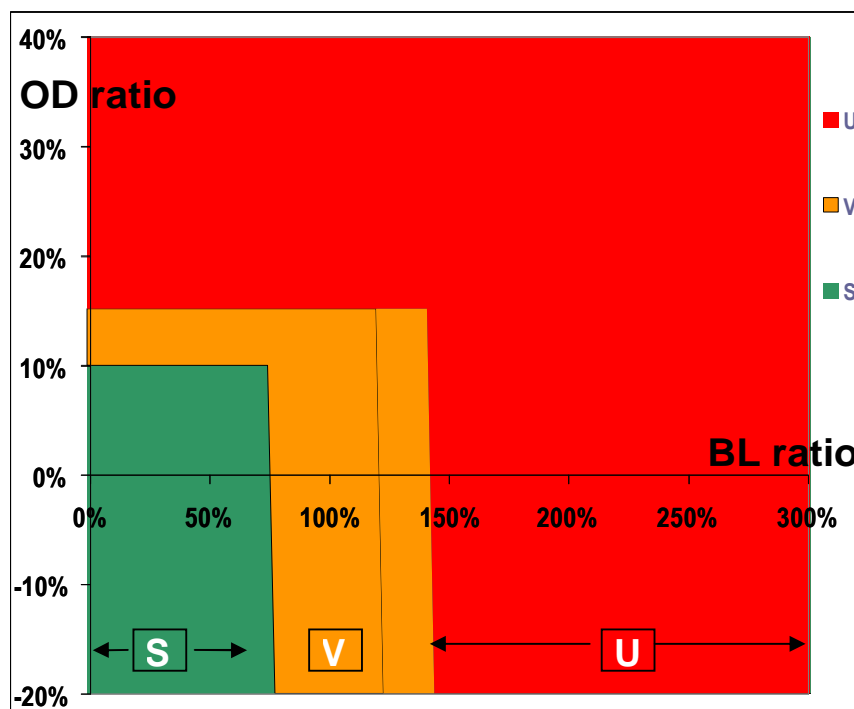
* excludes 'not assessed' councils

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

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

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

CHART 4-2
October 2007 Benchmarks



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

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

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

* excludes 'not assessed' councils

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

4.3 Caveats and qualifications

FiscalStar's assessments rely on the accuracy, consistency and comparability of the data that each council has put into the public arena. In addition, where important information is not routinely published (and FiscalStar finds it necessary to make its own estimates in order to arrive at an assessment), the accuracy of the resultant assessments can depend on whether councils have been prepared to volunteer such information. FiscalStar expects that both the quality and scope of the information available regarding each council's financial and infrastructure conditions will continue to improve over time.

For example, FiscalStar has included an allowance for the extent to which OD ratios are presently underestimated because NSW councils still value their (non-water and sewerage) building and infrastructure assets mainly on an historical cost basis rather than a 'fair value' (or current cost) basis. Councils are required to move the valuation of these assets onto a 'fair value' basis over the next year or two, and this will increase annual depreciation charges. FiscalStar's allowance in this regard could prove conservative.²²

But perhaps the most problematic element of the data used by FiscalStar relates to the infrastructure backlog estimates published by councils, and to the associated annual renewals gap estimates. NSW leads Australia when it comes to publishing infrastructure condition data, thanks mainly to the foresight of the NSW Department of Local Government (DLG) and its requirement that councils prepare and publish *Special Schedule No. 7: Condition of Public Works* ("SS7") which includes "the estimated cost to bring [the council's existing assets] up to a satisfactory condition standard". However, it appears that the infrastructure condition data published by councils is not always comparable across councils or consistent over time. Some councils have suggested to us that published estimates of the cost of returning their assets to a satisfactory condition may in effect include some enhancement of these assets. Other councils acknowledge that the basis of previous SS7's has not been well documented or tested. All this confirms that further improvements in the quality of published infrastructure condition data can and should be expected over coming years. The DLG will need to play a role in this regard by requiring councils to confine their SS7 estimates to the total cost of restoring assets to a satisfactory (not necessarily new) condition, thereby excluding the cost of any proposed enhancements of an asset beyond its original service capacity.

Finally, FiscalStar's assessments do not take account of any developments which may have occurred during the most current financial year (2007/08), and as such involve a slight lag due to the use of the most-recent audited financial data (generally relating to the 2006/07 financial year and which are now 12 months old). Developments since 2006/07 will however be reflected in next year's assessments.

²² This allowance – which FiscalStar has applied in respect of building and infrastructure assets only – has the effect of increasing annual depreciation charges in 2006/07 ranging from 1% to 11% across the 100 largest NSW councils, with the average increase being around 4%.

Appendix A

Deriving the Criteria Charts

FiscalStar shows its benchmarks for the key operating deficit ratio (“OD ratio”) and broad liabilities ratio (“BL ratio”) for a council by using a **criteria chart**. These charts provide an indication of FiscalStar’s estimates of the various OD and BL ratio combinations for a council that would fall into each of the financial sustainability categories.

Each council has a unique criteria chart based on its own financial characteristics. Councils have been provided with their own criteria chart. This appendix explains in technical terms how FiscalStar has gone about deriving these criteria charts.

1. Preferred indicator of the average annual % increase in rates, fees & charges

Unless explicitly qualified by the words “annual revenue”, references to ‘rates, fees & charges’ in this Appendix are to a council’s rates, fees & charges revenue on a **per-assessment (or rateable property) basis**. This strips out the ‘growth’ component of movements over time in annual revenue from rates, fees & charges.

In order to isolate the ‘inflation’ component of movements over time in rates, fees & charges, many analysts focus on the annual percentage-point increases in rates, fees & charges calculated on a ‘real-terms’ basis (i.e. deflated using a price index). Both the real-terms and percentage points elements of such an indicator are often a source of confusion for the layperson (ratepayer).

FiscalStar’s preference instead is to use an indicator which can be explained to the layperson relatively simply. FiscalStar prefers to measure a council’s (nominal-terms) annual % increase in rates, fees & charges (Δr) as a multiple of inflation (Δp), that is:

$$\Delta r / \Delta p = (R_1 / R_0 - Q_1 / Q_0) / (P_1 / P_0 - 1) \quad \dots[1]$$

where:

R = the council’s annual revenue from rates, fees & charges

Q = number of rateable properties (or assessments) for the council

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

and subscripts:

“1” denotes the latest year being compared

“0” denotes the earlier year being compared.

The numerical value derived using equation [1] is the number of times the average annual % increase in a council’s rates, fees & charges is a multiple of annual inflation.

Equation [1], as is the case for all the equations in this Appendix, is expressed in annualised terms. Where the difference between the years being compared is greater than one year, this requires each ratio that is expressed in the form $\text{Variable}_1 / \text{Variable}_0$ to be calculated to the n^{th} root, where n is the difference in years between the years being compared, that is:

$$(\text{Variable}_1 / \text{Variable}_0)^{1/n}$$

2. Required (future) annual % increases in rates, fees & charges

The average annual % increase in rates, fees & charges required in future ($\Delta r^{\#}_2$) can be considered as comprising two components, namely:

- the expected no-policy-change annual % increase in a council’s rates, fees & charges (Δr_2)
- and the additional annual % increase in rates, fees & charges necessary in future to phase out any present financial and infrastructure imbalances over a reasonable period (Δr^*_1).

where:

the “1” subscript denotes a value in the present period/year
and the “2” subscript denotes a value in the future period/year.

