

Financial Sustainability Review

Prepared for Kilcoy Shire Council | March 2007

An assessment of Kilcoy Shire Council's capacity to meet its financial commitments in the short, medium and long-term.



QUEENSLAND
TREASURY
CORPORATION

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1 | EXECUTIVE SUMMARY

Kilcoy Shire Council (Council) has asked Queensland Treasury Corporation (QTC) to review its financial capacity to service current and future obligations (ie, its financial sustainability).

To reach our conclusions and recommendations we:

- evaluated Council's historical performance and forecast financial outcomes
- reviewed business drivers and regional economic information, and
- tested the impact of various events on Council's financial forecasts.

1.1 Rating

Our rating of Council's financial sustainability is weak with a developing outlook.

See section 3 for further details.

1.2 Key observations

Key observations include:

- A critical success factor for the Shire is the continued viability of its manufacturing base, with two firms providing about a third of the jobs within the Shire.
- Forecast general rates growth is significant and is primarily driven by increases in rateable properties and a real growth factor.
- Adequate fiscal flexibility generated by a moderate level of own source revenue.
- Liquidity under pressure in the short term and forecast to be significantly improved over the forecast period.
- Relatively low debt levels with a moderate capacity to service more debt if required.
- Operating deficits recorded from FY2003 to FY2006.
- Operating surpluses expected over the forecast period.
- The Shire's age profile is relatively old, with the 45 plus age group showing continued strong growth and accounting for 43.7 per cent of the Shire's population.
- Increasing urbanisation is placing pressure on Council to provide additional services and to meet increasing demand.
- Water and sewerage infrastructure is at capacity to handle volumes and/or does not meet upgraded environmental requirements and is therefore in need of renewal/upgrades.

- Water and sewerage in-ground infrastructure has over the years experienced high incidences of breaks and chokes. Council has recognised this as an issue.
- In order to increase the capacity of the Kilcoy Pastoral Company (KPC) plant, and meet the associated increase in water demand, Council's water supply must be augmented. Options are being considered.
- Over the forecast period, Council plans to carry out \$34.6 million worth of capital programs, with 43.0 per cent to be self-funded from operating cash flows.
- Council does not currently have an integrated Asset Management Plan in place. This reduces Council's ability to plan for future capital expenditure and obtain future subsidies.

See section 4 for further details.

1.3 Recommendations

Council is entering a challenging phase in its business lifecycle as a number of essential community assets are now at capacity or nearing the end of their useful lives and require significant upgrades. In addition, growth pressures and expanding business activity such as the KPC proposal are emerging and will place considerable pressure on Council's financial position and management to ensure successful outcomes. This includes managing liquidity levels and consideration of optimal funding strategies, to assist Council achieve future objectives.

To successfully manage the financial risks associated with these projects, Council must adopt a disciplined approach to the scheduling of required capital works and to managing its financial position, which has historically been weak. This is essential as forecasts show a significant investment in capital expenditure.

We make the following eight strategic recommendations:

1. Seek to manage the risks associated with the proposed expansion of the existing water supply network to meet increased water demands of KPC, including negotiating appropriate commercial pricing and security arrangements.
2. Monitor population growth and composition, and update financial forecasts and Asset Management Plans where actual population growth differs significantly from forecasts.
3. Prioritise implementation of Asset Management Plans.
4. Monitor and review forecast capital expenditure including monitoring construction industry costs and maintaining tight controls over expenditure to mitigate risks associated with cost overruns.
5. Engage professional assistance with project management expertise if it is not available on staff. Professional project management expertise will be important in mitigating risks inherent in a substantial number of large projects.

6. Carefully consider any future decisions that may constrain the level of rates and utilities revenue increases.
7. Council should seek an optimal funding mix and timing sequence for its capital programs.
8. Consider and plan accordingly for implications on services and service levels resulting from the ageing demographics of the Shire.

See section 5.1 for further details.

We make the following four general recommendations:

1. Endeavour to ensure balanced or surplus operating results.
2. Investigate shared service options with a view to gaining economies of scale benefits, particularly through a regional approach to service provision and resource sharing.
3. Regularly review and update a three-way ten-year financial forecasting tool (such as QTC Local Government Forecasting Model) to assist decision making.
4. Make a Financial Sustainability Review a part of Council's regular review processes. We would suggest that this be done again in 12 months.

See section 5.2 for further details.

2 | SCOPE AND APPROACH

Kilcoy Shire Council (Council) has asked QTC to review its financial capacity to service current and future obligations.

Our approach was to:

- evaluate Council's historical performance and forecast financial outcomes through financial ratio analysis
- review business drivers and regional economic information
- test the impact of various scenarios on Council's financial forecasts
- draw conclusions on Council's financial sustainability, and
- provide recommendations on the risks and issues facing Council.

We relied on:

- discussions with Council's senior management
- Council's historical financial information (FY2001 to FY2006)
- Council's financial model, containing high level financial forecast information (FY2007 to FY2016)
- the Office of Economic and Statistical Research's (OESR) economic profile for the Shire, and
- the Department of Local Government, Planning, Sport and Recreation's (DLGPSR) *Annual Comparative Data*, issued May 2006.

We have not:

- been provided with detailed information of individual business units
- been asked to comment on the financial position of individual business units
- audited or independently verified Council's financial model, or
- made any representation as to the accuracy or completeness of Council's financial model.

3 | RATING

Financial sustainability is the capacity to service current and future financial obligations

Rating:

Very strong
Strong
Moderate
WEAK
Very Weak
Distressed

Outlook:

Positive
Negative
Neutral
DEVELOPING

Our rating of Council’s financial sustainability is weak with a developing outlook.

The weak rating was determined after considering the following:

- business and economic environment
- financial forecast reasonableness
- forecast capital expenditure
- liquidity position
- maintenance of community equity
- fiscal flexibility
- capacity to manage core business risks, and
- operating result (excluding capital items).

A developing outlook has been assigned for the next two-year period, as Council is forecasting a significant improvement in operating results, which is underpinned by achieving sustained high growth in general rates revenue and reductions in service levels and associated costs. Council also has a number of community assets nearing the end of their useful lives and require significant upgrades, this will place considerable pressure on Council’s already weak position.

See Appendix A *Financial Sustainability Review Ratings and Outlook Definitions*.

4 | KEY OBSERVATIONS

The following key observations were drawn from the business and economic, and financial analyses:

4.1 Positive indicators

Moderate fiscal flexibility

- Council's own source revenue being net rates, utilities and charges (forecast average 61.7 per cent of total operating revenue) represents the primary source of revenue. This provides Council with moderate revenue flexibility based on achieving sustained high growth in general rates revenue.

Continued investment in asset base

- Council has forecast average capital expenditure to be approximately 1.8 times the annual average depreciation charge. A ratio above 1.1 times over the forecast period would indicate that assets are being renewed/replaced at a higher rate than they are being consumed.

Improved operating position

- Council forecasts an improved operating position, with operating revenues expected to grow at a faster rate (9.1 per cent per annum) than operating expenses (4.7 per cent per annum). Operating results are forecast to improve to a surplus of \$2.6 million in FY2016 from an operating loss of \$1.0 million in FY2006.

Improving liquidity

- Council's cash position fluctuates between the equivalent of three and fourteen months of cash expenses and is forecast to increase from \$1.7 million at 30 June 2006 to \$17.7 million at 30 June 2016. Such a high liquidity level will become a significant strength for Council.
- The current ratio (current assets to current liabilities) is forecast to improve from 2.9 times (historical average FY2001 to FY2006) to 12.12 times (forecast average FY2007 to FY2016).

Capacity for further use of borrowings

- The forecast average interest cover ratio (net operating results before interest and depreciation/interest expense) of 16.7 times indicates that Council has a capacity to meet forecast borrowing costs and flexibility regarding further use of debt.
- The population growth rate for the Shire over the twelve months to June 2005 was above the State average (2.5 per cent and 2.0 per cent respectively) indicating that DLGPSR projections for the Shire appear pessimistic.
- Historically Council has undertaken shared services arrangements with Caboolture Shire Council (Caboolture) and Esk Shire Council (Esk). It is likely that these arrangements will continue into the future.

4.2 Risks

Water & sewerage infrastructure renewal/upgrades are a priority

- Council has a number of significant assets that are in need of urgent renewal/upgrade. Failure to address these issues as a priority will present significant risk to Council and the community. For example, water and sewerage infrastructure is nearing capacity to handle volumes required and sewerage infrastructure does not currently satisfy environmental requirements. This is a priority for Council in the short to medium term and implementation should not be delayed.

