



QUEENSLAND
TREASURY
CORPORATION

FINANCIAL SUSTAINABILITY REVIEW

PREPARED FOR

ESK SHIRE COUNCIL

SEPTEMBER 2006

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1 | SCOPE AND APPROACH

1.1 SCOPE

Esk Shire Council (Council or Esk) has requested QTC to undertake a review of Council's financial capacity to service its current and future obligations.

This report includes a review of:

- Council's historical and forecast financial position
- regional economic information, and
- benchmarking information (data sourced from the Department of Local Government, Planning, Sport & Recreation (DLGPSR)).

In undertaking our review, we have relied on Esk Shire Council to provide financial modelling of its current forecasts for the whole of Council. We have not been provided with detailed information of individual business units, and have not been asked to comment on the financial position of individual business units. QTC has not audited or reviewed Council's financial model and makes no representation as to its accuracy or completeness. QTC has prepared a number of scenarios that have been agreed with Council. In addition, we have reviewed and relied on key financial ratios published by the DLGPSR.

1.2 APPROACH

In assessing Council's ongoing financial capacity, our approach has been to:

- review Council's historical performance in a number of areas and benchmark this against similar Queensland Local Governments
- review regional economic information compiled by the Australian Bureau of Statistics
- test the impact of various events on Council's financial forecasts, and
- draw conclusions on Council's ongoing financial capacity.

RATING, KEY FINDINGS AND RECOMMENDATIONS

2.1 RATING

Our rating of Council's current financial position is **moderate** with a **developing outlook**.

The **moderate** rating was determined after considering the following factors:

Liquidity and flexibility

- To date, Council has met all its financial obligations and, at the same time, Council's cash position has been strengthening during a period in which it has maintained and improved its existing services to ratepayers within the Shire.
- Forecasts indicate that Council can meet its current obligations as they fall due. In addition, Council's cash position will steadily improve over the forecast period. This provides Council with some flexibility to respond to adverse shocks and unexpected events.
- Esk Shire Council generates adequate cash to meet its commitments including capital expenditure. Council's cash holdings at FY2005 were \$11.3 million and are forecast to be \$13.8 million by FY2015. However, scenario analysis demonstrates that if capital expenditure increased by 20 per cent Council's cash holdings would be depleted by FY2013.
- While each local government is different a reasonable assumption is that a local government would need sufficient liquidity to cover at a minimum two months of its recurrent expenditure obligations. This would mean a requirement of approximately \$2.2 million rising to \$3 million over the forecast period. Council's cash holdings over the forecast period are equivalent to approximately 9 months of recurrent expenditure.
- Council's own source revenue ratio averaged 60.4 per cent of total operating revenue over the historical five year period to FY2005. This increases to 73.2 per cent by FY2015 due to growth in rateable properties and forecast reduced revenue from Sales (contracts and recoverable works).

Operating Position

- Council has recorded operating deficits in five of the past six years (these are minor), and has forecast net operating deficits (before capital grants) in FY2007 and FY2008. From FY2009 to FY2015 Council forecast marginal operating surpluses.
- Council has forecast, in the later years, operating expenditure growth to exceed operating revenue growth. In FY2010, Council forecast lower rateable properties growth (0.60 per cent per annum) and lower roads to recovery revenues. This results in a negative impact on operating margins.
- As detailed in the body of this report, our analysis has highlighted that incurring additional expenditure to that forecast is likely to have a negative impact on Council as forecast operating margins and surplus cashflows are relatively tight.

Capital Expenditure

- A significant proportion of Council's forecast capital expenditure program of \$59.0 million relates to roads, drainage and bridge networks (\$22.8 million). Council does not expect to use debt to fund capital works.

The **Developing Outlook** relates to the next two-year period and we would recommend a follow up review of Council as it encounters the following:

- Council has forecast asymmetric rateable properties growth ie: higher forecast growth of 3.75 per cent per annum for the next three years and 0.60 per cent after FY2009. These growth forecasts are based on a 1,774 allotment development submissions received for the Lowood and Fernvale areas.
- Council's average forecast rateable properties' growth is 1.7 per cent per annum over the forecast period. This compares with
 - historical increases in the number of rateable properties within the shire have averaged 1.0 per cent per annum over the past five years
 - Population growth has averaged 1.0 per cent per annum over the past five years (growth of 1.8 per cent recorded in FY2005).
 - The DLGPSR forecast average growth of 1.0 per cent per annum over the next 10 years for the region.
 - Council's Corporate Plan 2007 to 2011 projects 0.9 per cent per annum population growth between 2001 and 2026

This may raise questions as to the appropriateness of Council's rateable properties' growth forecasts. Given the above Council needs to carefully monitor growth in the Shire.

QTC is also aware that the South East Queensland Infrastructure Plan forecasts growth of 4 per cent for Ipswich City Council, a neighbouring local government. It is possible that Esk will receive flow on benefits from this growth and certainly Council report large development interest in the Southern part of the Shire over the next three years.

- Council's forecast capital expenditure program is significantly higher when compared to historic expenditure. This increased scope of works requires additional discipline in the management of capital works to ensure costs stay under control and quality of work is appropriate.
- Council's has generally adopted a conservative approach to its financial forecasts. However uncertainty remains with regard to population growth numbers and expenses growth assumptions which appear inconsistent with current external and historical indicators.

2.2 KEY FINDINGS (NOT OUTLINED UNDER THE RATING)

- Council's proportion of own source revenue, measured as net rates, utilities and charges over total operating revenue, range between 69 and 73 per cent over the forecast period.
- Council has forecast operating revenue and expense growth of 3.2 and 3.3 per cent per annum respectively. Analysis reveals expenses growth exceeding revenue growth in seven out of ten years by an average of -0.8 per cent.
- Council faces the challenges of competing infrastructure priorities and improving its economies of scale from resources and utilities management. This is further complicated by Esk's unique characteristic of not having a large service centre but rather, a number of smaller satellite townships. However, the current population increase in the southern part of the shire indicates the Shire may move to a more traditional model in the long term.
- Council may experience some difficulty increasing charges (such as water) as generally the residents in the Esk Shire have a lower per capita income and are paying higher utilities charges rates relative to Brisbane.
- Council has forecast some reliance on income from sales (contracts and recoverable works) and interest income, which are revenue sources predominantly outside of Council's control. While Council's forecasts are conservative when compared with historical results, if either of these sources of revenue does not eventuate, Council's liquidity position would erode unless Council had sufficient flexibility to make the necessary adjustments to its expenditure.
- Council has forecast increases in Employee Expenses of 3.8 per cent per annum over the forecast period. Forecast market expectations for labour costs are above 4.0 per cent¹ while Council's employee numbers have increased 0.5 per cent per annum over the past three years, from 139 (FY2002) to 142 employees (FY2005).

In addition, there is no allowance for increases in employee numbers, which may be required because of the substantial growth in rateable properties over the next three years.

- From 1 July 2007, Materials and Services costs are forecast to increase by 4.9 per cent per annum. Considering Council's rateable properties growth forecast of 1.7 per cent per annum, Materials and Services forecasts grow by 3.2 per cent which is 0.7 more than expected inflation unless efficiencies are achieved.
- Council has had an operating deficit (before capital grants and subsidies) in five out of the past six years with an operating profit of \$436k recorded in FY2005. Small operating deficits are forecast for FY2007 and FY2008 at \$281k and \$249k respectively. These are relatively minor in terms of annual revenue forecasts. Over the remainder of the forecast period, operating surpluses are expected; albeit at a declining rate of growth after FY2010.

¹ Access Economics forecasts of Labour Price Index

- Bridge Replacement Program – Council has over 90 bridges within the Shire to upgrade and maintain. As many of these bridges are timber, Council has a timber bridge replacement program, which is one of the more expensive programs it has undertaken. There are currently around 50 timber bridges remaining. Council has indicated that it will replace timber bridges as and when required. This is expected to cost significantly more than the \$3m accumulated depreciation reported in the financial statements. Council has spent over \$3m replacing 12 timber bridges over the past 5 years. Council will assign Commonwealth Roads to Recovery funding for bridge replacement where possible.
- Council's liquidity position is strong over the period to FY2010 resulting in a cash balance of more than \$13.8 million by FY2015. From FY2011 onwards Council's cash position improves but at a slowing rate as operating expenditure growth is slightly higher than operating revenue growth.
- Council has advised that the financial forecasts are in accordance with their Asset Management Plan and that Council's key priorities are included in these forecasts. Council has specifically excluded income traditionally incurred from road contracts tendered for and won. Also, they do not include the continuation of the Department of Main Roads - Roads to Recovery program revenues after FY2010.
- Council has not forecast the use of debt to fund capital works programs of \$59m.