The implications of a council’s present financial and infrastructure imbalances for its annual revenue from rates, fees & charges ($\Delta R^*/R_1$) are indicated by:

$$\Delta R^*/R_1 = (R^* - R_1)/R_1 \quad \dots[2]$$

where:

R = the council’s annual revenue from rates, fees & charges
and the “*” superscript denotes ‘ideal’ or ‘equilibrium’ annual amounts (and the absence of a “*” superscript denotes actual or planned amounts)

The additional annual % increase in a council’s rates, fees & charges necessary on average over future years in order to phase out any financial and infrastructure imbalances over a reasonable period (Δr^*_2) can be represented as:

$$\Delta r^*_2 = s.(\Delta R^*/R_1) \quad \dots[3]$$

where:

$s = 1/S$
where S = a reasonable phase-out period (in years).

The required (future) average annual % increase in a council’s rates, fees & charges relative to inflation ($\Delta r^{\#}/\Delta p$) can then be expressed as follows:

$$\begin{aligned} (\Delta r^{\#}/\Delta p)_2 &= (\Delta r/\Delta p)_2 + \Delta r^*_1/\Delta p_2 \\ &= [\Delta r_2 + s.(\Delta R^*/R_1)] / \Delta p_2 \quad \dots[4] \end{aligned}$$

3. No-policy-change annual % increases in rates, fees & charges

No-policy-change annual % increases in a council’s rates, fees & charges mainly reflect underlying movements in the council’s cost structure.

FiscalStar assumes a standard **no-policy-change** annual % increase in a council’s rates, fees & charges across councils of **1% times** inflation, being sufficient to match underlying movements in council unit costs.

4. Measuring a council’s financial and infrastructure imbalances

FiscalStar distinguishes between alternative prospects for annual % increases in rates, fees & charges by reference to differences between councils in the imbalances evident in their present financial and infrastructure conditions.

Any financial and infrastructure imbalances give rise to a present gap between, based upon the latest information:

- a council’s required (or equilibrium) annual revenue from rates, fees & charges
- the council’s actual annual collections of such revenue under existing revenue policies.

The larger this present gap, the greater is the required % increase in rates, fees & charges in order to eliminate the council's financial and infrastructure imbalances.

4.1 Initial equations

Fundamental to this part of the FiscalStar's methodology is the proposition that a council's annual revenue from:

- rates, fees & charges
- operating grants from other levels of government, and the component of capital grants from other levels of government intended to finance asset maintenance and renewals expenditure
- and all other own-source operating revenue (including interest and other investment income including any dividends received (or their equivalent) from the council's water & sewerage operations available to finance the council's non-commercial activities, but excluding any net gains from the disposal or revaluation of assets, and capital contributions and asset donations)

in any year can be thought of as funding, for that year and in their entirety:

- the council's spending on services
- its maintenance expense
- its interest expense
- its spending on asset renewals/replacement ("renewals capex") up to the maximum of the funded portion of the annual depreciation charge
- the contribution by current ratepayers to debt principal repayment
- the contribution by current ratepayers to the funding of enhancement capex
- and the portion of future years' renewals capex funded by the current year's annual depreciation charge.

Expressing all this in equation form, and solving for a council's actual annual revenue from rates, fees & charges (R), gives:

$$R = (E-M-D-I) + M + I + L' + F^d + F^e + ((D-X) - L') - G - V \quad \dots[5]$$

where:

$E-M-D-I$ = annual spending on services

where E = total annual expenses

M = annual maintenance expense

D = annual depreciation charge

I = annual interest expense

L' = the rates-funded portion of the current year's annual renewals capex, being the actual annual renewals capex amount up to the maximum of the funded portion of the annual depreciation charge (with any greater amount being funded by additional borrowings rather than rates, fees & charges)

= $\angle L$ where L = annual renewals capex and $\angle \leq 1$

F^d = the rates-sourced internal funding of the current year's annual debt principal repayment

F^e = the rates-sourced internal funding of the current year's enhancement capex

$(D-X) - L'$ = the rates-funded portion of future years' annual renewals capex, being any amount by which the funded portion of the annual depreciation charge exceeds actual annual renewals capex for the year

where:

$$X = E + F^d + F^e - O$$

$$= Z + F^d + F^e, \text{ where } Z = \text{underlying operating deficit } (= E - O)$$

$$\text{where } O = R + G + V$$

G = annual grants from other levels of government (both operating grants and the component of capital grants intended to finance asset maintenance and renewals expenditure)

V = all other own-source operating revenue (including interest and other investment incomes including any dividends received (or their equivalent) from the council's water & sewerage operations available to finance the council's non-commercial activities), but excluding any net gains from the disposal or revaluation of assets, and capital contributions and asset donations.

Likewise, based on equation [5], FiscalStar accepts that a council's required or equilibrium annual revenue from rates, fees & charges (R^*) can be specified as follows, assuming $X^* = 0$ (i.e. where annual depreciation is fully funded):

$$R^* = (E-M-D-I)^* + M^* + I^* + L^{j*} + F^{d*} + F^{e*} + (D^*-L^{j*}) - G^* - V^* \quad \dots[6]$$

Further, FiscalStar is prepared to assume that, approximately:

$$(E-M-D-I)^* = E-M-D-I$$

$$G^* = G$$

$$V^* = V$$

$$D^* = D$$

$$L^{j*} = j.D^* \text{ (where } j \leq 1, \text{ with any required renewals capex amounts greater than } D^* \text{ being funded by additional borrowings rather than by this year's rates, fees \& charges)}$$

$$M^* = M \text{ (implying that the reduction in a council's maintenance expense were the current infrastructure backlog eliminated is not a material amount).}$$

Substituting these simplifying assumptions into equation [6], and rearranging gives:

$$R^* - R_1 = Z_1 + (I^*-I)_1 + F^{d*}_1 + F^{e*}_1 \quad \dots[7]$$

The following sub-sections examine the various components of equation [7] in detail.

4.2 Measuring Z

This term is a council's underlying operating deficit. It basically indicates the unfunded portion of the current year's required renewals capex.

As indicated above, FiscalStar prefers to headline an operating deficit ratio (OD) that is measured by expressing the operating deficit amount (Z) as a % of a council's annual revenue from (non-water & sewerage) rates, fees & charges.

However, for councils with water & sewerage operations, which can be funded by rates, fees & charges linked to the rates, fees & charges that finance a council's tax-supported activities (FiscalStar's focus), an increase in the council's (overall) rates, fees & charges can also result in an increase in the dividend (or equivalent) revenue received by the council's tax-supported activities from its water & sewerage operations. This means that the % increase in a council's rates, fees & charges required to eliminate any financial and infrastructure imbalances can be less than the headline OD ratio.

To allow for this, and only for the purpose of estimating the required (future) annual % increase in a council's rates, fees & charges, the OD ratio is adjusted to take into account this possible water & sewerage dividend flow-on effect. The adjusted operating deficit ratio is termed the z ratio, and it is calculated as follows:

$$z_1 = OD_1 \cdot [1/(1+v \cdot w_1)] \quad \dots[8]$$

where:

v = the effective dividend payout ratio (or equivalent) on a council's water & sewerage operating surplus

w = annual revenue from a council's water & sewerage-related rates, fees & charges ($R_{w\&s}$) as a % of annual revenue from its (non-water & sewerage) rates, fees & charges (R)

OD = the operating deficit amount (Z) as a % of revenue from rates, fees & charges (= (E-O)/R).

FiscalStar adjusts a council's present OD ratio (OD) for the understatement of the council's annual depreciation charge associated with assets not yet being valued on a 'fair value' basis. Based on the average lives of a council's assets to date, the proportion of a council's assets still valued on an historical cost basis and past general inflation rates, FiscalStar derives estimates of a council's fair value asset valuation uplift factor (h).