Asset management plan not compliant and no asset management system

- Although water main breaks and sewerage main chokes were not high when compared to reference local governments, Council has identified this as a business priority and developed strategies to address these issues. If these issues are not attended to as a priority, the community may be exposed to significant health and financial risk.
- Council's Asset Management Plan for water and sewerage is not compliant and therefore cannot be approved for subsidy funding. In addition, as Council does not currently have an integrated Asset Management Plan. This reduces Council's ability to accurately plan and schedule future capital expenditure requirements (including whole of life costs) and understand the financial implications of required works from a whole of Council perspective. To address these issues, Council has engaged Local Government Infrastructure Services (LGIS) to revise its water and sewerage Asset Management Plan. Council is also in the process of purchasing an asset management system.

Population growth expectations and ageing population

- Kilcoy Shire has a relatively old age profile, and in line with state and national trends the 45 plus age group has shown continued strong growth. In 2004-05, the 45 plus age group accounted for 43.7 per cent of the Shire's population. This is much higher than the average for Queensland of 36.7 per cent. This population trend results in a higher median age in the Shire of 40.5 years in 2004-05, compared with 36.0 years for Queensland. With a large proportion of the community forecast to be at retirement age by 2026, consideration will need to be given to their future service requirements as this may have implications for Council in terms of future service provision.

Capital expenditure may exceed forecast

- Over the forecast period, Council plans to carry out \$34.6 million worth of capital programs, which is significantly larger than that undertaken by Council over the historical period. Council has advised that the majority of forecast capital expenditure is non-discretionary and therefore it is unlikely that the current level of forecast expenditure can be reduced. Delivery of such a large program represents a number of risks for Council in terms of managing and delivering the projects on schedule and ensuring cost forecasts are achieved.

Staff resource constraints

- Council has limited capacity to increase staff resources due to budget constraints. These constraints have meant that there are insufficient resources to address Council's strategic and compliance issues. Currently only operational issues are being addressed.

Minimise risks in
relation to KPC

- At 30 June 2007 liquidity is forecast to be at the lower end of the recommended range. With significant capital expenditure forecast, Council must monitor this situation carefully and consider optimal funding strategies (including borrowings) to ensure liquidity levels remain appropriate.
- KPC, the major employer in Kilcoy, is planning to increase the capacity of its plant, resulting in increased demand for water. KPC has approached Council regarding this increased water demand. However at the time of writing this report, no formal offer has been made by KPC to Council. If this increased demand is required Council will need to augment its water supply. In turn Council will need to determine appropriate commercial arrangements with KPC to recover capital and operating costs (capital expenditure relating to the KPC water upgrade of \$8.5 million for FY2008 has been included in the forecast).
- Council has forecast employee costs to average 3.7 per cent per annum. This is below the current Enterprise Bargaining Agreement of 5.0 per cent. With rateable property growth expectations of approximately 2.5 per cent, Council may have difficulty in achieving this forecast, as expectations would be that a growing community would cause an expansion of services or increase in demand on current services.

5 | RECOMMENDATIONS

5.1 Strategic

There are eight strategic recommendations for Council:

Negotiate commercial pricing and security arrangements

1. Seek to manage the risks associated with the proposed expansion of the existing water supply network to meet increased water demands of KPC which is currently considering an expansion of its operations. This would include negotiating appropriate commercial pricing arrangements. In addition Council should seek security arrangements such as a bank guarantee. Council should seek suitable advisers to assist with these issues.

Population monitoring

2. Council's forecast is heavily reliant on achieving the projected population growth. Council should monitor population growth and update financial forecasts and Asset Management Plans if actual growth is significantly different to forecast growth.

Implement Asset Management Plan

3. Prioritise the implementation of its Asset Management Plans, which are currently being revised. These new plans will improve Council's decision support and financial forecast systems by providing a profile of future new asset developments, replacement, renewal and disposal. This is particularly important as Council has a number of assets requiring upgrade. Such information must be incorporated into Council's financial forecasts.

Review capital expenditure outlook

4. Monitor and review forecast capital expenditure including:

- monitor construction industry costs and amend cash flow forecasts as required, and
- maintain tight controls over expenditure to mitigate risks, including cost increases and develop strategies for managing expense increases above forecast levels.

Project management expertise

5. Engage professional project management expertise if not available on Council staff. Council's forecast capital expenditure is significantly larger than historic levels, particularly in FY2008. Professional project management expertise will be important in mitigating risks inherent with a substantial number of large projects.

Carefully consider revenue needs

6. Carefully consider any future decisions that may constrain the level of rates and utilities revenue increases. Increases to own source revenues should be considered in the context of the number and level of services provided, scheduled capital works program, and movements in construction work costs, wages and salaries expenses and material and services costs. Scenario analysis suggests that Council's financial position will be significantly eroded should expenditure be greater than that forecast. In addition lower than forecast growth will also impact Council's financial position.

Optimal funding mix

7. Consider an optimal funding mix for its future capital programs. While cash flow from operations is strong, Council has a significant amount of capital works scheduled which will put pressure on liquidity in the short term. The prudent use of debt will provide Council with financial flexibility and leverage to meet forecast objectives. This approach is generally not recommended for non-revenue producing assets such as roads, however it is considered suitable for commercial activities, in particular, water and sewerage.

Plan for impact of ageing demographics

8. Consider and plan accordingly for implications on services and service levels resulting from the ageing demographics of the Shire. Economic indicators suggest that the 45 plus age group has shown continued strong growth in Redcliffe. This may require Council to provide extra services and facilities to cater for a population with an older age profile.

5.2 General

There are four general recommendations:

Balanced operating position

1. Continue to commit to a balanced or surplus operating result as operating deficits generally impact on a local government's future financial flexibility (operating capacity).

Shared service options

2. Continue to investigate shared service options with a view to gaining economies of scale benefits, particularly through a regional approach to service provision and resource sharing.

Maintain financial forecasting

3. Continue to maintain a three-way ten-year financial forecast (such as the QTC model). It is essential that this model should be regularly reviewed, updated and used as an aid to decision making.

FSR part of Council's regular review process

4. QTC would recommend that a Financial Sustainability Review become part of Council's regular review processes. We would suggest that this be done again in twelve months.

6 | BUSINESS AND ECONOMIC ANALYSIS

6.1 Economic information

The following table summarises the key economic information for Kilcoy Shire Council and, where appropriate, comparative information with Queensland.

Table 1: Comparison of key economic information for against Queensland

See attached OESR <i>Economic Profile</i> . Also refer DLGPSR <i>Annual Comparative Data</i> , issued May 2006.		Kilcoy Shire Council	State of Queensland
	Australian Classification of Local Government	Rural Agricultural Medium (RAM)	
	Population (at 30 June 2005)	3,558	4.0 million
	Population forecast growth	1.4 per cent per annum	1.7 per cent per annum
	Median age	40.5 years	36.0 years
	45+ age group (per cent of population)	43.7 per cent	36.7 per cent
	Forecast median age 2026	51 years	42 years
	Average taxable Income	\$34,689	\$40,037
	Unemployment rate (March 2006)	3.7 per cent	5.1 per cent
	Rateable properties	1879	
	Council employees	48	
	Council employees per 100 persons	1.35*	

*RAM Average 2.01

6.2 Inflation factors

	2003 %	2004 %	2005 %
CPI	2.4	2.6	2.8
CCI	5.0	5.4	5.7
QLPI	3.2	3.6	3.8

When developing a financial forecast or a budget, each local government must consider the impact of changes to the price of a range of items. This data is used for strategic and operational planning and decision making.

Generally, the movement of the price of goods in an industry is considered by reference to an appropriate price index (ie, a measure of the average prices of a group of goods relative to a base year).

There are numerous industry cost indices published by Government and industry bodies. In a local government context, the most relevant industry cost indices are the Consumer Price Index, LGAQ's Council Cost Index and the Queensland Labour Price Index. A brief explanation of these indices is as follows:

- Consumer Price Index (CPI) is a general indicator of the rate of change in prices for consumer goods and services. It measures movements in a list of consumer goods and services, with about 100,000 prices regularly collected for each quarter's result.
- Although CPI is generally used as a standard inflation factor by the Australian community, it is not truly indicative of local government cost structures. Consequently, each year the Local Government Association of Queensland publishes the Council Cost Index (CCI). In the 2005 calendar year, the Queensland CCI rose 5.7 per cent.

The CCI assumes that engineering work, which represents 50.0 per cent of Council outlays, is driven by the general construction index, and that the remaining costs are driven by CPI. Therefore, CCI is determined by the increase in the general construction index and the average increase in CPI.

- The Queensland Labour Price Index (QLPI) is a broad measure of annual changes in the price of labour in the labour market. The QLPI for 2005 was 3.8 per cent.