2.3 RECOMMENDATIONS

- Council needs to carefully monitor the timing of development in the southern region of the Shire and, where necessary, amend its forecasts accordingly should growth not eventuate. Further given the magnitude of the residential development pipeline relative to historical levels, close consideration should be given to development sequencing and infrastructure planning. This is critical to Council achieving successful outcomes.

On the revenue side, Council's future revenue forecasts will be affected if growth is not achieved in the earlier years.

- Council has forecast proceeds from recoverable works (predominantly contracted Main Roads revenue) to be lower than what has been achieved historically. In addition, both the level of sales (contracts and recoverable works) and forecast population growth used in the model has implications for workplace planning. Council should closely monitor the housing market and maintain contact with the Department of Main Roads as any significant downturn relative to forecast would have ramifications for expenditure on salaries and materials and services if they are not adjusted accordingly.
- Scenario analysis demonstrates that if capital expenditure increased by 20 per cent each year, Council's cash holdings would be depleted by FY2013. In addition the scope of the capital expenditure program is much greater than what has occurred historically. Accordingly, Council should continue to monitor construction industry costs and amend its cash flow forecasts as required. In addition, it needs to maintain tight controls over capital expenditure to reduce risks, including cost increases, associated with its program. This may involve the development of a strategy for managing the potential cost overruns of its forecast capital expenditure program.
- Council should carefully monitor Materials and Services costs to ensure that these do not grow at a faster rate than forecast. The higher short term growth in Council's forecasts over the years FY2007 to FY2009, suggest no cost increase after an assumed population increase of 3.7 per cent and CPI. Council's forecasts appear comparatively low and failure to monitor and adjust the forecasts where necessary could result in Council's financial position deteriorating.
- Council needs to consider the issue of the minor operating deficits in FY2007 and FY2008 and the impact on Council's financial position to ensure that these do not blow out because of failure to control costs. Ideally, Council should seek to ensure a balanced or surplus operating position in all forecast years.

- Council's current forecasts show no increase in debt to fund its substantial capital expenditure program. A large portion (\$34.6 million) of the capital expenditure is funded by cash from operations. While Council's cash balance remains high over the forecast period, Council has the capacity to fund more of its capital works by way of debt. The prudent use of debt would not only improve Council's cash position but also would better address issues including the utilisation of intergenerational equity and improve business flexibility through greater liquidity in the face of increasing construction costs. This approach would not generally be recommended for non revenue producing assets such as roads although, it may be considered prudent for other capital expenditure, in particular for other commercial activities such as water and sewerage.
- Council has numerous small townships and shares boundaries with 10 neighbouring local governments. While this has implications for planning, it also provides opportunities for regional resource sharing. The Esk, Gatton, Laidley Water Board is one current example. Council should consider the potential benefits of such arrangements to maximise benefits for rate payers.
- Council needs to consider whether additional employee numbers will potentially be required over the period to manage Council's forecast impending growth. At the current time, rateable property growth is forecast without resultant impact on operating expenses which results in windfall profits.
- Council should consider incorporating asset revaluations in their forecasts. During a period of high growth in construction costs, revaluations can increase sharply. If this occurs, depreciation can increase significantly which will reduce the operating surplus or increase the operating deficits.
- Council should consider the impact of the drought and any associated increases in the cost of water as a consequence of any proposed water infrastructure required how this may impact the capacity of ratepayers to meet the additional costs incurred. In the near term there is the loss of revenues through lower water usage and how this impacts on Councils' viability.

3 |

BUSINESS OVERVIEW

Esk Shire Council lies in the heart of the Lockyer Valley in close proximity to Brisbane, Ipswich, and Toowoomba. The main features of the Shire include Lake Wivenhoe, Lake Somerset and Lake Atkinson. Esk encompasses the water catchment area of the upper Brisbane River.

The Shire comprises an area of 3,937km² and is bordered by ten neighbouring Local Government Areas. Esk Shire covers an area about 125 kilometers long by 70 kms wide north-west of Brisbane. The Shire serves a population of 15,501 people as at 30 June 2005 spread across the region. There are five townships with populations of around 1,000, two more with populations of around 500, and a number of villages with populations between 50 and 200. This creates a unique set of challenges for the Shire with relation to water, sewerage and service management.

The main industry in the Shire is primary production with the production of beef cattle prevalent in the northern areas and agriculture more prevalent in the southern areas.

Esk forms part of South-East Queensland's Western Corridor which is earmarked for significant growth and development in the SEQ Regional Plan to 2026. Esk Shire experienced population growth of 1.8 per cent per annum, in FY2005 and has 7,600 ratable properties.

The Council Shire of Esk was established from the Division of Durundur in 1903. It is generally held that the Shire of Esk was established in 1879 when the Durundur Division was formed.

BUSINESS ANALYSIS

4.1 CUSTOMER/OPERATING ISSUES

- Council issues semi-annual rates notices for collection in August and February each year, for the periods ending 31 December and 30 June respectively.
- In response to escalating costs, from FY2002 Council introduced Differential General Rates. Differential General Rates are levied on all rateable land in the Shire and has been divided into fourteen categories depending on land use groupings and whether the land requires water or sewerage.
- In the forecast period (FY2007 to FY2015) Council anticipates that its own source revenues will increase to approximately 70.5 per cent as Council's reliance on Grants and Subsidies and Sales (contracts and recoverable works) revenue decline to represent approximately 16 per cent of total revenues. Council has assumed that historical revenues from these sources are not repeatable to the same levels in the future.
- Sales (contracts and recoverable works) comprise around 7 per cent of operating revenues over the forecast period (totalling \$12.4 million).
- Council's forecasts include proceeds from the sale of land (\$1.4 million) in FY2006.

4.2 FUTURE CAPITAL EXPENDITURE

- Council has a capital expenditure program over the forecast period (ie, FY2007 to FY2015) of \$59.0 million with a large portion of this relating to replacement and maintenance of roads within the shire (\$22.8 million).
- Council's capital expenditure program for FY2006 of \$4.8 million focuses predominantly on roads, plant and equipment, and building developments.
- Council has allowed \$7.6 million in its budget for FY2007 to FY2015 for land and building developments. This reflects the historic expenditure on building and recreation type assets and includes upgrades to existing facilities. Council's management reports that this is consistent with community expectations.
- Council has a timber bridge replacement program which is reported to be one of the more expensive programs it has undertaken. Esk Shire expects to replace around 50 bridges and major drainage structures over a 12 year period. Council has stated that it will continue to improve this program as funding permits.

5 |

FINANCIAL ANALYSIS

The financial condition of a local government could perhaps be assessed in terms of its ability to maintain services and facilities at desired levels of quality in both the short and long term. Budgetary or financial stress may result in a need for a local government to reduce the scope and/or quality of services below levels considered appropriate by the local community. Evidence of financial distress may include: poor or poorly maintained infrastructure, poor range and/or quality of services, borrowing ability being impaired, liquidity difficulties, reserves being drawn down, or ratepayers being subjected to relatively high levels of rating stress.

The following section contains the analysis of Council’s historical (FY2001 to FY2005), budget FY2006 and forecast (FY2007 to FY2015) financial profile in order to determine Council’s financial condition.

Appendix A contains information on Council’s historical financial position and associated ratios. Appendix B contains Council’s current forecast financial position and associated ratios.