FiscalStar also adjusts a council's present OD ratio to account for possible increases (decreases) in the ratio even under continuation of existing expenditure policy. Such increases depend in the main upon the council's present annual expenses growth gap (e).

4.3 Measuring I*-I

I*-I depends upon the additional debt, at the end of a period of years (with the number of years being denoted as S), were a council to undertake the borrowing necessary to:

- eliminate any infrastructure backlog (= B-B*-U)
- fully fund the required level of annual renewals capex, being any amount not funded sufficiently by the annual depreciation charge (= S.(L*- D), where L*= j.D)
- finance any required increase in infrastructure assets, being the required level of annual enhancement capex (ΔA*) less the actual level of enhancement capex (ΔA) (= S.(ΔA*-ΔA))

where:

B = the present infrastructure backlog amount

B* = target infrastructure backlog amount

U = spare cash balances.

This additional debt in total is denoted as ΔN'2, where the "2" subscript denotes the future period/year.

Long-term debt is assumed to remain at or below the ceiling debt level (N*), where:

$$N^*_1 = n^*.O_1$$

where n* = a (target) debt ceiling ratio.

If above-ceiling debt was in principle required, a council's operating surplus would need to be increased to offset this.

The resultant additional annual borrowing necessary (ΔN'2) can therefore be approximated as the sum of:

- B1-b*.A1-U1, where positive (where b* = a target backlog ratio expressed as a % of the replacement value of infrastructure assets (A))
- S.(L*1-D1), where positive
- S.(ΔA*1-ΔA1), where positive

constrained to the scope available to increase the council's debt without breaching the debt ceiling (= N*-N1).

The resultant average level of additional debt over the period of S years would be:

$$k. \Delta N'_2$$

where $k = (1/S + 2/S + \dots + S/S)/S$.

For example, if S = 10 years, k = 55%.

Also, the resultant additional interest paid (I*-I) would be:

$$(I^*-I)_1 = \dot{i}^*.k.\Delta N'_2 \quad \dots[9]$$

where \dot{i}^* = the average rate of interest paid on borrowing and interest forgone on cash and securities.

The actual enhancement capex on infrastructure assets (ΔA1) can be represented as follows:

$$\Delta A_1 = g.(\Delta Q/Q)_1.A_1$$

where:

Q1 = the number of assessments (or rateable properties)

A1 = the replacement value of infrastructure assets

g = an asset growth elasticity factor.

The required enhancement capex on infrastructure assets (ΔA*1) can be represented as follows:

$$\begin{aligned} \Delta A^*_1 &= a \Delta A_1 \\ &= a.g.(\Delta Q/Q)_1.A_1 \end{aligned}$$

where a = a council's required-to-actual asset growth multiple (a>1).

Combined these give:

$$\Delta A^{*1} - \Delta A_1 = (a-1).g.q_1.A_1$$

where $q_1 = (\Delta Q/Q)_1$ = the annual % increase in the number of rateable properties (or assessments) for the council.

Key to quantifying I^*-I is the measurement of the infrastructure backlog amount (and ratio).

FiscalStar adjusts a council's present infrastructure backlog (B) to account for possible increases (decreases) in the backlog even under continuation of existing expenditure policy. Such increases depend in the main upon the council's present annual renewals gap ($y = (L^*-L)/L^*$).

4.4 Measuring F^{d*}

The ideal rates-sourced internal funding of the current year's annual debt principal repayment (F^{d*}) can be regarded as being equal to the sum of the principal repayment amounts necessary:

- on present debt ($= (1/T).N_1$)
- on the additional debt necessary to eliminate any infrastructure backlog, to fully fund the required level of annual renewals capex, and to finance the required level of annual enhancement capex ($= (1/T).k.\Delta N''_2$)
- to keep (future) debt levels below ceiling levels ($= (1/S).\Delta N''_2$)

where:

T = the average life of infrastructure assets

$\Delta N''_2$ = the amount by which a council's debt exceeds a ceiling level.

That is:

$$F^{d*}_1 = t.N_1 + t.k.\Delta N''_2 + s.\Delta N''_2 \quad \dots[10]$$

where:

$$t = (1/T)$$

$$s = (1/S).$$

$\Delta N''_2$ is calculated as the amount (if any) by which the sum of the following amounts exceeds the scope available to increase the council's present debt without breaching the debt ceiling ($= N^{*1} - N_1$).

- $B_1 - b^*.A_1 - U_1$, where positive
- $S.(L^{*1} - D_1)$, where positive
- $S.(a-1).g.q_1.A_1$, where positive.

4.5 Measuring F^{e*}

The ideal rates-sourced internal funding of the current year's enhancement capex (F^{e*}_1) can be approximated by:

$$t.\Delta A^{*1}$$

Substituting for ΔA^{*1} gives:

$$F^{e*}_1 = t.a.g.q_1.A_1 \quad \dots[11]$$

4.6 Deriving $R^* - R$

Assuming, for simplicity, that:

- $k = 1$ (i.e. that the phase-out period for any infrastructure backlog is one year)
- $j = 1$
- $a = 1$

and substituting equations [9], [10] and [11] and associated definitions into equation [7], and rearranging gives:

$$\begin{aligned}
 R^* - R_1 = & t.g.q_1.A_1 + Z_1 + i^*. (B_1 - b^*.A_1) - (t+s).U_1 \\
 & + t. [\text{MIN}(N_1 + (B_1 - b^*.A_1), N^*_1 + U_1)] \\
 & + s. [\text{MAX}(U_1, (N_1 + B_1) - (b^*.A) - N^*_1)] \quad \dots[12]
 \end{aligned}$$

4.7 Final equation

Substituting equation [12] into equation [4] and re-arranging gives:

$$\begin{aligned}
 \Delta r^{\#}_1 / \Delta p_2 = & \Delta r_2 / \Delta p_2 \\
 & + [(t.g).(q_1.A_1/O_1)]_1.(O_1/R_1).(S/\Delta p_2) \\
 & + [z_1.(R_1/O_1)]_1.(O_1/R_1).(S/\Delta p_2) \\
 & + [i^*.[b_1 - b^*.A_1/O_1] - (t+s).u_1 + [t.\text{MIN}((n_1 + b_1) - (b^*.A_1/O_1)), n^*_1 + u_1] \\
 & + s.(\text{MAX}(u_1, ((n_1 + b_1) - (b^*.A_1/O_1)) - n^*_1))]_1.(O_1/R_1).(S/\Delta p_2) \quad \dots[13]
 \end{aligned}$$

where

$\Delta r_2 / \Delta p_2$ = required (future) no-policy-change annual % increases in rates, fees & charges

$t = (1/T)$ where T = the average life of infrastructure assets

g = an asset growth elasticity factor

q = the average annual % growth in assessments (rateable properties) = $\Delta Q/Q$

A/O = the ratio between the replacement value of a council's physical assets (A) and its total annual operating revenue (O)

O/R = the ratio between a council's total annual operating revenue (O) and its annual revenue from rates, fees & charges (R)

$s = (1/S)$ where S = phase-out period of overall financial and infrastructure imbalances

$z = OD.[1/(1+v.w)]$

where:

$OD = (E-O)/R$

v = the effective dividend payout ratio (or equivalent) on a council's water & sewerage operating surplus

w = annual revenue from water & sewerage-related rates, fees & charges ($R_{w\&s}$) as a % of annual revenue from (tax-supported sector) rates, fees & charges (= $R_{w\&s}/R$)

i^* = the average rate of interest paid on borrowing and interest forgone on cash and securities

b = the actual infrastructure backlog ratio (expressed as % of total annual operating revenue (O))

b^* = the target infrastructure backlog (expressed as a % of the replacement value of the relevant existing assets (A))

u = the spare cash balances ratio (expressed as % of total annual operating revenue (O))

n = the actual long-term debt ratio (expressed as a % of total annual operating revenue (O))

n^* = a (target) debt ceiling ratio.