Generally when producing financial forecasts, it is standard practice to use the latest historical inflation figures as a guide. Accordingly, QTC uses historical inflation figures to help determine the reasonableness of forecast assumptions.

6.3 Industry

Manufacturing dominates the economy

Kilcoy Shire is situated 94 kilometres north of Brisbane and is predominantly a rural Shire. The manufacturing industry is the major driver of the local economy, followed by wholesale and retail trade. An abattoir (Kilcoy Pastoral Company) and a fertiliser and garden supplement manufacturer (Searles Garden Products), together currently employ approximately 400 people which accounts for a high share of employment in the Shire.

The Shire is also dependant on the beef cattle industry, which is exposed to the global markets and fluctuations in local rainfall. Economic outlooks expect saleyard prices of cattle to decline due to growing supply and increasingly competitive export markets.

Ageing population

Currently, the Shire's population age profile is slightly older than the Queensland average with a median age of 41 years compared to 36 years. Further, according to DLGPSR, the median age of the Shire's population is projected to increase to 51 years in 2026, which is higher than the projected State average. This will result in the Shire's population being dominated by people at retirement age.

6.4 Economic outlook

The outlook for Kilcoy is strongly linked to the prosperity of the rural businesses located within the Shire.

The current drought poses some challenges for the Shire's manufacturing base, both directly through potential impacts on supplies of inputs, and indirectly through water restrictions in the population centres.

Continued viability of its manufacturing base

A critical success factor for the Shire is the continued viability of its manufacturing base, with two main firms providing about a third of the jobs within the Shire.

Age structure is significantly older than state average

The population structure within the Shire is significantly older than the state average. However, increased migration to the Shire has exceeded forecasts which may offset the ageing population to a degree.

6.5 Infrastructure

Water and sewerage infrastructure renewal/upgrades are a priority

Council has acknowledged that population growth is causing issues as water and sewerage infrastructure is nearing its capacity to handle the volume required. In addition sewerage treatment is operating at the limit in terms of treatment quality and does not meet environmental requirements. This has resulted in the need for the renewal/upgrade of Council's water and sewerage assets in the short to medium term. It is noted that water and sewerage in-ground infrastructure has experienced high incidences of breaks and chokes compared to the reference group of local governments.

Council may also be required to augment its water supply in order to satisfy increased demand for water from KPC. Options are currently being considered. If this project does go ahead Council will need to minimise its risk in relation to KPC and ensure that commercial pricing arrangements are in place.

Pressure for higher level of services

Increasing urbanisation is placing pressure on Council to provide a higher level of services. The library is considered inadequate and is in need of an upgrade, however this project is only at the planning stage and has not been included in forecasts. In addition a project to upgrade the swimming pool is in the advanced planning stage.

Council advises that there are a number of bridges within the Shire that require replacement or significant refurbishment.

Council has included estimates for capital expenditure on the water and sewerage infrastructure, the swimming pool and some bridge upgrades over the forecast period.

6.6 Corporate and operational plans

The current Corporate Plan sets the overall strategic direction for Council's activities from 2004-2008. This plan is due to be reviewed in 2008.

Council has advised that as a result of staffing constraints work on the strategic and compliance issues of the business has not been undertaken. Council is currently only addressing operational issues.

Council's Asset Management Plan for water and sewerage is not compliant and therefore cannot be approved for subsidy funding. Council has engaged Local Government Infrastructure Services (LGIS) to revise its water and sewerage Asset Management Plan and is in the process of purchasing an asset management system.

7 | FINANCIAL ANALYSIS

The overall financial sustainability of a local government is its ability to maintain the required range of services and facilities at desired levels of quality in the short and long term.

A local government's deteriorating financial position (evidenced by budgetary or financial stress) will adversely affect its ability to provide services to the local community in the short, medium or long term. Indicators may include a combination of the following:

- poor or poorly maintained infrastructure
- inappropriate depreciation program
- poor range and/or quality of services
- impaired borrowing ability
- liquidity difficulties
- depleted reserves, and/or
- ratepayers subjected to relatively high levels of rating stress.

Council's historical and forecast financial data is discussed in section 7.1, 7.2 and 7.3.

See Appendix B *Historical Financial Summary (FY2001–FY2006)*.

See Appendix C *Forecast Financial Summary (FY2007–FY2016.)*

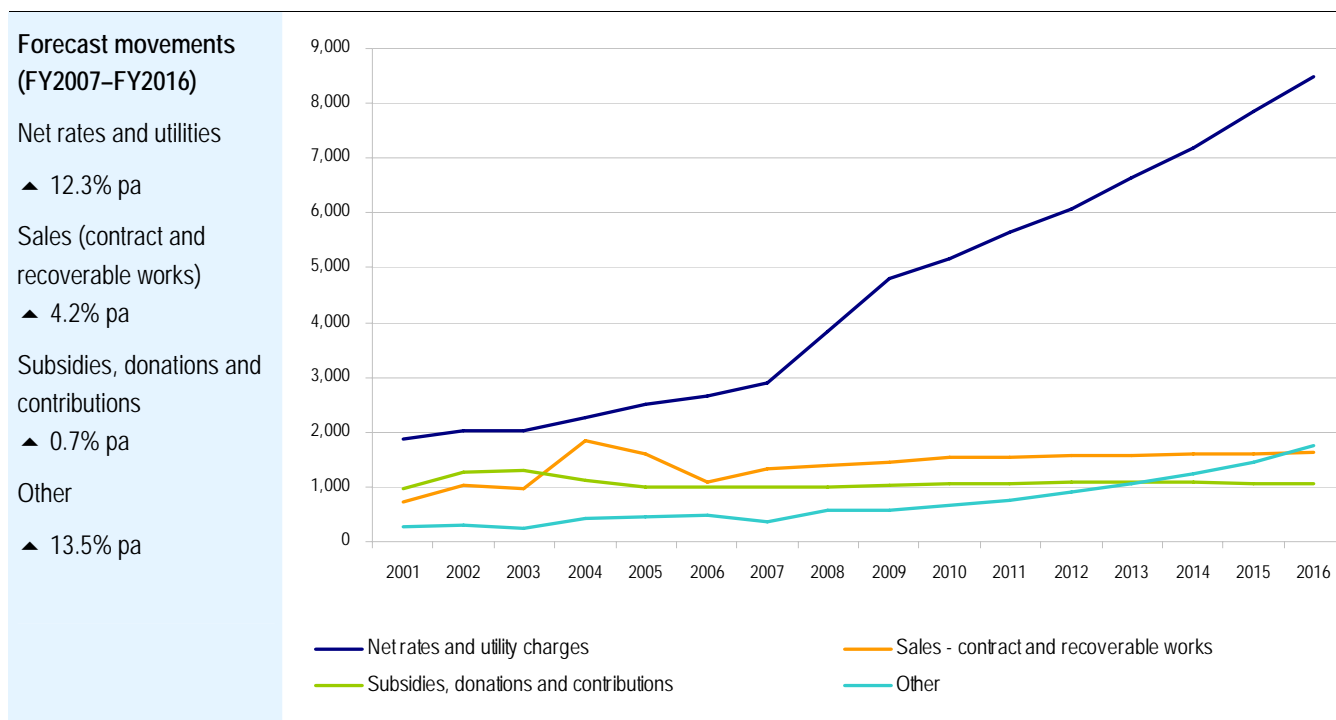
7.1 Income Statement

7.1.1 Historical and forecast performance

Revenue

The following graph illustrates Council's revenue for the historical period (FY2001 to FY2006) and forecast period (FY2007 to FY2016):

Figure 1: Operating revenue (\$'000)



Key observations

Total operating revenue increase 9.5% pa

Primary revenue source is net rates, utilities and charges

- Total operating revenue is forecast to increase from \$5.2 million in FY2006 to \$12.9 million in FY2016 representing an average increase of 9.5 per cent per annum (historic average 6.5 per cent per annum).
- Net rates, utilities and charges represent a significant source of revenue for Council (average of 61.7 per cent of total operating revenue over the forecast period). This is higher than the historical average of approximately 45.6 per cent per annum and the Rural Agricultural Medium group (RAM group) historical average of approximately 34.0 per cent per annum.

- Forecast net rates, utilities and charges increase on average by 12.3 per cent per annum. Historically net rates, utilities and charges increased on average by 7.2 per cent per annum.

Council advised that forecast general rates growth is, to a large degree, driven by forecast increases in rateable properties along with a significant real growth factor to enable Council provide a higher level of services.