5.1 FINANCIAL PERFORMANCE

5.1.1 Historical performance

<i>Financial Year</i>	<i>(\$'000's)</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Net Rates, utilities and charges		7,388	7,731	8,235	8,654	9,152	9,776
Sales (contracts and recoverable works)		1,515	1,876	1,682	1,616	1,948	3,239
Subsidies, donations and contributions		3,565	1,823	1,918	2,232	2,039	1,815
Total Operating revenue		13,259	12,356	12,897	13,755	15,192	17,008
Total Operating expenses (including borrowing costs)		13,843	13,702	14,159	15,424	15,939	16,572
Operating result (excluding capital grants and subsidies)		(584)	(1,346)	(1,262)	(1,669)	(747)	436

5.1.1.1 Revenue

- Net rates, utilities and charges, as a percentage of total operating revenue, has ranged between 56 per cent and 64 per cent over the six years to FY2005. Over the same period, net rates, utilities and charges have grown, on average, by 5.8 per cent per annum. Benchmarking shows that Esk's population growth has increased on average by 1.0 per cent over the five year period, which indicates that real growth in rates has been around two per cent higher than CPI.
- Historical figures show that Council's proportion of operating revenue from Sales (contracts and recoverable works) ranges between 11 and 19 per cent.
- Growth in revenues has not been heavily dependent on increases in grants and contributions, which have declined as a percentage of total operating revenue from 16 per cent in FY2003 to 11 per cent in FY2005. Grants and contributions revenue has remained relatively stable in dollar terms over the five year period to FY2005 and reliance on Financial Assistance Grants has reduced.
- Other revenue has experienced an average 22 per cent per annum growth over the past five years from \$791k in FY2000 to \$2.18m in FY2005. Other revenue growth relates principally to increases in building and property related fees and interest received on investments. These two sources of income along with Sales (contracts and recoverable works) have underpinned the improved operating result for Council.

5.1.1.2 Expenses

- Total operating expenses have grown on average by 3.7 per cent per annum over the five year period to FY2005. This increase is less than the increase in total operating revenues of 5.1 per cent per annum over the same period, resulting in an improved operating position over the five year period. Council recorded operating deficits excluding capital income from FY2001 to FY2004 (average deficit of \$1.3 m) and an operating surplus of \$0.4 million in FY2005.
- Employee costs represent 37 to 41 per cent of total operating expenses and have grown by 4.3 per cent per annum over the five year period to FY2005. Council has experienced 0.5 per cent growth in staff numbers during the period.
- Materials and services represent on average 35 per cent of total operating expenses. These costs have remained relatively stable having grown at a rate of 3.7 per cent per annum over the past five years.
- In FY2005, Council undertook a revaluation of its assets. This resulted in a \$21 million revaluation, including Land and Buildings (\$11.2 m) and Roads Infrastructure (\$6.95m). Pre FY2005, Esk undertook regular incremental revaluations of between \$3.5 and \$5m. In addition, Council's capital expenditure totaled \$18 million over FY2001 to FY2005. As a result, depreciation expense increased on average by 4.1 per cent per annum.
- In FY2005 depreciation was fully funded. Unfunded depreciation as a proportion of total depreciation has fluctuated over the period from 17.6 per cent in FY2000 to a peak of 50 per cent FY2003 before being fully funded in FY2005. The trend generally follows the improved operating results of Council to FY2005.

5.1.2 Forecast performance

<i>Financial Year (\$'000's)</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Rates, utilities and charges	10,444	11,168	11,980	12,996	13,723	14,349	15,001	15,684	16,400	17,144
Recoverable Works	2,476	1,244	1,276	1,309	1,343	1,378	1,413	1,449	1,487	1,525
Grants Subsidies and Contributions	1,877	1,878	1,930	1,983	2,038	2,094	2,152	2,212	2,275	2,339
Other Revenue	2,629	1,889	1,925	2,004	2,130	2,150	2,144	2,181	2,241	2,320
Total operating revenue	17,426	16,179	17,111	18,292	19,234	19,971	20,710	21,526	22,403	23,328
Total operating expenses	17,188	16,460	17,356	18,159	18,559	19,384	20,164	21,037	21,916	22,867
Operating result*	238	(281)	(245)	133	675	587	546	489	487	461

**Operating Result (excluding capital grants and subsidies)*

5.1.2.1 Revenue

- Net rates, utilities and charges are forecast to grow on average by 5.8 per cent per annum, which represents 2.3 per cent real growth after adjustments made for economic forecast population growth (1 per cent) and CPI (2.5 per cent).
- Council's historical rateable properties growth has averaged 1.0 per cent per annum from 7,222 properties in FY2000 to 7,484 in FY2005. Economic indicators suggest that Esk's population growth will average 1.0 per cent per annum over the coming 10 year period.
- Rateable properties' growth is unevenly distributed with higher growth (3.7 per cent per annum) forecast from FY2006 to FY2009 and lower growth (0.6 per cent per annum) from FY2010 to FY2015. This higher initial rateable properties growth forecast is based on a 1,100 lot development application take up over the three-year period to FY2009. QTC has sighted an appendix to a Sinclair Knights Mertz's report prepared for Council (dated March 2006, QTC has not sighted the whole report), which confirms 1,285 development applications for the Esk Shire in the pipeline. Council reports 1,774 development applications being submitted.
- Council has forecast that each of the 1,100 additional rateable properties (refer above) will pay water and sewerage charges from FY2009 to FY2015. Accordingly, revenues from these sources have potentially been brought forward as they are significantly higher than historical growth. Council should monitor actual growth in rateable properties and adjust its forecasts accordingly. This further indicates that careful and flexible capital works planning is required.

- Council’s proportion of own source revenue, measured as net rates, utilities and charges over total operating revenue, is expected to increase from 60 per cent in FY2007 to 73 per cent in FY2015, which indicates a reduction in Council’s reliance on external revenue sources. To be conservative, Council has excluded approximately \$1m per annum of Sales (contracts and recoverable works) revenues which have been received historically but are not guaranteed in the future. If these revenues were included, own source revenue as a proportion of total operating revenue would fall from 73 per cent to 69 per cent.

The table below shows forecast annual net rates, utilities and charges, CPI, rateable properties growth and real rates growth.

<i>Financial Year</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Rates, Utilities and charges change (%)	6.83	6.93	7.27	8.48	5.59	4.56	4.54	4.55	4.57	4.54
CPI (%)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Rateable properties	7,784	8,084	8,484	8,684	8,734	8,784	8,834	8,884	8,934	8,984
Council Rateable properties growth (%)	2.6	3.9	4.9	2.4	0.6	0.6	0.6	0.6	0.6	0.6
Real rates growth (%)	1.73	0.53	(0.13)	3.58	2.49	1.46	1.44	1.45	1.47	1.44

- Real rates growth drops in FY2007 to 0.5 per cent and then drops further to negative -0.1 per cent in FY2008. This low level of real rates growth in FY2007 and FY2008 is not adequate to ensure a positive operating result excluding capital grants in FY2007 and FY2008.
- Income from Sales (contracts and recoverable works) as a proportion of total operating revenue fall from 14.6 per cent in FY2006 to average 7 per cent of total operating revenue over the forecast period. This is a conservative estimate and excludes growth in future additional Main Roads contract works.
- Forecast revenue from government grants and subsidies increase over the period from \$1.9 million in FY2007 to \$2.3 million in FY2015, an average increase of 2.5 per cent per annum. This assumes that FAGS² funding will increase by CPI over the forecast period. This level of revenue is in line with FY2006 receipts, suggesting Council is being conservative in its estimates.
- Other income growth forecasts are 0.6 per cent per annum. This is conservative compared with historical growth of 22 per cent per annum.
- Total operating revenue increases from \$17.4 million in FY2006 to \$23.3 million in FY2015, an average increase of 3.2 per cent per year over the forecast period.

² Financial Assistance Grants

5.1.2.2 Expenses

- Employee costs represent 39 per cent of total expenses and are expected to grow at an average of 3.8 per cent per annum from \$6.3 million FY2005 to \$9 million FY2015. Forecast staff numbers remain relatively constant and Council's current EBA is set at a 3.8 per cent per annum minimum increase. Total employee cost increases are marginally lower than market expectations for labour costs of above 4.0 per cent³ per annum.
- Material and services cost forecasts increase from \$5.6 million in FY2005 to \$8.1 million in FY2015, an average increase of 3.7 per cent per annum over the forecast period. However, if the negative growth in Materials and Services for FY2007 costs is excluded, due to a reduction in the level of recoverable works the growth is 4.9 per cent per annum over the forecast period.
- Forecast Materials and Services cost increases are lower than the current Local Government CPI of 5.7 per cent but are higher than Council's historical increases in materials and services costs of 3.7 per cent per annum. When adjusted for expected population growth of 1 per cent (note Council expect higher population growth than economic forecasts) there is a risk that Council will find it difficult maintaining costs at the forecast levels.

Council's Corporate Plan notes that Esk Shire is a major source of road making material for much of South East Queensland. This may afford some cost advantage over other areas because of lower transporting and sourcing costs.

- Depreciation is a significant expense, representing between 21 and 25 per cent of total operating expenses over the forecast period. Transport infrastructure assets constitute approximately 70 per cent of Council's assets. These assets were revalued in FY2005 resulting in non current assets increasing to \$118m.