Equation [13] is the estimating equation used by FiscalStar to estimate the (future) annual % increase in a council's rates, fees & charges necessary to eliminate a council's present financial and infrastructure imbalances.

5. Equal-sustainability lines

Each line on the FiscalStar criteria chart joins OD and BL combinations where eliminating the present gap with the target OD and BL combination would require the same annual % increase in rates, fees & charges on average over a 10 year period.

FiscalStar derives these 'equal-sustainability' lines by manipulating equation [13].

Putting:

$$b''_1 = b_1 / (n_1 + b_1) = 1 - n_1 / (n_1 + b_1)$$

$$q''_1 = q_1 \cdot A_1 / R_1$$

$$z_1 = OD_1 \cdot w''_1, \text{ where } w''_1 = [1 / (1 + v \cdot w_1)]$$

and re-arranging to highlight the role of both OD and BL gives:

$$\Delta r''_1 / \Delta p_2 = \alpha_1 + \beta \cdot w''_1 \cdot OD_1 + \lambda_1 \cdot BL_1 \quad \dots [14]$$

where

$$OD_1 = (E_1 - O_1) / R_1$$

$$BL_1 = n_1 + b_1$$

$$\alpha_1 = \Delta r_2 / \Delta p_2 + (t \cdot g \cdot q''_1) \cdot (S / \Delta p_2) - (t + s) \cdot u_1 \cdot (O_1 / R_1) \cdot (S / \Delta p_2)$$

$$\beta = S / \Delta p_2$$

$$w''_1 = 1 / (1 + v \cdot w_1)$$

$$\lambda_1 = \left[[r^* \cdot b''_1 - b^* \cdot (A_1 / O_1) / BL_1] + t \cdot \text{MIN}(n^{\#}_1, n^* + u_1) / BL_1 + s \cdot \text{MAX}(u_1, n^{\#}_1 - n^*) / BL_1 \right] \cdot (O_1 / R_1) \cdot (S / \Delta p_2)$$

$$\text{where } n^{\#}_1 = BL_1 - (b^* \cdot A_1 / O_1) = [1 - (b^* / BL_1) \cdot (A_1 / O_1)] \cdot BL_1$$

Finally, by defining:

$$\beta''_1 = 1 / (\beta \cdot w''_1) = 1 / (S / \Delta p_2) \cdot w''_1$$

$$\alpha''_1 = \alpha_1 / (\beta \cdot w''_1) = (\Delta r''_1 / \Delta p_2) / ((S / \Delta p_2) \cdot w''_1) + (t \cdot g \cdot q''_1) / w''_1 - (t + s) \cdot u_1 \cdot (O_1 / R_1) / w''_1$$

$$\lambda''_1 = \lambda_1 / (\beta \cdot w''_1) = [(O_1 / R_1) / w''_1] \cdot \left[r^* \cdot (1 - n^{\#}_1) - (b^* / BL_1) \cdot (A_1 / O_1) + t \cdot \text{MIN}(n^{\#}_1, n^* + u_1) / BL_1 + s \cdot \text{MAX}(u_1, n^{\#}_1 - n^*) / BL_1 \right]$$

$$\text{where } n''_1 = n_1 / BL_1$$

and by using a nominated value in respect of $(\Delta r''_1 / \Delta p_2)$, equation [14] can be re-arranged to give:

$$OD_1 = \beta''_1 \cdot (\Delta r / \Delta p)^* - \alpha''_1 - \lambda''_1 \cdot BL_1 \quad \dots [15]$$

Equation [15] is the estimating equation used by FiscalStar to derive the 'equal-sustainability' lines underlying each council's criteria chart.

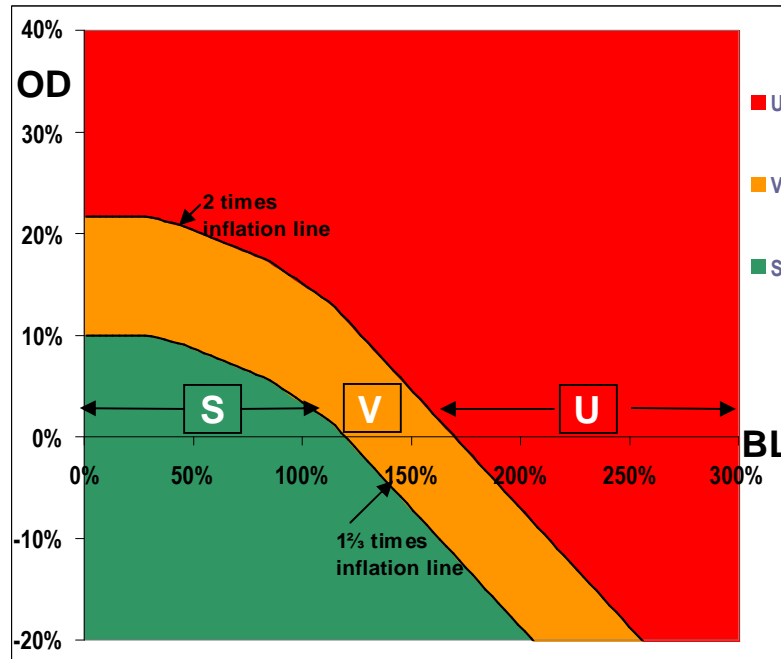
In fact, the equal-sustainability lines in the FiscalStar criteria chart shows all OD and BL combinations for a council calculated separately for each of the following nominated values for the required (future) average annual % increase in the council's rates, fees & charges relative to inflation $(\Delta r / \Delta p)^*$ in equation [15]):

- 1½ ; and
- 2 .

6. Criteria charts

With council-specific estimates of the β , α and λ composite parameters, and for each nominated value of the required (future) annual % increase in rates, fees & charges relative to inflation ($(\Delta r/\Delta p)^*$), equation [15] can be used for each council to calculate an OD ratio that corresponds with each possible BL ratio.

On this basis, the following criteria chart is derived:



FiscalStar’s criteria chart has a number of zones, separated by lines joining OD and BL combinations which FiscalStar assesses to be of equal merit from a financial sustainability perspective. More specifically, each line joins all OD and BL combinations where eliminating the present gap with the target OD and BL combination would require the same annual % increase in rates, fees & charges on average over a 10 year period.

It is noteworthy that each of the β , α and λ composite parameters in the estimating equation [15] are time dependent, that is they can vary from one year to the next and so are not constants.

These composite parameters also vary across councils.

Hence, the positioning of the various colour zones in the criteria chart, and so FiscalStar’s benchmarks for each council, differs slightly depending upon the following financial characteristics (listed in approximate order of importance):

- O/R = the ratio between a council’s total annual operating revenue (O) and its annual revenue from rates, fees & charges (R)
- u = the spare cash balances ratio (expressed as % of total annual operating revenue (O))
- e = annual expenses growth gap
- y = annual renewals gap
- h = fair value asset valuation uplift factor
- n/BL = the debt intensity of a council’s BL ratio
- v = the effective dividend payout ratio (or equivalent) on a council’s water & sewerage operating surplus
- w = annual revenue from water & sewerage-related rates, fees & charges ($R_{w\&s}$) as a % of annual revenue from (tax-supported sector) rates, fees & charges (= $R_{w\&s}/R$)
- A/O = the ratio between the replacement value of a council’s physical assets (A) and its total annual operating revenue (O).