Growth %	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
General rates increase	12.85%	11.09%	10.96%	7.83%	10.84%	7.66%	10.71%	7.56%	10.56%	7.42%
Rateable properties growth	2.93%	2.84%	2.77%	2.69%	2.96%	2.62%	2.55%	2.49%	2.43%	2.37%
Actual increase to ratepayers	9.92%	8.25%	8.19%	5.14%	7.88%	5.04%	8.16%	5.07%	8.13%	5.05%

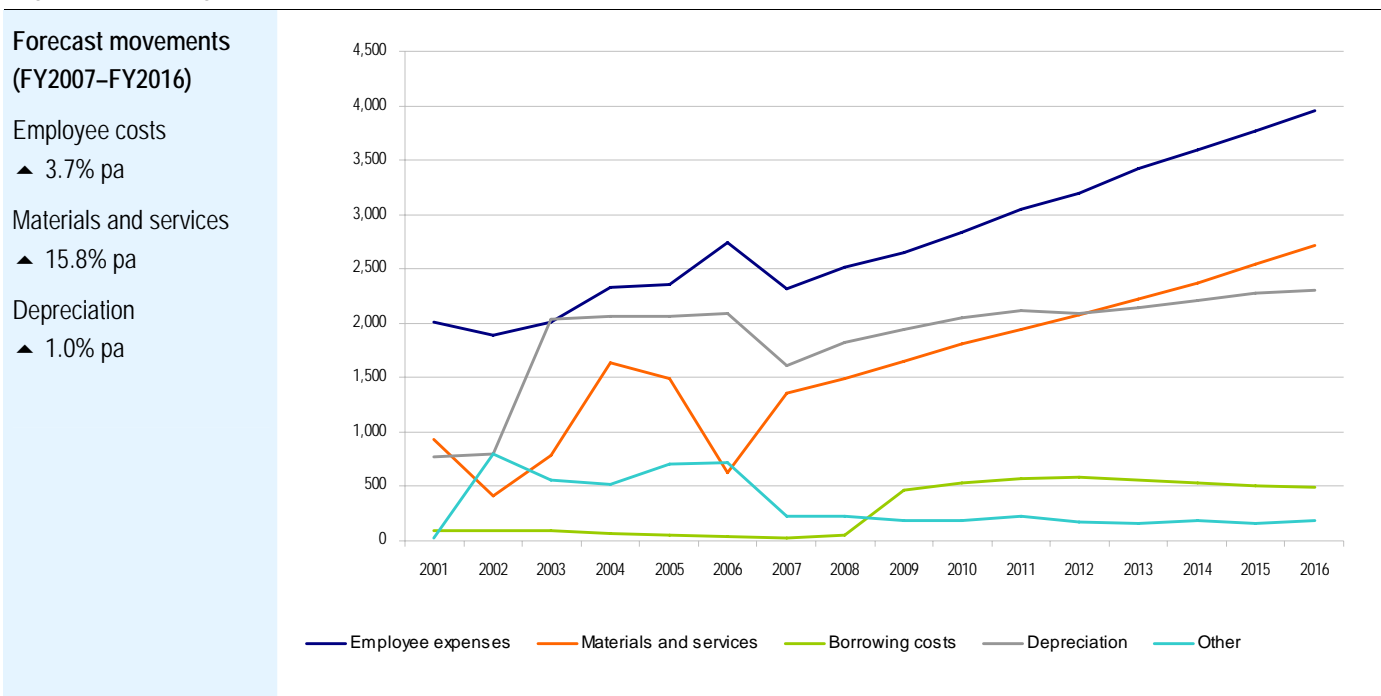
Little growth forecast in other revenue items

- Little growth is forecast for sales (contract and recoverable works) and subsidies, donations and contributions (average of 4.2 and 0.7 per cent per annum respectively).

Expenses

The following graph illustrates Council’s expenses for the historical period (FY2001 to FY2006) and forecast period (FY2007 to FY2016):

Figure 2: Operating expenses (\$'000)



Key Observations

Total operating expenses increase 4.5% pa

- Total operating expenses are forecast to increase from \$6.2 million in FY2006 to \$9.7 million in FY2016 representing an average annual increase of 4.5 per cent. Historically total operating expenses increased on average by 10.2 per cent per annum.

Employee costs largest expense

- Employee costs are a significant expense for Council and are forecast to average 42.2 per cent of total operating expenses over the forecast period. This is consistent with the historical average of 42.5 per cent per annum.
- Employee costs are expected to increase by 3.7 per cent per annum over the forecast period. This is lower than the current Enterprise Bargaining Agreement of 5.0 per cent which Council expects to remain unchanged in the near future. This is also lower than the average historic increase of 6.4 per cent per annum. Council has advised that it has little capacity to increase staffing resources due to budget constraints.
- Materials and services are also a significant expense for Council and are forecast to average 27.0 per cent of total operating expenses over the forecast period. This is higher than the historical average of 18.0 per cent per annum.

Materials and services costs have shown significant variability

- Material and services costs are forecast to increase on average by 15.8 per cent per annum. Historically materials and services decreased on average by 7.8 per cent per annum. Over the historical period, Council has undertaken private works for developers which has resulted in a reduction in Main Roads work and thus lower materials and services costs. Council has advised that developers are now using their own resources which should result in an increase in Main Roads work for Council and consequently an increase in materials and services costs. It is also noted that material costs are forecast to increase substantially because Council is faced with having to procure materials from a greater distance than in the past, which may impact on profit margins.
- Depreciation represents on average 28.1 per cent per annum of total operating expenses over the forecast period, compared to an historical average of 29.2 per cent.

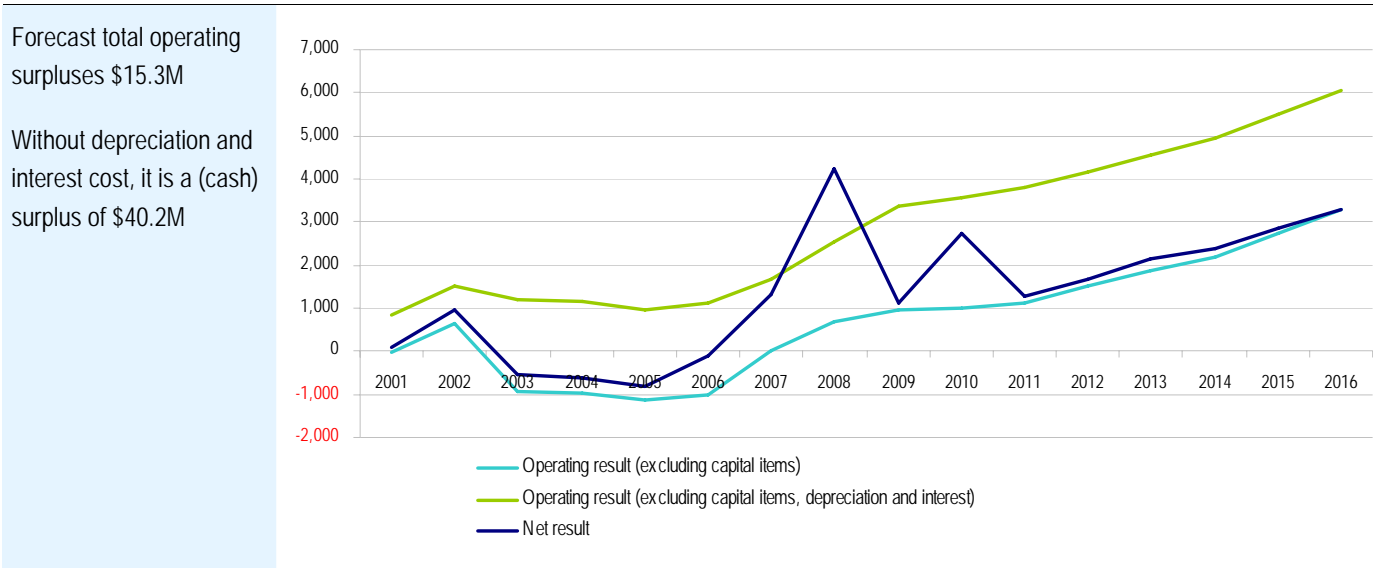
Depreciation as a percentage of property, plant and equipment

- Depreciation as a percentage of property plant and equipment has historically averaged 3.9 per cent which is at the higher end of the industry range. (Over the forecast period this averages 3.3 per cent which, while considered high, is within industry standards.) Council has advised that all assets were revalued as at 30 June 2006 with the largest impact on roads valuations. Average useful life for property, plant and equipment as a result of these revaluations is an average of 31 years.