5.1.3 Strengths

- Forecasts indicate that Council will have a positive operating result and be fully recouping its depreciation from FY2009 onwards.
- Operating revenue growth is the result of increasing revenue from net rates, utilities and charges rather than reliance on grants, subsidies and contributions. This indicates that Council's reliance on external revenue sources is decreasing.
- Council's low real rates growth adds flexibility to increase rates where required in the future.
- Council has been conservative in its estimates of Sales (contracts and recoverable works) giving potential for upside.

³ Access Economics forecasts of Labour Price Index

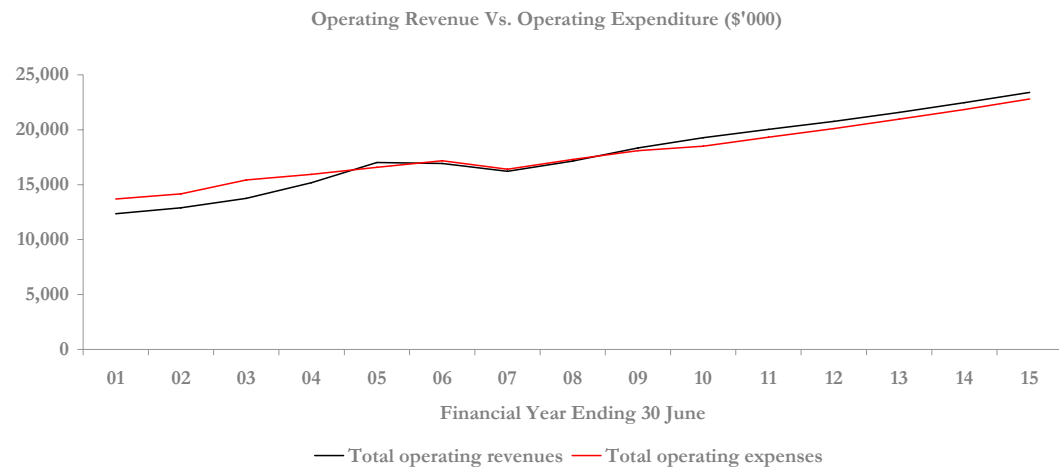
5.1.4 Areas of Concern

- Council has estimated growth in rateable properties at 1.7 per cent per annum, which is asymmetrically distributed over the forecast period. That is, growth in rateable properties over the next 3 years is higher at 3.7 per cent per annum compared with later years 0.6 per cent per annum. This compares with historical growth in rateable properties over the last 5 years of 1.0 per cent per annum, FY2005 growth of 1.8 per cent, historical population growth of 1.1 per cent per annum and forecasts of population growth of 1.0 per cent per annum for the region.

This suggests that actual growth figures out to 30 June 2009 could be lower than forecast. Council expects to achieve this forecast growth based on its development application pipeline. Council should monitor actual growth rates and update its forecasts accordingly if actual growth is significantly different to forecast growth. Further, Council must ensure that it values its service appropriately so it does not cross subsidise the development.

- The forecast population growth and the level of sales contracts and recoverable works have implications for workplace planning. In this regard, Council should consider future strategies for optimising workplace flexibility.
- Council's forecast income from sales contracts and recoverable works, which are revenue sources predominantly outside of Council's control, is relatively low both as a percentage of total revenue and in comparison to historical figures. However, if revenue from these sources is significantly less than forecast, Council's financial capacity may erode if it does not adjust its expenses accordingly.
- Materials and Services costs needs to be carefully monitored, as there may be difficulty containing forecast increases to 4.9 per cent per annum post FY2007 after a 1.7 per cent adjustment for rateable properties growth is made (in this regard we note that industry costs are rising – refer LGAQ cost index and other industry data.) This is a significant concern in the earlier forecast years which, using Council's forecast rateable properties growth of 4.4 per cent FY2007 and 3.7 per cent for FY2008, suggest minor forecast cost increases.
- Council has included forecast growth in employee costs of 3.8 per cent per annum as compared with historical increases of 4.3 per cent per annum. Council will need to maintain tight control over these costs in light of forecast population increases particularly out to 30 June 2009.
- The forecast do not include a regular revaluation of assets. During a period of higher growth in construction costs, revaluations can increase sharply. If this occurs depreciation can increase which will reduce operating surpluses and increase operating deficits.
- As shown in the graph below, Council has recorded an operating deficit in four of the past five years, and has forecast minor operating deficits (before capital grants) to continue up to and including FY2008. This forecast of operating deficit is unlikely to affect Council's financial viability. Council may wish to review and amend its forecasts if it believes appropriate.

Operating Revenue Vs. Operating Expenditure (\$'000)



5.2 FINANCIAL POSITION

5.2.1 Historical

- Council's cash assets have increased substantially over the last five years from \$4.4 million at FY2000 to \$11.3 million FY2005. In FY2005 unspent developer contributions totaled \$1.2 million. These funds are available for capital projects only.
- The Current Ratio, which assesses an organisation's ability to pay its obligations as and when they fall due and is a measure of current assets to current liabilities, has increased from 4.1 in FY2000 to 4.8 in FY2005. This would be considered moderately strong.
- Council's net debt position (calculated as short- and long-term interest-bearing debt minus cash (and equivalents)) is nil both over the historic and forecast period. This provides flexibility if debt is required in future.
- Council has spent \$18 million on capital projects over the last five years. These works were funded from cash from operations, grants and contributions and proceeds from sale of property plant and equipment. Council also has been able to reduce the amount of debt outstanding.
- Following capital works programs and the revaluation of land, buildings and road infrastructure assets in FY2004, total assets increased to \$131.1 million in FY2005 from a base of \$100 million FY2000, an increase of 31 per cent.
- Total liabilities have decreased by 7.8 per cent over the five year period to FY2005 (from \$7.6 million to \$7 million), with interest bearing liabilities reducing by from \$5.5 million FY2000 to \$4.5 million FY2005.

5.2.2 Forecast

- The table below shows Council’s cash balance remains at above \$9.8 million over the forecast period until FY2015.

<i>Financial Year (\$'000's)</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Unrestricted component	8,308	8,664	8,956	10,155	11,268	11,703	12,349	12,170	13,495	13,819
Restricted component	1,229	1,409	939	1,979	2,279	-	-	-	-	-
Cash Balance	9,537	10,073	9,895	12,134	13,547	11,703	12,349	12,170	13,495	13,819

- From FY2006 to FY2015, Council has forecast to spend \$59.0 million on capital expenditure. The majority of this expenditure is for Road, Drainage and Bridge networks (\$22.8 million).
- Non Current Assets increase from \$119 million in FY2006 to \$138 million by FY2015. This is a consequence of capital works of \$59 million offset by a \$40 million depreciation expense.
- Total Liabilities fall from \$5.4 million FY2006 to \$2.4 million in FY2015.

5.2.3 Strengths

- Council’s cash balance increases steadily to \$13.8 million over the forecast period.
- Debt falls from \$4.5 million in FY2005 to zero from FY20013 onwards.

5.2.4 Areas of Concern

- Growth in capital expenditure or recurrent expenditure above forecast may have a material impact on Council’s liquidity profile. Council needs to ensure that it monitors expenditure programs to limit any pressure being placed on its liquidity.
- A significant proportion of Council’s forecast capital expenditure program of \$59.0 million will be funded from the Government grants and subsidies (\$11.4 million or 19.3 per cent). As these sources of capital revenue are somewhat out of Council’s control, these figures should be monitored closely to ensure that any reductions in these amounts are included in budget revisions.

5.3 CASH FLOWS

5.3.1 Historical

Detailed below are Council's Net Cash Flows, Cash Balances and Current Ratio for the period FY2000 to FY2005.

<i>Financial Year</i> <i>(\$'000)'s</i>	2000	2001	2002	2003	2004	2005
Cash flow from operations*)	3,587	4,263	3,587	2,582	5,391	7,486
Net cash flow from investing	(4,160)	(4,072)	(3,026)	(2,922)	(1,771)	(3,591)
Net cash flow from financing	790	(176)	342	259	(596)	(876)
Net Cash flow	217	15	903	(81)	3,024	(3,019)

*Cash flow from operations (before capital funding sources)

- Cash flows from operations have increased over the past five years. This has allowed Council to fund its debt service payments and a significant proportion of capital expenditure from existing cash, rather than relying on increased borrowings.
- Debtors and creditors have historically averaged 60 and 66 days over the period.