On this basis, each council has a unique criteria chart based on its own financial characteristics. Councils have been provided with their own criteria chart.

7. Symbols used in this Appendix

A	replacement value of infrastructure assets	<i>a</i>	a council's required-to-actual asset growth multiple ($=\Delta A/\Delta A^*$)
B	infrastructure backlog	<i>b</i>	infrastructure backlog ratio
C		<i>c</i>	
D	annual depreciation charge	<i>d</i>	
E	total annual expenses	<i>e</i>	annual expenses growth gap
F	rates-sourced internal funding of capital transactions	<i>f</i>	
G	annual grants from other levels of government (excluding grants financing annual enhancement capex)	<i>g</i>	an asset growth elasticity factor ($=\Delta A^*/[\Delta Q/Q.A]$)
H		<i>h</i>	'fair value' asset valuation uplift factor
I	annual interest expense	<i>i</i>	rate of interest paid
J		<i>j</i>	the required renewals capex to depreciation charge ratio ($= L^*/D^*$)
K		<i>k</i>	period multiple
L	annual renewals capex	<i>l</i>	$= L'/L$
M	annual maintenance expense	<i>m</i>	
N	long-term debt	<i>n</i>	long-term debt ratio ($= N/O$)
O	total annual operating revenue $= R + G + V$	<i>o</i>	
P	general price index value	<i>p</i>	annual inflation rate (%)
Q	number of assessments (or rateable properties)	<i>q</i>	$= \Delta Q/Q$
R	annual revenue from rates, fees & charges	<i>r</i>	annual per-assessment rates, fees & charges
S	reasonable phase-out period	<i>s</i>	$= 1/S$
T	average life of infrastructure assets	<i>t</i>	$= 1/T$
U	spare cash balances	<i>u</i>	spare cash balances as a % of total annual operating revenue
V	all other own-source operating revenue (including all investment income)	<i>v</i>	water & sewerage dividend payout ratio
W		<i>w</i>	$= R_{w\&s}/R$ (where the w&s subscript indicates water and sewerage-related amounts)
X	Z + F	<i>x</i>	
Y		<i>y</i>	annual renewals gap ($= (L^*-L)/L^*$)
Z	underlying operating deficit $(=E - O)$	<i>z</i>	underlying operating deficit as % of annual revenue from rates, fees & charges

Appendix B

Individual Council Results and Key Ratios

This Appendix reports the results for individual councils, along with the key ratios underlying these assessments.

Councils are listed in alphabetical order within the following five groups of councils: inner metropolitan, outer metropolitan, coastal urban regional, inland urban regional, and rural regional.

The footnotes explaining in detail the meaning of the table's column headers are as follows:

- ^(a) “**S**” = financially ‘sustainable’, “**V**” = financially ‘vulnerable’, “**U**” = financially ‘unsustainable’, “**N**” = not assessed (the full statutory financial reports for 2005/06 and 2006/07 are not on the council’s website), only three councils (Botany Bay, Gwydir and Wellington) do not publish all their financials on the internet.
- ^(b) The **operating deficit ratio** is the amount by which a council’s annual underlying expenses in the year in question exceeds its annual operating revenue in that year, expressed as a % of annual revenue from rates, fees & charges. The ratio is measured excluding any relevant water & sewerage amounts. A negative value implies an operating surplus.
- ^(c) The **broad liabilities ratio** is the sum of a council’s long-term debt and the estimated cost of clearing any infrastructure backlog at the end of the year in question, expressed as a % of total annual operating revenue. The ratio is measured excluding any relevant water & sewerage amounts.
- ^(d) The **long-term debt ratio** is the total of a council’s non-current interest-bearing liabilities at the end of the year in question expressed as a % of total annual operating revenue. Use of this ratio effectively allocates a council’s long-term debt across its water & sewerage activities on the one hand and its non-water & sewerage activities on the other in proportion to the total annual operating revenue attributable to each of these activities, implying the long-term debt ratios for a council are the same between the two sets of activities.
- ^(e) The **infrastructure backlog ratio** is the estimated total cost, at the end of the year in question, of all required capital expenditure on the rehabilitation of a council’s infrastructure assets expressed as a % of total annual operating revenue; excludes any relevant water & sewerage amounts; sourced from the council’s Special Schedule No. 7 (unless advised otherwise by the council).
- ^(f) The **revenue discretion ratio** is measured for the year in question by a council’s annual revenues from rates, fees & charges expressed as a % of its total annual operating revenue.
- ^(g) The **spare cash ratio** is FiscalStar’s estimate of the amount by which a council’s (i) unrestricted cash and investments exceed (ii) a minimum prudent level for working capital purposes, expressed as a % of its total annual operating revenue. A council’s unrestricted cash and investments are defined as the council’s total cash and investments (current or non-current) less any cash and investments subject to external restrictions. A minimum prudent level of cash and investments is assumed by FiscalStar to be an amount equal to 1½ times a council’s current liabilities net of any non-cash current assets). This approach effectively allocates a council’s spare cash balances across its water & sewerage and non-water & sewerage activities in proportion to the total annual operating revenue attributable to each of these activities, implying the spare cash ratios for a council are the same between the two sets of activities.
- ^(h) The **annual expenses growth gap** is FiscalStar’s estimate of the percentage point difference between (i) a council’s annual % growth (on a per assessment basis) in underlying expenses under continuation of existing policy and (ii) the annual % increase in underlying unit costs (assumed by FiscalStar to be an average annual real-terms % increase of 1%). The ratio is measured excluding any relevant water & sewerage amounts. A negative value indicates that a council’s expenses would grow less rapidly than underlying unit costs, thereby decreasing the council’s operating deficit (other things being equal). A positive value indicates that the council’s operating deficit would increase.
- ⁽ⁱ⁾ The **annual renewals gap** is FiscalStar’s estimate of the amount by which (i) a council’s required annual renewals expenditure would exceed (ii) its actual annual spending on renewals (and maintenance) under continuation of existing policy, expressed as a % of the council’s required annual renewals expenditure. The ratio is measured excluding any water & sewerage amounts. A negative value implies that a council’s infrastructure backlog would fall (other things being equal). A positive value implies that the council’s infrastructure backlog would rise.

Appendix B: Table

Present Financial and Infrastructure Conditions Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising:		other key financial characteristics:			
				long-term debt ratio (d)	infrastructure backlog ratio (e)	revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
METROPOLITAN: INNER									
Ashfield Municipal Council	U	5%	208%	1%	207%	86%	0%	1.0%	50%
Botany Bay City Council	N	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Burwood Council	U	18%	100%	16%	84%	84%	0%	1.0%	50%
Canada Bay City Council	U	8%	115%	9%	106%	82%	0%	1.0%	43%
Canterbury City Council	S	-4%	42%	1%	41%	78%	0%	0.7%	-24%
Hurstville City Council	S	3%	9%	5%	5%	81%	8%	-0.8%	2%
Kogarah Municipal Council	S	-2%	0%	0%	0%	82%	0%	0.0%	0%
Lane Cove Municipal Council	S	-4%	4%	0%	4%	84%	35%	0.0%	0%
Leichhardt Municipal Council	S	-13%	52%	9%	43%	84%	5%	0.7%	-34%
Manly Council	V	2%	23%	10%	12%	85%	0%	1.0%	26%
Marrickville Council	U	3%	99%	23%	76%	80%	0%	1.0%	40%
Mosman Municipal Council	U	5%	98%	22%	77%	82%	0%	-0.8%	25%
North Sydney Council	S	1%	0%	0%	0%	89%	14%	0.3%	0%
Randwick City Council	V	0%	79%	0%	79%	85%	0%	0.4%	2%
Rockdale City Council	S	-6%	26%	8%	18%	77%	0%	0.5%	0%
Strathfield Municipal Council	S	1%	30%	3%	27%	83%	38%	-1.0%	-16%
Sydney City Council	S	-22%	14%	0%	14%	80%	74%	1.0%	-11%
Waverley Council	S	-8%	70%	11%	59%	85%	10%	0.0%	3%
Willoughby City Council	V	-2%	99%	7%	92%	87%	38%	-0.4%	-10%
Woollahra Municipal Council	S	0%	45%	5%	41%	80%	0%	0.0%	0%