Results

The following graph illustrates Council's operating result for the historical period (FY2001 to FY2006) and forecast period (FY2007 to FY2016):

Figure 3: Operating and Net Result (\$000)



Historically recording operating deficits

- Historically, Council has not generated sufficient operating revenue to meet all operating expenses with operating deficits in FY2003 (\$0.9 million); FY2004 (\$1.0 million); FY2005 (\$1.1 million); and FY2006 (\$1.0 million). It should be noted that these results were impacted by an increase to depreciation expense in FY2003. Council has forecast the operating position to turn positive in FY2007, following an expected increase in operating revenues and a reduction in operating expenses.

Financial Year Ending 30 June	2001 \$000	2002 \$000	2003 \$000	2004 \$000	2005 \$000	2006 \$000
Net operating surplus/ (loss)	(28)	634	(946)	(985)	(1,142)	(1,007)
As % of total operating revenue	-0.7%	-13.7%	-20.8%	-17.5%	-20.6%	-19.3%

Positive cash flows

- Council recorded net deficits (inclusive of capital grants and subsidies) over the period FY2003 to FY2006. This position is forecast to be in surplus from FY2007.
- Excluding depreciation and interest costs, operating results have been positive over the historical period and are expected to remain positive over the forecast period. This indicates that Council has positive cash flows despite recording operating deficits.

Capacity to meet current borrowing costs and flexibility regarding further use of debt

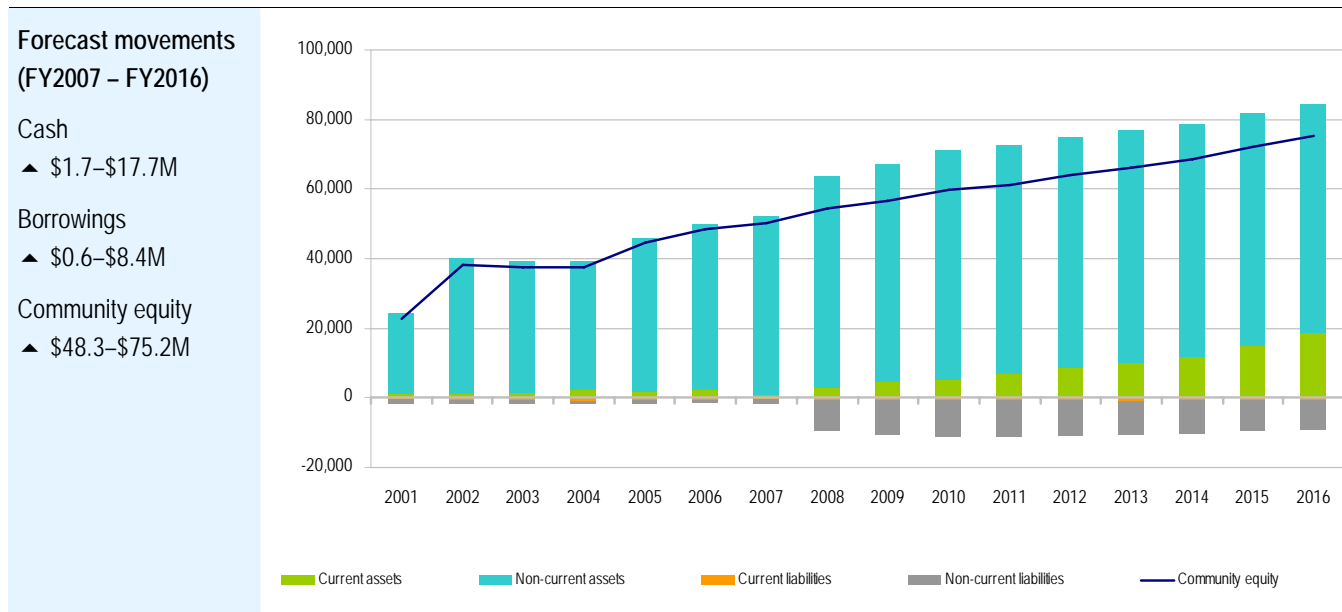
- Forecasts indicate that Council's average interest coverage ratio (operating earnings before interest and depreciation/ interest expense) will drop from a historical average of 17.3 times to 16.7 times as borrowings increase. Nonetheless, this indicates that Council still has some flexibility regarding the future use of debt.

7.2 Balance Sheet

7.2.1 Historical and forecast performance

The following graph summarises Council's historical and forecast financial position for financial years ending 30 June 2001 to 2016:

Figure 4: Historical and forecast data from Statement of Financial Position (\$'000)



Key observations

High forecast cash position

- Council's cash position is forecast to increase significantly over the forecast period (30 June 2006 \$1.7 million and 30 June 2016 \$17.7 million). Although liquidity is expected to be at marginal levels by 30 June 2007. At this time Council's cash holdings to monthly cash operating expenses is expected to be 0.7. This is significantly below the preferred benchmark level of 3 months. (See section 7.3 for further discussion.)

Improving liquidity

- The current ratio (a measure of current assets to current liabilities), which assesses Council's ability to pay its obligations as and when they fall due, is forecast to improve from a historical average of 2.9 times to an average of 12.2 times over the forecast period. This indicates that Council's liquidity will improve over the forecast period.
- The written down value of property plant and equipment at 30 June 2006 was \$46.4 million and is forecast to increase to \$64.3 million in FY2016, due to the significant capital expenditure program to be undertaken. (See section 7.3 for further discussion.)

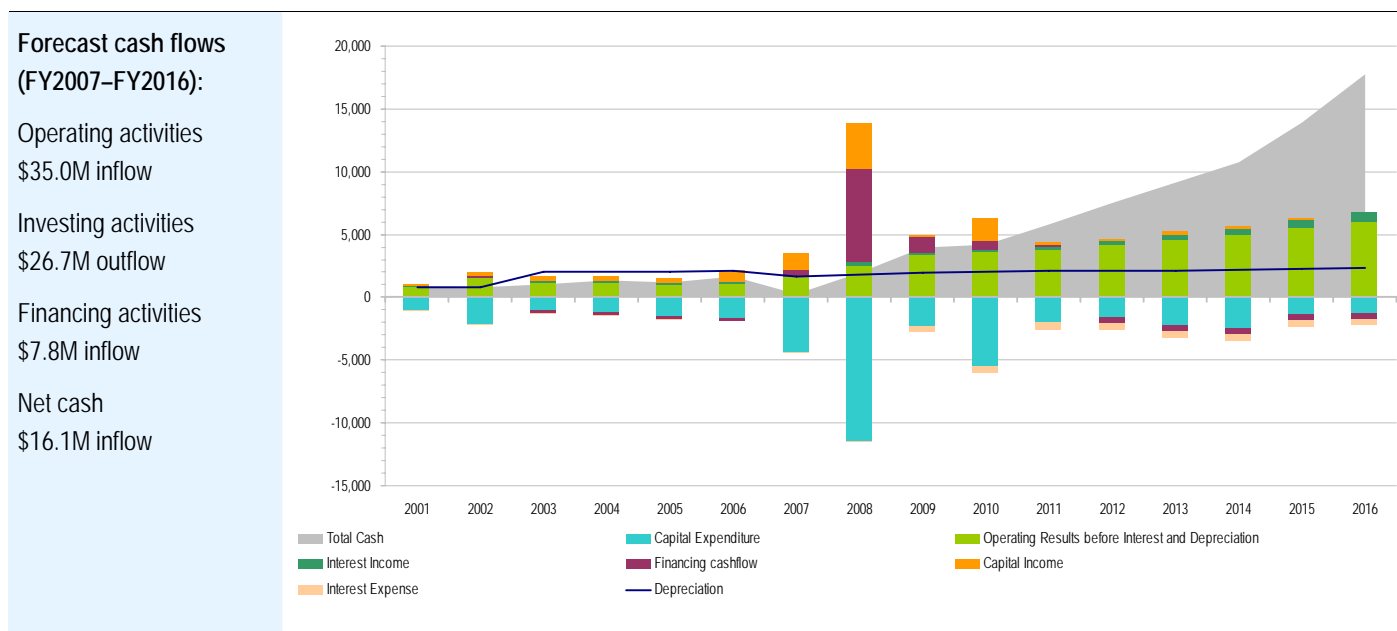
Large capital expenditure forecast funded by \$11m in borrowings

- Council had borrowings of \$0.6 million at 30 June 2006 and has forecast borrowings of \$11.0 million (\$0.5 million in FY2007, \$7.5 million in FY2008, \$1.5 million FY2009, \$1.0 million FY2010 and \$0.5 million in FY2012). (See section 7.3 for more information.)