5.3.2 Forecast

<i>Financial Year</i> <i>(\$'000's)</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cash flow from operations*	2,933	3,842	4,000	4,362	4,649	4,810	4,940	5,106	5,292	5,497
Net cash flow from investing	(3,772)	(2,356)	(3,378)	(1,589)	(2,767)	(6,167)	4,003)	(5,224)	(3,967)	(5,173)
Net cash flow from financing	(902)	(950)	(800)	(534)	(469)	(487)	(291)	(61)	(950)	(800)
Net Cash flow	(1,741)	536	(178)	2,239	1,413	(1,844)	646	(179)	1,325	324

* Cash flow from operations before capital funding sources

- Council forecasts moderate cash surpluses every year after FY2006 of which an average of \$720k per annum is generated from interest received.
- Council's cash flow from operations (before capital grants, subsidies and contributions) increases from \$2.9 million in FY2006 to \$5.5 million in FY2015. This can be attributed to cash flows from revenues growing at a faster rate than cash expenditure over the period.

- Forecast days debtors and creditors are 42 and 30 days respectively. This improves (relative to historical 60 and 66 days respectively) forecast cash flow by between \$0.2 million FY2007 and \$0.4 million FY2015.

5.3.3 Strengths

- Council forecasts moderate positive net cashflows from operating activities.
- Forecast funding for capital works will come from operating cash, cash reserves and capital grants and contributions. There is reasonable capacity to increase borrowings.
- Council's liquidity could be further enhanced by any additional cash flows generated from income from sales contracts and recoverable works which have been forecast at lower levels than achieved historically.
- There is potential for Council to improve its forecast cash position, if required, through the appropriate use of debt. This adds to Council's flexibility.

5.3.4 Areas of Concern

- Council's current forecasts show a large cash buffer and ability to fund \$59m capital expenditure programs. Cash from operations and reserves funds a large portion of the capital expenditure. Increases in costs or changes in timing expectations of developments would adversely affect liquidity.
- Forecast days debtors and creditors are 42 and 30 days respectively. Council will need to carefully manage the net cashflow impact of this change relative to the average historical debtor and creditor turnover of 66 and 60 days. The net impact of this would reduce cash balances between \$0.2 million FY2007 to \$0.4 million by FY2015.

6 |

SCENARIO ANALYSIS

In our view, the following represent key risks that could impact upon Council's financial capacity:

- Capital expenditure in addition to that forecast is incurred either due to ongoing cost escalations or additional expenditure being required to maintain services
- Council undertaking a major project that has not been included in forecasts
- Poor development sequencing and site planning of upcoming developments resulting in greater expenditure for Council
- Timing delays on new development impact on revenues
- Employ an Expenses and Material and Services costs grow at a faster rate than expected.

The impact of these potential scenarios is analysed in the next section of the report. The forecasts for these scenarios have been developed by QTC, based on information provided by Council, and have been reviewed by Council.

6.1 SCENARIO ONE: CAPITAL EXPENDITURE PROGRAM INCREASES BY 20%

6.1.1.1 *Assumptions*

- Total capital expenditure has been increased by 20 per cent in each of the forecast years. Industry data shows that construction costs have risen by double digit percentages over the last three years. With low unemployment and significant, if not unmet, construction demand particularly in the South-East corner, it is possible that construction costs could grow by similar percentages well into the future. In addition anecdotal feedback from customers indicates that tenders are coming in at prices well in excess of those expected.
- Depreciation on the additional capital expenditure has been calculated based on a useful life of 30 years (ie. 3.33 per cent per annum)
- No additional borrowings have been taken to fund the increased capital expenditure
- No additional capital grants or subsidies have been received to fund the additional capital expenditure.
- No additional revenue or expenses have been included as a result of this additional capital expenditure (eg. no increase to materials and services costs has been incorporated).

6.1.1.2 *Analysis of Scenario One*

- The table below shows the key variables included in Scenario One. A summary of the full financial forecast is included in Appendix D.

<i>Financial Year</i> <i>(\$'000's)</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total operating revenue	17,400	16,095	16,949	18,043	18,907	19,550	20,190	20,910	21,716	22,597
Total operating expenses	17,220	16,527	17,468	18,312	18,749	19,622	20,438	21,356	22,342	23,473
Operating result*	180	(432)	(519)	(269)	158	(72)	(248)	(446)	(626)	(876)
Capital Expenditure	5,717	6,572	9,326	7,727	6,408	0,244	6,059	8,868	6,732	8,888
Cash Balance	8,558	7,915	6,020	6,723	6,741	2,768	1,884	(389)	(942)	,037)

*Operating result (excluding capital grants and subsidies)

- Under this scenario we have increased capital expenditure over the forecast period by 20 per cent per annum (commencing in FY2007). This has resulted in capital expenditure of \$70.8 million for FY2007 to FY2015, an increase of \$11.8 million over the Base Case of \$59 million.
- This increase in capital expenditure results in Council's operating position being in a slight deficit for 9 out of 10 forecast years. This is due the impact of additional depreciation expense.
- Under this scenario Council's forecast cash balance falls to zero by FY2013. This is because no assumptions in relation to funding this higher capital expenditure have been made. Therefore this negative cash balance reflects the additional cash that Council would need to raise either by increasing revenues or through the use of debt financing in order to cover these increases in capital expenditure.
- It is essential that Council monitor construction costs closely and, where necessary, amend its forecasts accordingly.

6.2 SCENARIO TWO: MATERIALS AND SERVICES COSTS ARE INCREASED TO 6 PER CENT

6.2.1.1 Assumptions

- Annual growth in Materials and Services Expenses currently increases from negative 7.5 per cent growth FY2007, as a result of excluding historically tendered contract revenues, then rising to approximately 4.2 per cent per annum from FY2010. The LGAQ has determined that inflation in materials and expenses for FY2005 was 5.7 per cent. This scenario increases from 1 July 2007 to 6 per cent per annum.

6.2.1.2 Analysis of Scenario Two

- The following table contains details of the key variables for Scenario Two. Details of key financials under this scenario are contained in Appendix E.

<i>Financial Year (\$'000's)</i>	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total operating revenue	17,426	6,179	17,111	18,293	19,237	19,971	20,700	21,499	22,350	23,239
Total operating expenses	17,188	6,460	17,353	18,114	18,557	19,498	20,408	21,419	22,453	23,574
Operating result	238	(281)	(242)	179	680	473	292	80	(103)	(335)
Change in Materials and Services (%)	6.40	(7.49)	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Cash Balance	9,537	10,073	9,897	12,180	13,601	11,652	12,055	11,478	12,226	11,768

*Operating result (excluding capital grants and subsidies)

Comments

- Increases in Materials and Services to 6 per cent per year result in Council's forecasts fluctuating between small surpluses and deficits. Council should seek to ensure a balanced or surplus operating position in all forecast years.
- This scenario analysis highlights a declining trend in operating deficits from FY2010 to FY2015. QTC recommends that Council monitors expenses and amends its forecasts where required.
- The impact of a 6 per cent per annum increase in Materials and Services costs has a minor impact on Cash Balances which fall from \$13.8 million to \$11.8 million by FY2015.
- Where Council's cost increases are different to economic data, Council will need to monitor these expenses to ensure that its financial viability is maintained.

6.3 SCENARIO THREE: TIMING OF RATEABLE PROPERTIES GROWTH OCCURS EVENLY OVER THE PERIOD.

6.3.1.1 Assumptions

- Annual growth in number of Rateable Properties currently increases from actual growth of 2.2 per cent in FY2006 to 4.3 per cent FY2007 (forecast) and 4.9 per cent FY2008 (forecast), as a result of development pipeline coming on stream, then falling to 2.2 per cent in FY2009 and then 0.6 per cent per annum from FY2010. This scenario reviews the timing impact of development pipeline applications from 1 July 2007 should 140 properties per annum or the equivalent of 1.8 per cent growth per annum over the forecast period be achieved.
- No change to forecast underlying rates increases or CPI assumptions
- No change to capital expenditure forecasts over the period
- No change to capital grants or subsidies expected to be received to fund the capital expenditure.
- No additional/or less revenue or expenses have been included as a result of changed development pipeline timetable (eg. no increase to materials and services costs has been incorporated).

6.3.1.2 Analysis of Scenario Three

- The following table contains details of the key variables for Scenario Three. Details of key financials under this scenario are contained in Appendix F.