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Appendix B: Table

Present Financial and Infrastructure Conditions Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising:		other key financial characteristics:			
				long-term debt ratio (d)	infrastructure backlog ratio (e)	revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
METROPOLITAN: OUTER									
Auburn Council	U	-2%	133%	23%	111%	81%	17%	1.0%	18%
Bankstown City Council	S	-6%	106%	21%	85%	79%	0%	-0.5%	-43%
Baulkham Hills Shire Council	S	-11%	73%	0%	73%	80%	34%	-0.2%	0%
Blacktown City Council	S	-6%	69%	0%	69%	70%	28%	-1.0%	-40%
Blue Mountains City Council	U	7%	288%	39%	249%	75%	0%	-1.0%	24%
Camden Council	U	10%	44%	22%	22%	77%	0%	1.0%	50%
Campbelltown City Council	V	-5%	63%	18%	45%	74%	2%	1.0%	50%
Fairfield City Council	S	-9%	10%	8%	2%	76%	0%	0.0%	-2%
Gosford City Council	U	7%	165%	41%	124%	68%	0%	0.7%	50%
Hawkesbury City Council	U	-10%	204%	0%	204%	71%	13%	-1.0%	-50%
Holroyd City Council	S	0%	37%	3%	34%	79%	0%	-0.7%	-22%
Hornsby Shire Council	S	1%	50%	23%	27%	84%	0%	-1.0%	-10%
Ku-ring-gai Council	V	-9%	176%	11%	164%	88%	0%	-0.1%	-50%
Liverpool City Council	U	-2%	188%	41%	147%	75%	0%	0.1%	-12%
Parramatta City Council	V	-1%	50%	26%	24%	81%	0%	1.0%	3%
Penrith City Council	U	3%	116%	40%	75%	78%	0%	1.0%	35%
Pittwater Council	S	-4%	48%	6%	42%	88%	4%	-0.9%	34%
Ryde City Council	S	-5%	89%	8%	81%	85%	16%	-1.0%	-37%
Sutherland Shire Council	S	-7%	73%	19%	55%	81%	0%	0.4%	-37%
Warringah Council	S	-10%	24%	6%	18%	85%	26%	0.7%	-16%
Wollondilly Shire Council	U	8%	140%	23%	117%	66%	7%	-1.0%	23%
Wyong Shire Council	V	-10%	176%	51%	125%	72%	0%	0.7%	-50%

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Appendix B: Table

Present Financial and Infrastructure Conditions Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising:		other key financial characteristics:			
				long-term debt ratio (d)	infrastructure backlog ratio (e)	revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
REGIONAL: COASTAL URBAN									
Ballina Shire Council	U	2%	166%	32%	135%	67%	46%	1.0%	17%
Bega Valley Shire Council	S	-31%	191%	71%	120%	51%	0%	0.7%	-50%
Byron Shire Council	U	0%	162%	74%	88%	65%	22%	-1.0%	50%
Coffs Harbour City Council	V	-9%	142%	105%	37%	52%	0%	-1.0%	-11%
Eurobodalla Shire Council	V	-15%	176%	50%	126%	61%	3%	0.4%	-50%
Great Lakes Council	U	-6%	273%	29%	244%	64%	8%	1.0%	-17%
Greater Taree City Council	U	18%	510%	34%	476%	64%	0%	0.1%	49%
Kempsey Shire Council	U	5%	173%	68%	105%	58%	0%	-1.0%	8%
Kiama Municipal Council	U	12%	132%	98%	34%	67%	6%	0.7%	50%
Lake Macquarie City Council	S	-8%	23%	23%	0%	70%	0%	-0.5%	0%
Newcastle City Council	U	3%	102%	23%	79%	80%	43%	1.0%	21%
Port Macquarie-Hastings Council	U	-2%	165%	65%	99%	63%	7%	-1.0%	-10%
Port Stephens Council	V	0%	52%	33%	19%	79%	0%	1.0%	16%
Richmond Valley Council	U	24%	396%	41%	355%	60%	19%	1.0%	50%
Shellharbour City Council	V	7%	27%	0%	27%	74%	13%	-0.7%	5%
Shoalhaven City Council	S	-28%	74%	43%	31%	60%	8%	-0.7%	40%
Tweed Shire Council	U	5%	235%	44%	190%	62%	0%	-1.0%	28%
Wollongong City Council	U	8%	118%	3%	115%	82%	0%	0.2%	28%

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Appendix B: Table

Present Financial and Infrastructure Conditions Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising:		other key financial characteristics:			
				long-term debt ratio (d)	infrastructure backlog ratio (e)	revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
REGIONAL: INLAND URBAN									
Albury City Council	S	-6%	64%	30%	34%	78%	0%	0.3%	20%
Armidale Dumaresq Council	U	4%	174%	66%	108%	70%	15%	1.0%	41%
Bathurst Regional Council	V	0%	53%	18%	35%	62%	0%	1.0%	15%
Broken Hill City Council	U	18%	360%	0%	360%	60%	22%	-0.9%	45%
Cessnock City Council	U	4%	116%	9%	107%	72%	0%	0.4%	18%
Dubbo City Council	V	-3%	181%	57%	124%	72%	9%	-1.0%	-29%
Goulburn Mulwaree Council ***	S	-15%	184%	66%	118%	54%	46%	-0.6%	-45%
Griffith City Council	U	-14%	117%	17%	99%	65%	0%	0.0%	50%
Lismore City Council	U	-8%	239%	37%	202%	73%	14%	1.0%	-36%
Lithgow City Council	V	-39%	233%	25%	209%	58%	0%	-1.0%	-50%
Maitland City Council	S	-13%	86%	20%	66%	77%	4%	1.0%	-40%
Orange City Council	S	-23%	31%	29%	2%	62%	23%	-1.0%	0%
Queanbeyan City Council	S	-33%	16%	1%	15%	52%	21%	-1.0%	-13%
Singleton Shire Council	V	9%	29%	14%	15%	59%	12%	-0.5%	3%
Tamworth Regional Council	V	0%	120%	41%	79%	54%	18%	-1.0%	-20%
Wagga Wagga City Council	S	-15%	85%	0%	84%	66%	35%	-1.0%	-50%
Wingecarribee Shire Council ***	U	24%	85%	33%	52%	59%	76%	0.7%	50%