7.3 Statement of Cash Flows

The following graph illustrates Council’s cash flow for the historical period (FY2001 FY2006) and forecast period (FY2007 to FY2016):

Figure 5: Historical and forecast data incorporating cash flows, depreciation and cash levels (\$000)



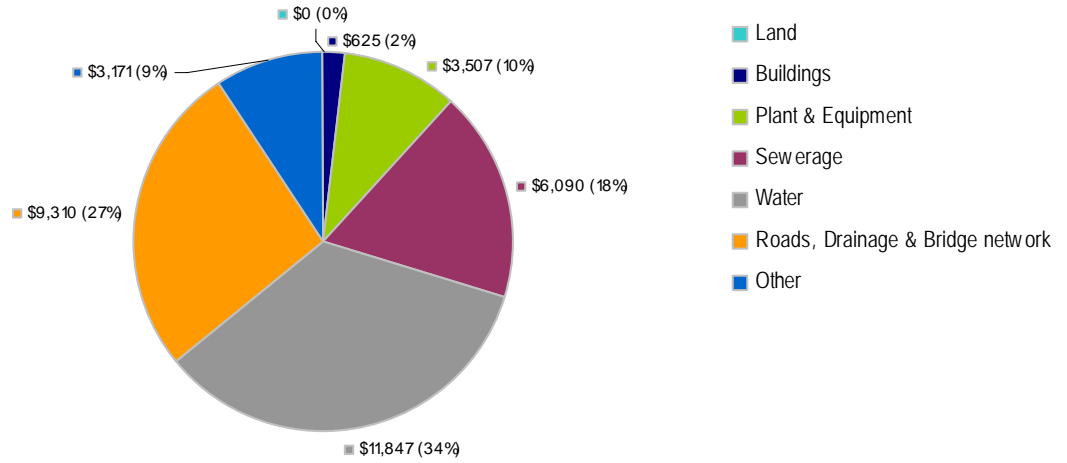
Key observations

Net cash inflow \$16.1M over forecast period

- Council has forecast a total operating surplus of \$15.3 million. Total cash flow from operations is also positive (\$35.0 million) with the difference relating to non-cash items such as depreciation (\$20.6 million).
- Net cash outflows from investing and financing activities total \$18.9 million over the forecast period (\$26.7 million investing outflow and \$7.8 million financing inflow).

- Council’s capital expenditure program is forecast to be \$34.6 million and is summarised in the following graphs:

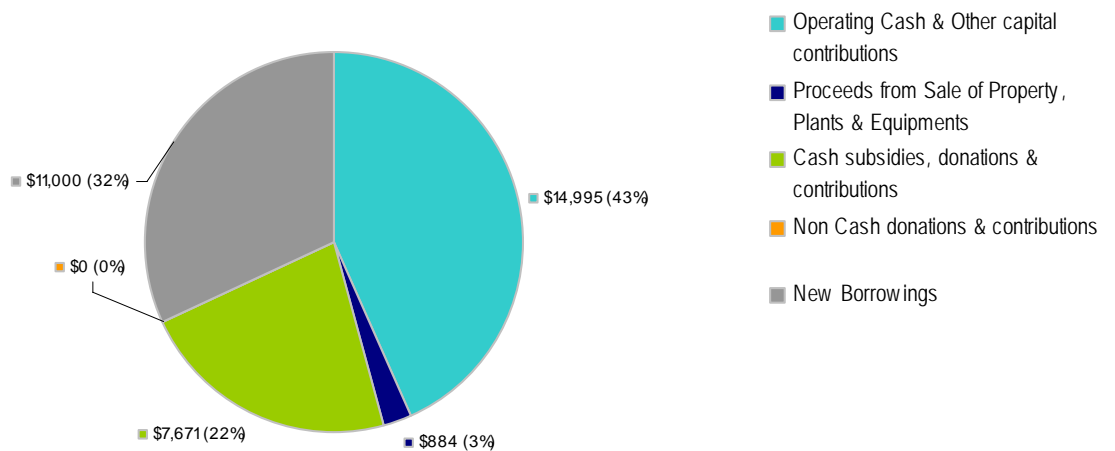
Figure 6: Forecast capital expenditure (\$000)



Significant investment required in infrastructure (i.e. water and sewerage)

- The major projects (representing approximately 47.7 per cent of total capital expenditure) to be undertaken by Council over the forecast period are:
 - KPC water upgrade (\$8.5 million) in FY2008
 - EPA sewerage treatment plant construction/upgrade (\$4.0 million) in FY2010
 - water treatment plant construction/upgrade (\$2.2 million) in FY2013 and FY2014, and
 - swimming pool (\$1.8 million) in FY2007 and FY2008.
- Funding for the capital expenditure program is summarised as follows:

Figure 7: Forecast capital expenditure funding (\$000)



- Council’s capital expenditure is forecast to be funded from borrowings (\$11.0 million), subsidies/grants (\$7.7 million) and cash reserves (\$15.9 million).

43% of total forecast capital expenditure funded by cash from operations

Heavily reliant on capital grants – process needs to be closely monitored

Capacity for additional borrowings

- Council has forecast 43.0 per cent of its capital program to be funded by cash generated from its operations.
- Council relies heavily on external funding, such as capital grants, to purchase and construct new capital expenditure.

Although it is reasonable to assume capital grant funding will be ongoing Council needs to closely monitor its capital grant process and ensure that Council's Asset Management Plans are compliant to ensure it receives its forecast funding.

- Forecast capital expenditure averages 1.8 times of annual depreciation. This indicates that Council continues to invest in its own asset base.
- Council has some capacity for additional borrowing above the amount forecast, if required. It is noted that roads make up 27.0 per cent of the capital program. As roads are usually a non-income producing asset, it is considered appropriate that, where possible, roads are funded from operating cash flows. However borrowing for long lived, income producing assets such as water and sewerage is considered prudent.

8 | SENSITIVITY ANALYSIS

Over-estimating revenues and growth in rateable properties is a potential risk

Council has forecast capital expenditure programs totalling \$34.6 million. These projects carry a number of significant risks which Council will need to manage. In addition Council has forecast significant growth in rates and rateable properties. To appreciate the potential impact should these forecasts not be achieved, we have conducted a basic sensitivity analysis assuming:

Under-estimating capital program is a potential risk

- 5.0 per cent average increase per annum in rates (general, water, sewerage and waste) and the removal of the separate rates from FY2007 to FY2016.
- Increased annual capital expenditure on each asset class over the forecast period, by an annual index of 20.0 per cent. This adds \$6.8 million to existing capital programs of \$34.6 million. (Note: construction costs have been increasing by approximately 18.0 per cent per annum.)
- No adjustments were made regarding the timing, useful life and other capital funding. However where a percentage of capital expenditure is expected to be received in the form of capital subsidies, these percentages still apply to the increased amount.
- No adjustments were made regarding revenue or cost recovery assumptions.
- No adjustments to operating costs, other than the flow through effect of depreciation, associated with higher capital programs.

It should be noted that the following analysis is conducted to test Council's capacity to manage an 'unexpected' financial shock, in this case by increasing capital expenditure. The impact of this event has flowed through to Council's operating results and cash holdings.

We have purposely made no "funding" decisions on behalf of council, as the possible outcomes to address cost increases are too numerous to address in this review.

The following graphs summarise the key impacts of an unexpected increase in capital expenditure:

Figure 8: Net operating result—base case and scenario comparison (\$000)