<i>Financial Year</i> (<i>\$'000's</i>)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total operating revenue	17,426	16,119	16,787	17,505	18,280	19,093	19,922	20,844	21,845	22,917
Total operating expenses	17,188	16,460	17,356	18,159	18,559	19,384	20,164	21,037	21,916	22,867
Operating result	238	(341)	(569)	(654)	(279)	(291)	(242)	(193)	(71)	50
Growth in Rateable Properties (%)	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%
Change in Net rates utilities and charges	6.83%	6.37%	5.02%	4.97%	4.94%	5.84%	5.79%	5.76%	5.74%	5.70%
Cash Balance	9,537	10,020	9,547	11,050	11,523	8,786	8,628	7,751	8,499	8,392

Comments

- A change in the timing of development applications result in Council's forecasts fluctuating between small surpluses and deficits.
- The impact of a delay in forecast growth has a moderate impact on Cash Balances which fall from \$11.5 million in FY2010 to \$8.4 million by FY2015.
- Where Council's growth is different its forecasts, Council will need to monitor capital expenditure to ensure that its financial viability is maintained.

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OTHER KEY RISKS NOT MODELLED

- Council's forecast estimates of proceeds from recoverable works (predominantly Main Roads works) as a percentage of total revenue is lower than experienced historically. Council has specifically excluded contract works tendered for and achieved historically from their forecasts. Should these be achieved, additional flexibility will be added to Council's operating position.

Either way, Council currently have resources committed for these works and it is essential that Council closely monitors the housing market and maintains contact with the Department of Main Roads as any significant downturn in either may have significant ramifications if expenditures on salaries and materials and services if they are not adjusted accordingly.

- Council reports asymmetrical growth in rateable properties over the forecast period based on current submissions to Council for 1,774 allotment developments. Council should monitor timing of development closely and, where necessary, amend its forecasts accordingly. Further given the magnitude of this development relative to the historical development pipeline, close consideration should be given to development sequencing and thorough consideration of all site conditions in the final plans. This is critical to Council maintaining its forecast expenditure profile. Should this not occur, Council might experience material infrastructure or reconstruction charges to rectify incomplete or poorly planned works, which will have negative implications for cashflow and liquidity longer term.

APPENDIX A: ESK SHIRE COUNCIL - 5-YEAR HISTORICAL FINANCIAL INFORMATION

'000'S

Year ended	Actual					
	30/06/2000	30/06/2001	30/06/2002	30/06/2003	30/06/2004	30/06/2005
	\$	\$	\$	\$	\$	\$
1. Summary of Financial Information						
1.1 Operating Results						
Net rates and utility charges	7,388	7,731	8,235	8,654	9,152	9,776
Sales - contract and recoverable works	1,515	1,876	1,682	1,616	1,948	3,239
Subsidies, donations and contributions	3,565	1,823	1,918	2,232	2,039	1,815
Other operating income	791	926	1,062	1,253	2,053	2,178
Total operating income	13,259	12,356	12,897	13,755	15,192	17,008
Total borrowing costs	456	495	469	468	321	268
Employee expenses	5,109	5,473	5,597	5,806	5,765	6,318
Materials and services	4,670	4,261	4,391	5,513	5,758	5,610
Depreciation expense	3,314	3,333	3,388	3,352	3,687	4,043
Other operating expenses	294	140	314	285	408	333
Total operating expenses (including borrowing costs)	13,843	13,702	14,159	15,424	15,939	16,572
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	(584)	(1,346)	(1,262)	(1,669)	(747)	436
Net operating cash flow	3,587	4,263	3,587	2,582	5,391	7,486
Net cash flow	217	15	903	(81)	3,024	3,019
1.2 Capital Expenditure						
Gross total capital expenditure	4,740	4,298	3,523	3,137	2,871	4,172
New borrowings	1,175	335	879	956	240	-
Net unfunded depreciation	584	1,346	1,262	1,669	747	-
1.3 Financial Position						
Total current cash assets (includes unrestricted, restricted & overdraft)	4,398	4,413	5,316	5,235	8,259	11,278
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	844	827	887	619	544	1,229
Current assets	7,799	7,288	8,181	8,438	10,740	12,733
Non-current assets	92,229	94,878	97,172	98,354	103,643	118,363
Total assets	100,028	102,166	105,353	106,792	114,383	131,096
Current interest bearing liabilities (including overdraft)	479	543	697	836	876	911
Current liabilities (includes overdraft)	1,887	1,766	2,228	2,454	2,889	2,682
Non-current interest bearing liabilities	5,062	4,822	5,009	5,130	4,494	3,583
Non-current liabilities	5,664	5,573	5,764	5,834	5,140	4,283
Total liabilities	7,551	7,339	7,992	8,228	8,029	6,965
Community equity	92,477	94,827	97,361	98,504	106,354	124,131
2. Profitability and Efficiency						
2.1 Forecasting Integrity						
Change in net rates and utilities charges (%)		4.64%	6.52%	5.09%	5.75%	6.82%
Change in employee expenses (%)		7.12%	2.27%	3.73%	(0.71)%	9.59%
Change in materials and services (%)		(8.76)%	3.05%	25.55%	4.44%	(2.57)%
Change in depreciation (%)		0.57%	1.65%	(1.06)%	9.99%	9.66%
Change in operating revenues (%)		(6.81)%	4.38%	6.65%	10.45%	11.95%
Change in operating expenditure (%)		(1.02)%	3.34%	8.93%	3.34%	3.97%
Change in operating result (excl. capital grants) (%)		130.48%	(6.24)%	32.25%	(55.24)%	(158.37)%
Change in cash balances (%)		0.34%	20.46%	(1.52)%	57.77%	36.55%
Interest expense / average debt (%)		9.08%	8.47%	8.02%	5.66%	5.43%
Interest revenue / average cash balance (%)		8.72%	6.58%	6.90%	7.37%	6.66%
Employee costs / total operating expenses (excl. borrowing costs) (%)	38.16%	41.44%	40.88%	38.82%	36.91%	38.75%
Materials and services / total operating expenses (excl. borrowing costs) (%)	34.88%	32.26%	32.07%	36.86%	36.87%	34.41%
Depreciation / total operating expenses (excl. borrowing) (%)	24.76%	25.24%	24.75%	22.41%	23.61%	24.80%
Gross interest expense / total operating expenses (excl. borrowing) (%)	3.41%	3.75%	3.43%	3.13%	2.06%	1.64%
2.2 Fiscal Flexibility Indicators						
Net rates, utilities and charges / operating revenue (%)	55.72%	62.57%	63.85%	62.92%	60.24%	57.48%

APPENDIX B: ESK SHIRE COUNCIL – 10 YEAR FINANCIAL FORECASTS

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Year ended	Budget	Forecast								
	30/06/2006	30/06/2007	30/06/2008	30/06/2009	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014	30/06/2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1. Summary of Financial Information										
1.1 Operating Results										
Net rates and utility charges	10,444	11,168	11,980	12,996	13,723	14,349	15,001	15,684	16,400	17,144
Sales - contract and recoverable works	2,476	1,244	1,276	1,309	1,343	1,378	1,413	1,449	1,487	1,525
Subsidies, donations and contributions	1,877	1,878	1,930	1,983	2,038	2,094	2,152	2,212	2,275	2,339
Other operating income	2,629	1,889	1,925	2,004	2,130	2,150	2,144	2,181	2,241	2,320
Total operating income	17,426	16,179	17,111	18,292	19,234	19,971	20,710	21,526	22,403	23,328
Total borrowing costs	241	193	142	99	70	45	19	3	-	-
Employee expenses	6,718	6,259	6,630	7,063	7,430	7,744	8,069	8,410	8,766	9,134
Materials and services	5,969	5,522	5,856	6,250	6,579	6,857	7,146	7,451	7,766	8,094
Depreciation expense	3,883	4,056	4,283	4,285	4,000	4,241	4,414	4,637	4,828	5,060
Other operating expenses	377	430	445	462	480	497	516	536	556	579
Total operating expenses (including borrowing costs)	17,188	16,460	17,356	18,159	18,559	19,384	20,164	21,037	21,916	22,867
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	238	(281)	(245)	133	675	587	546	489	487	461
Net operating cash flow	2,933	3,842	4,000	4,362	4,649	4,810	4,940	5,106	5,292	5,497
Net cash flow	(1,741)	536	(178)	2,239	1,413	(1,844)	646	(179)	1,325	324
1.2 Capital Expenditure										
Gross total capital expenditure	4,764	5,477	7,772	6,439	5,340	8,537	5,049	7,390	5,610	7,407
New borrowings	-	-	-	-	-	-	-	-	-	-
Net unfunded depreciation	-	281	245	-	-	-	-	-	-	-
1.3 Financial Position										
Total current cash assets (includes unrestricted, restricted & overdraft)	9,537	10,073	9,895	12,134	13,547	11,703	12,349	12,170	13,495	13,819
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	1,229	1,409	939	1,979	2,279	-	-	-	-	-
Current assets	11,658	12,129	12,057	14,426	15,936	14,177	14,912	14,826	16,248	16,673
Non-current assets	119,094	120,515	124,004	126,158	127,498	131,794	132,429	135,182	135,964	138,311
Total assets	130,752	132,644	136,061	140,584	143,434	145,971	147,341	150,008	152,212	154,984
Current interest bearing liabilities (including overdraft)	950	800	534	469	487	291	61	-	-	-
Current liabilities (includes overdraft)	2,064	1,902	1,690	1,684	1,758	1,614	1,438	1,434	1,492	1,553
Non-current interest bearing liabilities	2,642	1,842	1,308	839	352	61	-	-	-	-
Non-current liabilities	3,342	2,556	2,036	1,582	1,110	834	788	804	820	836
Total liabilities	5,406	4,458	3,726	3,266	2,868	2,448	2,226	2,238	2,312	2,389
Community equity	125,346	128,186	132,335	137,318	140,566	143,523	145,115	147,770	149,900	152,595