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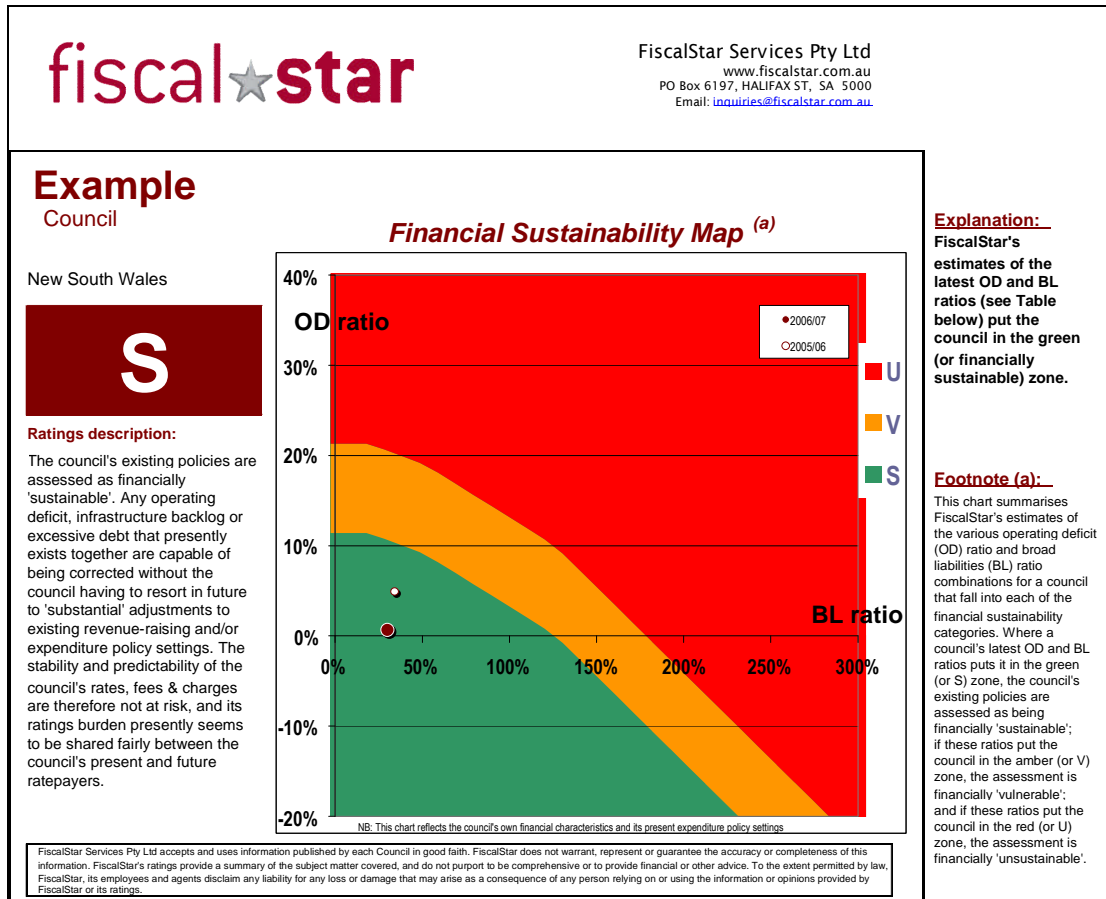
Appendix B: Table

Present Financial and Infrastructure Conditions Largest 100 NSW Councils, 2006/07

larger NSW councils	financial sustainability of existing policies (a)	operating deficit ratio (OD ratio) (b)	broad liabilities ratio (BL ratio) (c)	BL ratio comprising:		other key financial characteristics:			
				long-term debt ratio (d)	infrastructure backlog ratio (e)	revenue discretion ratio (f)	spare cash ratio (g)	annual expenses growth gap (h)	annual renewals gap (i)
REGIONAL: RURAL									
Bellingen Shire Council	U	6%	70%	6%	64%	54%	28%	1.0%	31%
Cabonne Shire Council	U	-11%	528%	4%	524%	49%	51%	0.7%	-29%
Clarence Valley Council	U	39%	159%	66%	93%	51%	12%	-1.0%	50%
Cooma-Monaro Shire Council	S	-28%	65%	5%	60%	50%	7%	0.0%	23%
Cowra Shire Council	S	-14%	46%	34%	11%	41%	5%	-0.6%	-7%
Forbes Shire Council	S	-12%	94%	42%	52%	61%	50%	1.0%	-33%
Gunnedah Shire Council	S	-9%	18%	11%	7%	53%	26%	1.0%	-4%
Gwydir Shire Council	N	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Leeton Shire Council	S	-32%	4%	4%	0%	56%	2%	0.0%	0%
Liverpool Plains Shire Council	V	9%	20%	10%	10%	50%	21%	-0.3%	5%
Inverell Shire Council	S	-7%	12%	5%	6%	51%	58%	0.0%	0%
Mid-Western Regional Council	S	-13%	139%	19%	120%	68%	24%	1.0%	-50%
Moree Plains Shire Council ***	V	-3%	45%	27%	18%	55%	25%	1.0%	26%
Muswellbrook Shire Council	U	6%	165%	26%	139%	52%	45%	0.9%	28%
Nambucca Shire Council ***	U	28%	218%	25%	193%	56%	87%	1.0%	50%
Narrabri Shire Council	S	-19%	101%	31%	70%	46%	26%	-1.0%	-39%
Parkes Shire Council	S	-14%	42%	0%	42%	43%	42%	1.0%	-20%
Temora Shire Council	S	-20%	16%	0%	16%	48%	0%	0.6%	0%
Tumut Shire Council	S	0%	3%	0%	3%	26%	25%	0.0%	0%
Upper Hunter Shire Council	S	-8%	16%	6%	10%	51%	25%	-1.0%	-4%
Upper Lachlan Council	V	1%	58%	16%	41%	54%	21%	1.0%	13%
Wellington Council	N	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Young Shire Council	S	-40%	78%	23%	55%	47%	24%	-1.0%	-28%

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Appendix C Example Council Chart & Tables



		2005/06 actual	2006/07 actual
OPERATING DEFICIT RATIO ("OD ratio") (NB: excl water & sewerage)		5%	1%
Net operating result for the year as published (but with sign reversed)	\$M	-2,171	-1,711
plus Below-the-line revenue	\$M	3,017	1,835
less Below-the-line expenses	\$M	0,000	0,000
plus Estimated water & sewerage operating surplus/(deficit) retained in water & sewerage ops	\$M	0,000	0,000
equals Underlying operating deficit/(surplus) (excluding water & sewerage)	\$M	0,846	0,124
<i>comprising:</i>			
Underlying expenses (excluding water & sewerage)	\$M	21,249	21,938
less Revenue from rates, fees & charges (excluding water & sewerage)	\$M	17,191	18,154
less Own-source income other than rates, fees & charges (excluding water & sewerage)	\$M	1,796	2,095
less Above-the-line grants from other governments	\$M	1,416	1,565
divided by Revenue from rates, fees & charges (excluding water & sewerage)	\$M	17,191	18,154
BROAD LIABILITIES RATIO ("BL ratio") (NB: excl water & sewerage)		34%	30%
Long-term debt ratio		5%	3%
Non-current borrowings	\$M	1,074	0,640
divided by Total operating revenue (includes water & sewerage)	\$M	20,403	21,814
plus Infrastructure backlog ratio		29%	27%
Estimated total infrastructure backlog amount (excluding water & sewerage)	\$M	5,887	5,887
<i>comprising:</i>			
Buildings	\$M	0,940	0,940
Roads	\$M	2,776	2,776
Other infrastructure (excluding water & sewerage)	\$M	2,171	2,171
divided by Total operating revenue (excluding water & sewerage)	\$M	20,403	21,814

information source:

published accounts
(calculated on page 2)
(calculated on page 2)
(calculated on page 2)

(calculated on page 2)
(calculated on page 2)
(calculated on page 2)
(calculated on page 2)
(calculated on page 2)

assumed equal for W&S and non-W&S
published accounts
(calculated on page 2)

sum of components below
Special Schedule No.7
Special Schedule No.7
Special Schedule No.7
(sum of items on page 2)

The **operating deficit ratio** is the amount by which a council's annual underlying expenses in the year in question exceeds its annual operating revenue in that year, expressed as a % of annual revenue from rates, fees & charges. The ratio is measured excluding any relevant water & sewerage amounts. A negative value implies an operating surplus.