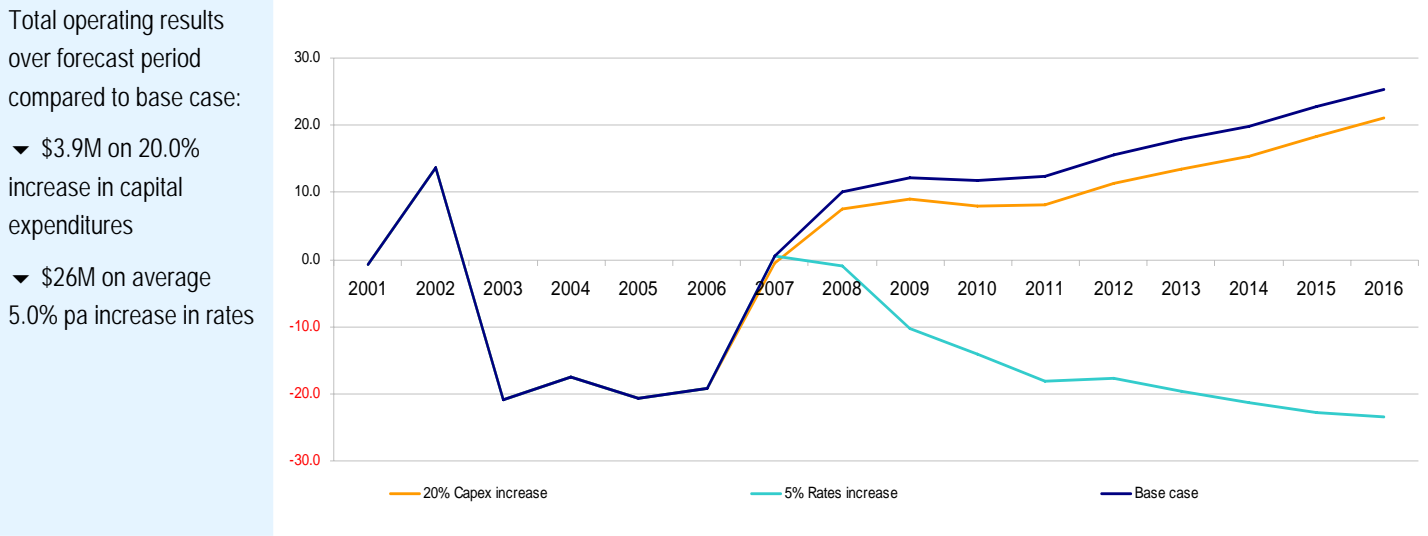
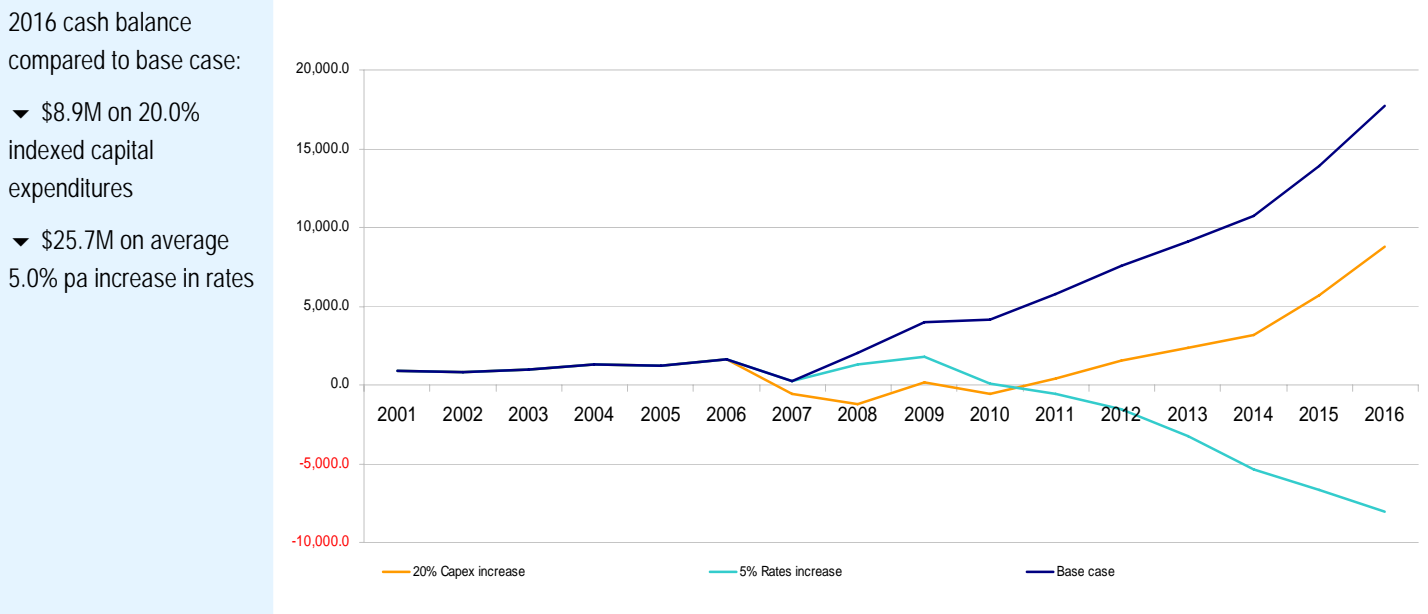


Figure 9: Total cash balance—base case and scenario comparison (\$000)



Key observations

- An increase of 20.0 per cent in capital expenditure would result in Council's operating position deteriorating slightly due to the effect of additional depreciation and a reduction in interest received on cash. Council's total forecast surplus would decrease to \$11.4 million under this scenario from \$15.3 million in the base case. Council would require funding during FY2007 to FY2010 as cash reserves are depleted before increasing to a balance of \$8.8 million by FY2016 while cash holdings would equate to 3.9 months of recurrent operating cash expenditure.
- An average increase of 5.0 per cent per annum in rates would result in a total operating deficit of \$10.7 million and cash reserves being depleted from FY2011 with an overdraft by FY2016 of \$8.0 million.
- As previously noted, Council has a moderate capacity to service further debt if required.

A full table of results of the sensitivity analysis is shown in Appendices D and E *Sensitivity Analysis*.

For further information relating to risks faced generally by local governments, see Appendix F *Generic Financial Risks and Mitigation Strategies for Local Government*.

DISCLAIMER

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APPENDIX A: FINANCIAL SUSTAINABILITY REVIEW RATING AND OUTLOOK DEFINITIONS

Ratings

Very Strong	A local government with a very high capacity to meet its financial commitments in the short-, medium- and long-term. It is highly likely to be able to manage major unforeseen financial shocks and any adverse changes in its business and in general economic conditions without revenue or expense adjustments. Its capacity to manage core business risks is very strong.
Strong	A local government with a high capacity to meet its financial commitments in the short-, medium- and long-term. It is likely to be able to manage major unforeseen financial shocks and any adverse changes in its business and in general economic conditions with only minor revenue or expense adjustments. Its capacity to manage core business risks is strong.
Moderate	A local government with a high capacity to meet its financial commitments in the short- to medium-term and an acceptable capacity in the long-term. It is expected to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions with minor to moderate revenue or expense adjustments. Its capacity to manage core business risks is acceptable.
Weak	A local government with an acceptable capacity to meet its financial commitments in the short- to medium-term and a limited capacity in the long-term. It is unlikely to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions without the need for significant revenue or expense adjustments. It may experience difficulty in managing core business risks.
Very weak	A local government with a limited capacity to meet its financial commitments in the short-term and medium-term and a very limited capacity long-term. It is highly unlikely to be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions without the need for some structural reform and major revenue and expense adjustments. Managing core business risks may test its capacity.
Distressed	A local government with a very limited capacity to meet its short-term financial commitments and no capacity to meet its medium- to long-term financial commitments. To be able to manage unforeseen financial shocks and any adverse changes in its business and in general economic conditions, major revenue and expense adjustments and structural reform will be required to meet its medium- and long-term obligations. It will have difficulty in managing core business risks.

Outlooks

A ratings outlook generally focuses on the potential movement in an entity’s rating in the short-term (ie, less than 2 years) and to a lesser extent, differentiating an entity’s rating within a rating category. Outlooks may be positive, neutral, negative or developing.

Positive	As a result of a foreseeable event or circumstance occurring, there is the potential for enhancement in the local government’s capacity to meet its financial commitments (short and/or long-term) and resultant change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.
Negative	As a result of a foreseeable event or circumstance occurring, there is the potential for deterioration in the local government’s capacity to meet its financial commitments (short and/or long-term) and resultant change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.
Neutral	There are no known foreseeable events that would have a direct impact on the financial sustainability of the local government. It may be possible for a rating upgrade or downgrade to occur from a neutral outlook, if such an event or circumstance warranted as such.
Developing	A current situation exists that could have a direct impact (positive or negative) on the financial sustainability of a local government but the impact of that situation is uncertain.