APPENDIX C: KEY FINANCIAL RATIOS

Year ended	Budget	Forecast								
	30/06/2006	30/06/2007	30/06/2008	30/06/2009	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014	30/06/2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2. Profitability and Efficiency										
2.1 Forecasting Integrity										
Change in net rates and utilities charges (%)	6.83%	6.93%	7.27%	8.48%	5.59%	4.56%	4.54%	4.55%	4.57%	4.54%
Change in employee expenses (%)	6.33%	(6.83)%	5.93%	6.53%	5.20%	4.23%	4.20%	4.23%	4.23%	4.20%
Change in materials and services (%)	6.40%	(7.49)%	6.05%	6.73%	5.26%	4.23%	4.21%	4.27%	4.23%	4.22%
Change in depreciation (%)	(3.96)%	4.46%	5.60%	0.05%	(6.65)%	6.02%	4.08%	5.05%	4.12%	4.81%
Change in operating revenues(%)	2.46%	(7.16)%	5.76%	6.90%	5.15%	3.83%	3.70%	3.94%	4.07%	4.13%
Change in operating expenditure (%)	3.72%	(4.24)%	5.44%	4.63%	2.20%	4.45%	4.02%	4.33%	4.18%	4.34%
Change in operating result (excl. capital grants) (%)	(45.41)%	(218.07)%	(12.81)%	(154.29)%	407.52%	(13.04)%	(6.98)%	(10.44)%	(0.41)%	(5.34)%
Change in cash balances (%)	(15.44)%	5.62%	(1.77)%	22.63%	11.64%	(13.61)%	5.52%	(1.45)%	10.89%	2.40%
Interest expense / average debt (%)	5.96%	6.19%	6.33%	6.29%	6.52%	7.56%	9.20%	9.84%	nm	nm
Interest revenue / average cash balance (%)	7.24%	6.21%	6.18%	6.06%	5.97%	6.00%	6.00%	5.95%	5.93%	5.91%
Employee costs / total operating expenses (excl. borrowing costs) (%)	39.64%	38.48%	38.52%	39.11%	40.19%	40.04%	40.05%	39.98%	40.00%	39.94%
Materials and services / total operating expenses (excl. borrowing costs) (%)	35.22%	33.95%	34.02%	34.61%	35.58%	35.46%	35.47%	35.42%	35.44%	35.40%
Depreciation / total operating expenses (excl. borrowing) (%)	22.91%	24.93%	24.88%	23.73%	21.63%	21.93%	21.91%	22.05%	22.03%	22.13%
Gross interest expense / total operating expenses (excl. borrowing) (%)	1.42%	1.19%	0.82%	0.55%	0.38%	0.23%	0.09%	0.01%	0.00%	0.00%
2.2 Fiscal Flexibility Indicators										
Net rates, utilities and charges / operating revenue (%)	59.93%	69.03%	70.01%	71.05%	71.35%	71.85%	72.43%	72.86%	73.20%	73.49%
Subsidies, donations and contributions / operating revenue (%)	10.77%	11.61%	11.28%	10.84%	10.60%	10.49%	10.39%	10.28%	10.15%	10.03%
Sales - contract and recoverable works / operating revenue (%)	14.21%	7.69%	7.46%	7.16%	6.98%	6.90%	6.82%	6.73%	6.64%	6.54%
Operating results before interest and depreciation / interest expense (times) (interest cover)	18.10	20.56	29.44	45.63	67.79	108.29	262.05	1,709.67	nm	nm
(Net operating cash flow + interest expense) / (int expense + PY current int bearing liabilities) (times) (debt service cover)	2.76	3.53	4.40	7.05	8.76	9.13	16.00	79.83	nm	nm
Restricted cash / total cash assets (%)	12.89%	13.99%	9.49%	16.31%	16.82%	0.00%	0.00%	0.00%	0.00%	0.00%
Payback years - total debt / operating cash flows (excludes interest revenue)	1.65	0.82	0.54	0.35	0.22	0.09	0.01	-	-	-
Net operating cashflow / total capital expenditure (%)	61.57%	70.15%	51.47%	67.74%	87.06%	56.34%	97.84%	69.09%	94.33%	74.21%
2.3 Equity Maintenance Indicators										
Operating results (\$'000)	238	(281)	(245)	133	675	587	546	489	487	461
Net results (includes capital revenues & expenses and extraordinary items) (\$'000)	1,215	2,840	4,149	4,983	3,248	2,957	1,592	2,655	2,130	2,695
Unfunded depreciation / total depreciation	0.00%	6.93%	5.72%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Annual capital expenditure / depreciation (times)	1.23	1.35	1.81	1.50	1.34	2.01	1.14	1.59	1.16	1.46
Operating revenue / operating expense (incl. int & depn) (%)	101.38%	98.29%	98.59%	100.73%	103.64%	103.03%	102.71%	102.32%	102.22%	102.02%
2.4 Liquidity indicators										
Current assets / current liabilities (current ratio)	5.65	6.38	7.13	8.57	9.06	8.78	10.37	10.34	10.89	10.74

APPENDIX D: SCENARIO ONE – INCREASE CAPEX BY 20% - KEY FINANCIALS

‘000’S

Year ended	Budget	Forecast								
	30/06/2006	30/06/2007	30/06/2008	30/06/2009	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014	30/06/2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1. Summary of Financial Information										
1.1 Operating Results										
Net rates and utility charges	10,444	11,168	11,980	12,996	13,723	14,349	15,001	15,684	16,400	17,144
Sales - contract and recoverable works	2,476	1,244	1,276	1,309	1,343	1,378	1,413	1,449	1,487	1,525
Subsidies, donations and contributions	1,877	1,878	1,930	1,983	2,038	2,094	2,152	2,212	2,275	2,339
Other operating income	2,603	1,805	1,763	1,755	1,803	1,729	1,624	1,565	1,554	1,589
Total operating income	17,400	16,095	16,949	18,043	18,907	19,550	20,190	20,910	21,716	22,597
Total borrowing costs	241	193	142	99	70	45	19	3	69	207
Employee expenses	6,718	6,259	6,630	7,063	7,430	7,744	8,069	8,410	8,766	9,134
Materials and services	5,969	5,522	5,856	6,250	6,579	6,857	7,146	7,451	7,766	8,094
Depreciation expense	3,915	4,123	4,395	4,438	4,190	4,479	4,688	4,956	5,185	5,459
Other operating expenses	377	430	445	462	480	497	516	536	556	579
Total operating expenses (including borrowing costs)	17,220	16,527	17,468	18,312	18,749	19,622	20,438	21,356	22,342	23,473
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	180	(432)	(519)	(269)	158	(72)	(248)	(446)	(626)	(876)
Net operating cash flow	2,907	3,758	3,838	4,113	4,322	4,389	4,420	4,490	4,536	4,559
Net cash flow	(2,720)	(643)	(1,894)	702	18	(3,972)	(884)	(2,273)	(553)	(2,095)
1.2 Capital Expenditure										
Gross total capital expenditure	5,717	6,572	9,326	7,727	6,408	10,244	6,059	8,868	6,732	8,888
New borrowings	-	-	-	-	-	-	-	-	-	-
Net unfunded depreciation	-	432	519	269	-	72	248	446	626	876
1.3 Financial Position										
Total current cash assets (includes unrestricted, restricted & overdraft)	8,558	7,915	6,020	6,723	6,741	2,768	1,884	(389)	(942)	(3,037)
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	1,229	1,409	939	1,979	2,279	-	-	-	-	-
Current assets	10,679	9,971	8,182	9,015	9,130	5,242	4,447	2,656	2,753	2,854
Non-current assets	120,015	122,464	127,395	130,684	132,902	138,667	140,038	143,950	145,497	148,926
Total assets	130,694	132,435	135,577	139,699	142,032	143,909	144,485	146,606	148,250	151,780
Current interest bearing liabilities (including overdraft)	950	800	534	469	487	291	61	389	942	3,037
Current liabilities (includes overdraft)	2,064	1,902	1,690	1,684	1,758	1,614	1,438	1,823	2,434	4,590
Non-current interest bearing liabilities	2,642	1,842	1,308	839	352	61	-	-	-	-
Non-current liabilities	3,342	2,556	2,036	1,582	1,110	834	788	804	820	836
Total liabilities	5,406	4,458	3,726	3,266	2,868	2,448	2,226	2,627	3,254	5,426
Community equity	125,288	127,977	131,852	136,433	139,164	141,462	142,260	143,980	144,997	146,355