The **broad liabilities ratio** is the sum of a council's long-term debt ratio and its infrastructure backlog ratio, both measured at the end of the year in question.

The **long-term debt ratio** is the total of a council's non-current interest-bearing liabilities at the end of the year in question expressed as a % of total annual operating revenue. Use of this ratio effectively allocates a council's long-term debt across its water & sewerage activities on the one hand and its non-water & sewerage activities on the other in proportion to the total annual operating revenue attributable to each of these activities, implying the long-term debt ratios for a council are the same between the two sets of activities.

The **infrastructure backlog ratio** is the estimated total cost, at the end of the year in question, of clearing any infrastructure backlog expressed as a % of total annual operating revenue; excludes any relevant water & sewerage amounts; sourced from the council's Special Schedule No. 7 (unless advised otherwise by the council).

Example Council		2005/06 actual	2006/07 actual	information source:
Operating revenue discretion ratio		84%	83%	
Revenue from rates, fees & charges (excluding water & sewerage)	\$M	17.191	18.154	(calculated below)
divided by Total operating revenue (excluding water & sewerage)	\$M	20.403	21.814	
Available cash balances ratio		10%	38%	
Current liabilities	\$M	9.191	5.597	published accounts
Current assets	\$M	21.124	22.906	published accounts
plus any non-current investments	\$M	8.000	3.000	published accounts
less all externally-restricted cash & investments	\$M	11.200	9.255	published accounts
less 1.5 times current liabilities	150% \$M	13.787	8.396	FiscalStar assumption
multiplied by non-water & sewerage share (proportionate to respective op revenues)	%	100%	100%	FiscalStar assumption
equals (if positive) Estimated cash balances potentially available for drawing down	\$M	2.138	8.256	
divided by Total operating revenue (excluding water & sewerage)	\$M	20.403	21.814	
Annual expenses growth gap ratio			-1.0%	
Ongoing annual % growth (per assessment) in underlying expenses	%		3.0%	FiscalStar estimate
less FiscalStar's estimate of the annual % increase in unit costs	%		4.0%	FiscalStar assumption
Annual renewals gap			-16%	
'Required' less 'actual' annual renewals capex	\$M		-0.589	FiscalStar estimate
divided by Required annual renewals capex	\$M		3.631	FiscalStar estimate
Fair value asset valuation uplift factor			1.8%	FiscalStar estimate
Calculation of key revenue items		actual	actual	
All revenue as per the Annual Operating Statement	\$M	23.420	23.649	published accounts
less Below-the-line revenue	\$M	3.017	1.835	
comprising:				
Enhancement-related grants from other governments	\$M	0.176	0.129	FiscalStar estimate
Any net unspent grants from other governments additional to amount of enhancement-related	\$M	0.000	0.000	published accounts
Capital contributions & asset donations	\$M	2.388	1.646	published accounts
Net gain on disposal of non-financial assets	\$M	0.443	0.060	published accounts
Net gain from revaluation of non-financial assets	\$M	0.000	0.000	published accounts
Other capital revenue	\$M	0.000	0.000	published accounts
equals Total operating revenue	\$M	20.403	21.814	
less Above-the-line grants from other governments	\$M	1.416	1.565	
comprising:				
All grants and transfers from other governments	\$M	1.592	1.694	published accounts
less Enhancement-related and any additional net unspent grants	\$M	0.176	0.129	
equals Total own-source operating revenue	\$M	18.987	20.249	
less Estimated revenue from water & sewerage rates, fees & charges (net of any dividend comp	\$M	0.000	0.000	(calculated below)
equals Total own-source operating revenue (excluding water & sewerage)	\$M	18.987	20.249	
less Own-source income other than rates, fees & charges (excl water & sewerage)	\$M	1.796	2.095	
comprising:				
Interest income	\$M	1.502	1.656	published accounts
plus Reimbursements & recoveries	\$M	0.194	0.400	published accounts
plus Estimated 'dividend' component of water & sewerage operating surplus	\$M	0.000	0.000	(calculated below)
plus Other (but not including rates, fees & charges)	\$M	0.100	0.039	published accounts
equals Revenue from rates, fees & charges (excluding water & sewerage)	\$M	17.191	18.154	
comprising:				
Rates & annual charges	\$M	13.747	14.259	published accounts
plus User charges	\$M	3.444	3.895	published accounts
plus Other fees & charges	\$M	0.000	0.000	published accounts
less Revenue from water & sewerage rates, fees & charges	\$M	0.000	0.000	(calculated below)
Calculation of key expense items				
Total expenses as per the Annual Operating Statement	\$M	21.249	21.938	published accounts
less Below-the-line expenses	\$M	0.000	0.000	
comprising:				
Loss on disposal of non-financial assets (n.e.i.)	\$M	0.000	0.000	published accounts
Loss on revaluations (n.e.i.)	\$M	0.000	0.000	published accounts
Asset write-downs and other significant one-off expenses	\$M	0.000	0.000	published accounts
less Water & sewerage expenses (net of any estimated CSO component)	\$M	0.000	0.000	(calculated below)
equals Underlying expenses (excluding water & sewerage)	\$M	21.249	21.938	
comprising:				
Interest expense	\$M	0.144	0.099	published accounts
plus Depreciation expense	\$M	3.203	3.281	published accounts
plus Other operating expenses (excluding significant one-off expenses)	\$M	17.902	18.558	
less Water & sewerage expenses	\$M	0.000	0.000	(calculated below)
Calculation of any wage & sewerage components				
Water & sewerage income from continuing operations	\$M	0.000	0.000	published accounts
less Water & sewerage capital revenue (included in income)	\$M	0.000	0.000	published accounts
equals Revenue from water & sewerage rates, fees & charges	\$M	0.000	0.000	
Water & sewerage income from continuing operations	\$M	0.000	0.000	
less Water & sewerage net operating surplus/(deficit) i.e. after capital revenue	\$M	0.000	0.000	published accounts
equals Water & sewerage expenses	\$M	0.000	0.000	
including:				
Water & sewerage interest expense	\$M	0.000	0.000	FiscalStar estimate
Water & sewerage depreciation expense	\$M	0.000	0.000	published accounts
Revenue from water & sewerage rates, fees & charges	\$M	0.000	0.000	
less Estimated 'dividend' component of water & sewerage operating surplus	\$M	0.000	0.000	published accounts
equals Estimated revenue from water & sewerage rates, fees & charges (net of any dividend com	\$M	0.000	0.000	
Water & sewerage expenses	\$M	0.000	0.000	
less Estimated 'community service obligation (CSO)' component of water & sewerage expenses	\$M	0.000	0.000	published accounts
equals Estimated water & sewerage expenses (net of any CSO component)	\$M	0.000	0.000	
Estimated revenue from water & sewerage rates, fees & charges (net of any dividend component	\$M	0.000	0.000	
less Estimated water & sewerage expenses (net of any CSO component)	\$M	0.000	0.000	
equals Estimated water & sewerage operating surplus/(deficit) retained in water & sewerage func	\$M	0.000	0.000	



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