APPENDIX E: SCENARIO TWO – INCREASE GROWTH IN MATERIALS & SERVICES TO 6%

‘000’S

Year ended	Budget	Forecast								
	30/06/2006	30/06/2007	30/06/2008	30/06/2009	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014	30/06/2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1. Summary of Financial Information										
1.1 Operating Results										
Net rates and utility charges	10,444	11,168	11,980	12,996	13,723	14,349	15,001	15,684	16,400	17,144
Sales - contract and recoverable works	2,476	1,244	1,276	1,309	1,343	1,378	1,413	1,449	1,487	1,525
Subsidies, donations and contributions	1,877	1,878	1,930	1,983	2,038	2,094	2,152	2,212	2,275	2,339
Other operating income	2,629	1,889	1,925	2,005	2,133	2,150	2,134	2,154	2,188	2,231
Total operating income	17,426	16,179	17,111	18,293	19,237	19,971	20,700	21,499	22,350	23,239
Total borrowing costs	241	193	142	99	70	45	19	3	-	-
Employee expenses	6,718	6,259	6,630	7,063	7,430	7,744	8,069	8,410	8,766	9,134
Materials and services	5,969	5,522	5,853	6,205	6,577	6,971	7,390	7,833	8,303	8,801
Depreciation expense	3,883	4,056	4,283	4,285	4,000	4,241	4,414	4,637	4,828	5,060
Other operating expenses	377	430	445	462	480	497	516	536	556	579
Total operating expenses (including borrowing costs)	17,188	16,460	17,353	18,114	18,557	19,498	20,408	21,419	22,453	23,574
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	238	(281)	(242)	179	680	473	292	80	(103)	(335)
Net operating cash flow	2,933	3,842	4,002	4,406	4,657	4,705	4,697	4,708	4,715	4,715
Net cash flow	(1,741)	536	(176)	2,283	1,421	(1,949)	403	(577)	748	(458)
1.2 Capital Expenditure										
Gross total capital expenditure	4,764	5,477	7,772	6,439	5,340	8,537	5,049	7,390	5,610	7,407
New borrowings	-	-	-	-	-	-	-	-	-	-
Net unfunded depreciation	-	281	242	-	-	-	-	-	103	335
1.3 Financial Position										
Total current cash assets (includes unrestricted, restricted & overdraft)	9,537	10,073	9,897	12,180	13,601	11,652	12,055	11,478	12,226	11,768
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	1,229	1,409	939	1,979	2,279	-	-	-	-	-
Current assets	11,658	12,129	12,059	14,472	15,990	14,126	14,618	14,134	14,979	14,622
Non-current assets	119,094	120,515	124,004	126,158	127,498	131,794	132,429	135,182	135,964	138,311
Total assets	130,752	132,644	136,063	140,630	143,488	145,920	147,047	149,316	150,943	152,933
Current interest bearing liabilities (including overdraft)	950	800	534	469	487	291	61	-	-	-
Current liabilities (includes overdraft)	2,064	1,902	1,689	1,681	1,758	1,623	1,458	1,465	1,536	1,611
Non-current interest bearing liabilities	2,642	1,842	1,308	839	352	61	-	-	-	-
Non-current liabilities	3,342	2,556	2,036	1,582	1,110	834	788	804	820	836
Total liabilities	5,406	4,458	3,725	3,263	2,868	2,457	2,246	2,269	2,356	2,447
Community equity	125,346	128,186	132,338	137,367	140,620	143,463	144,801	147,047	148,587	150,486

APPENDIX F: SCENARIO THREE – TIMING OF RATEABLE PROPERTIES GROWTH OCCURS EVENLY OVER THE PERIOD.

Year ended	Budget	Forecast								
	30/06/2006	30/06/2007	30/06/2008	30/06/2009	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014	30/06/2015
	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's	\$'000's
1. Summary of Financial Information										
1.1 Operating Results										
Net rates and utility charges	10,444	11,109	11,667	12,247	12,852	13,603	14,391	15,220	16,094	17,012
Sales - contract and recoverable works	2,476	1,244	1,276	1,309	1,343	1,378	1,413	1,449	1,487	1,525
Subsidies, donations and contributions	1,877	1,878	1,930	1,983	2,038	2,094	2,152	2,212	2,275	2,339
Other operating income	2,629	1,888	1,914	1,966	2,047	2,018	1,966	1,963	1,989	2,041
Total operating income	17,426	16,119	16,787	17,505	18,280	19,093	19,922	20,844	21,845	22,917
Total borrowing costs	241	193	142	99	70	45	19	3	-	-
Employee expenses	6,718	6,259	6,630	7,063	7,430	7,744	8,069	8,410	8,766	9,134
Materials and services	5,969	5,522	5,856	6,250	6,579	6,857	7,146	7,451	7,766	8,094
Depreciation expense	3,883	4,056	4,283	4,285	4,000	4,241	4,414	4,637	4,828	5,060
Other operating expenses	377	430	445	462	480	497	516	536	556	579
Total operating expenses (including borrowing costs)	17,188	16,460	17,356	18,159	18,559	19,384	20,164	21,037	21,916	22,867
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	238	(341)	(569)	(654)	(279)	(291)	(242)	(193)	(71)	50
Net operating cash flow	2,933	3,789	3,705	3,626	3,709	3,917	4,136	4,408	4,715	5,066
Net cash flow	(1,741)	483	(473)	1,503	473	(2,737)	(158)	(877)	748	(107)
1.2 Capital Expenditure										
Gross total capital expenditure	4,764	5,477	7,772	6,439	5,340	8,537	5,049	7,390	5,610	7,407
New borrowings	-	-	-	-	-	-	-	-	-	-
Net unfunded depreciation	-	341	569	654	279	291	242	193	71	-
1.3 Financial Position										
Total current cash assets (includes unrestricted, restricted & overdraft)	9,537	10,020	9,547	11,050	11,523	8,786	8,628	7,751	8,499	8,392
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	1,229	1,409	939	1,979	2,279	-	-	-	-	-
Current assets	11,658	12,069	11,673	13,255	13,811	11,174	11,121	10,353	11,217	11,231
Non-current assets	119,094	120,515	124,004	126,158	127,498	131,794	132,429	135,182	135,964	138,311
Total assets	130,752	132,584	135,677	139,413	141,309	142,968	143,550	145,535	147,181	149,542
Current interest bearing liabilities (including overdraft)	950	800	534	469	487	291	61	-	-	-
Current liabilities (includes overdraft)	2,064	1,902	1,690	1,684	1,758	1,614	1,438	1,434	1,492	1,553
Non-current interest bearing liabilities	2,642	1,842	1,308	839	352	61	-	-	-	-
Non-current liabilities	3,342	2,556	2,036	1,582	1,110	834	788	804	820	836
Total liabilities	5,406	4,458	3,726	3,266	2,868	2,448	2,226	2,238	2,312	2,389
Community equity	125,346	128,126	131,951	136,147	138,441	140,520	141,324	143,297	144,869	147,153

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