APPENDIX B: HISTORICAL FINANCIAL SUMMARY - FY2001 TO FY2006

	% Increase / (Decrease) over historical period from 30/06/2001 to 30/06/2006	Average over historical period 30/06/2001 to 30/06/2006	FY2001 \$'000	FY2002 \$'000	FY2003 \$'000	FY2004 \$'000	FY2005 \$'000	FY2006 \$'000
1. Summary of Financial Information								
1.1 Operating Results								
Net rates and utility charges	41.67%	7.21%	1,872	2,036	2,032	2,267	2,496	2,652
Sales - contract and recoverable works	51.26%	8.63%	712	1,021	980	1,832	1,608	1,077
Subsidies, donations and contributions	3.42%	0.67%	965	1,272	1,287	1,132	993	998
Other operating income	89.62%	13.65%	260	298	249	413	441	493
Total operating income	37.04%	6.51%	3,809	4,627	4,548	5,644	5,538	5,220
Total borrowing costs	(58.24)%	(16.03)%	91	88	88	70	55	38
Employee expenses	36.55%	6.43%	2,008	1,888	2,016	2,330	2,361	2,742
Materials and services	(32.98)%	(7.69)%	937	416	786	1,637	1,493	628
Depreciation expense	171.24%	22.09%	772	802	2,042	2,068	2,066	2,094
Other operating expenses	2400.00%	90.37%	29	799	562	524	705	725
Total operating expenses (including borrowing costs)	62.29%	10.17%	3,837	3,993	5,494	6,629	6,680	6,227
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	(3496.43)%	104.73%	(28)	634	(946)	(985)	(1,142)	(1,007)
Net operating cash flow	152.75%	20.38%	836	1,750	1,452	1,496	1,476	2,113
Net cash flow	371.60%	(222.12)%	(162)	(81)	207	328	(114)	440
1.2 Capital Expenditure								
Gross total capital expenditure	70.35%	11.24%	995	2,120	1,061	1,211	1,523	1,695
New borrowings	(100.00)%	(100.00)%	118	350	-	-	-	-
Net unfunded depreciation	3496.43%	104.73%	28	-	946	985	1,142	1,007
1.3 Financial Position								
Total current cash assets (includes unrestricted, restricted & overdraft)	88.34%	13.50%	883	802	1,009	1,337	1,223	1,663
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	N/A	N/A	-	-	-	-	-	-
Current assets	57.20%	9.47%	1,334	1,317	1,651	2,088	1,731	2,097
Non-current assets	106.68%	15.63%	23,077	38,749	37,707	37,356	44,359	47,695
Total assets	103.97%	15.32%	24,411	40,066	39,358	39,444	46,090	49,792
Current interest bearing liabilities (including overdraft)	(38.94)%	(9.39)%	226	245	326	251	167	138
Current liabilities (includes overdraft)	51.52%	8.67%	394	479	630	768	647	597
Non-current interest bearing liabilities	(57.04)%	(15.55)%	1,001	1,109	784	636	481	430
Non-current liabilities	(28.21)%	(6.41)%	1,209	1,342	1,062	979	894	868
Total liabilities	(8.61)%	(1.78)%	1,603	1,821	1,692	1,747	1,541	1,465
Community equity	111.89%	16.20%	22,808	38,245	37,666	37,697	44,549	48,327

	% Increase / (Decrease) over historical period from 30/06/2001 to 30/06/2006	Average over historical period 30/06/2001 to 30/06/2006	FY2001 \$'000	FY2002 \$'000	FY2003 \$'000	FY2004 \$'000	FY2005 \$'000	FY2006 \$'000
2. Profitability and Efficiency								
2.1 Forecasting Integrity								
Change in net rates and utilities charges (%)	41.67%	7.21%		8.76%	(0.20)%	11.56%	10.10%	6.25%
Change in employee expenses (%)	36.55%	6.43%		(5.98)%	6.78%	15.58%	1.33%	16.14%
Change in materials and services (%)	(32.98)%	(7.69)%		(55.60)%	88.94%	108.27%	(8.80)%	(57.94)%
Change in depreciation (%)	171.24%	22.09%		3.89%	154.61%	1.27%	(0.10)%	1.36%
Change in operating revenues(%)	37.04%	6.51%		21.48%	(1.71)%	24.10%	(1.88)%	(5.74)%
Change in operating expenditure (%)	62.29%	10.17%		4.07%	37.59%	20.66%	0.77%	(6.78)%
Change in operating result (excl. capital grants) (%)	(3496.43)%	104.73%		(2364.29)%	(249.21)%	4.12%	15.94%	(11.82)%
Change in cash balances (%)	88.34%	13.50%		(9.17)%	25.81%	32.51%	(8.53)%	35.98%
Interest expense / average debt (%)		6.88%		6.82%	7.14%	7.01%	7.17%	6.25%
Interest revenue / average cash balance (%)		8.50%		5.10%	5.30%	9.97%	11.33%	10.81%
Employee costs / total operating expenses (excl. borrowing costs) (%)		42.45%	53.60%	48.35%	37.29%	35.52%	35.64%	44.30%
Materials and services / total operating expenses (excl. borrowing costs) (%)		17.97%	25.01%	10.65%	14.54%	24.96%	22.54%	10.15%
Depreciation / total operating expenses (excl. borrowing) (%)		29.24%	20.61%	20.54%	37.77%	31.53%	31.18%	33.83%
Gross interest expense / total operating expenses (excl. borrowing) (%)		1.47%	2.43%	2.25%	1.63%	1.07%	0.83%	0.61%
2.2 Fiscal Flexibility Indicators								
Net rates, utilities and charges / operating revenue (%)		45.64%	49.15%	44.00%	44.68%	40.17%	45.07%	50.80%
Subsidies, donations and contributions / operating revenue (%)		23.04%	25.33%	27.49%	28.30%	20.06%	17.93%	19.12%
Sales - contract and recoverable works / operating revenue (%)		24.07%	18.69%	22.07%	21.55%	32.46%	29.04%	20.63%
Operating results before interest and depreciation / interest expense (times) (interest cover)		17.30	9.18	17.32	13.45	16.47	17.80	29.61
(Net operating cash flow + interest expense) / (int expense + PY current int bearing liabilities) (times) (debt service cover)		5.99		5.85	4.62	3.95	5.00	10.49
Restricted cash / total cash assets (%)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Payback years - total debt / operating cash flows (excludes interest revenue)		0.77	1.60	0.79	0.79	0.64	0.49	0.29
Net operating cashflow / total capital expenditure (%)		108.09%	84.02%	82.55%	136.85%	123.53%	96.91%	124.66%
2.3 Equity Maintenance Indicators								
Operating results (\$'000)	(3496.43)%	104.73%	(28)	634	(946)	(985)	(1,142)	(1,007)
Net results (includes capital revenues & expenses and extraordinary items) (\$'000)	(245.88)%	(207.85)%	85	962	(554)	(617)	(803)	(124)
Unfunded depreciation / total depreciation		33.49%	3.63%	0.00%	46.33%	47.63%	55.28%	48.09%
Annual capital expenditure / depreciation (times)		1.10	1.29	2.64	0.52	0.59	0.74	0.81
Operating revenue / operating expense (incl. int & deprn) (%)		91.63%	99.27%	115.88%	82.78%	85.14%	82.90%	83.83%
2.4 Liquidity indicators								
Current assets / current liabilities (current ratio)		2.94	3.39	2.75	2.62	2.72	2.68	3.51

APPENDIX C: FORECAST FINANCIAL SUMMARY - FY2007 TO FY2016

	% Increase / (Decrease) over forecast period 30/06/2006 to 30/06/2016	Average over forecast period 30/06/2006 to 30/06/2016	FY2007 \$'000	FY2008 \$'000	FY2009 \$'000	FY2010 \$'000	FY2011 \$'000	FY2012 \$'000	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
1. Summary of Financial Information												
1.1 Operating Results												
Net rates and utility charges	219.83%	12.33%	2,904	3,833	4,796	5,166	5,640	6,081	6,647	7,175	7,852	8,482
Sales - contract and recoverable works	50.60%	4.18%	1,320	1,386	1,455	1,528	1,543	1,559	1,574	1,590	1,606	1,622
Subsidies, donations and contributions	7.41%	0.72%	989	998	1,025	1,055	1,067	1,081	1,083	1,093	1,072	1,072
Other operating income	255.98%	13.54%	361	580	577	669	762	903	1,064	1,236	1,461	1,755
Total operating income	147.72%	9.50%	5,574	6,797	7,853	8,418	9,012	9,624	10,368	11,094	11,991	12,931
Total borrowing costs	1184.21%	29.08%	31	57	466	535	572	581	559	536	512	488
Employee expenses	44.31%	3.74%	2,320	2,520	2,643	2,842	3,051	3,201	3,428	3,596	3,772	3,957
Materials and services	332.96%	15.78%	1,361	1,497	1,647	1,811	1,938	2,074	2,219	2,374	2,541	2,719
Depreciation expense	10.22%	0.98%	1,616	1,819	1,948	2,054	2,118	2,093	2,147	2,208	2,270	2,308
Other operating expenses	(74.76)%	(12.86)%	220	225	188	192	220	175	159	185	162	183
Total operating expenses (including borrowing costs)	55.05%	4.48%	5,548	6,118	6,892	7,434	7,899	8,124	8,512	8,899	9,257	9,655
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	(425.32)%	N/A	26	679	961	984	1,113	1,500	1,856	2,195	2,734	3,276
Net operating cash flow	162.71%	10.14%	1,205	2,467	2,788	3,000	3,259	3,553	3,922	4,320	4,901	5,551
Net cash flow	763.18%	24.05%	(1,407)	1,737	2,004	182	1,621	1,729	1,579	1,643	3,177	3,798
1.2 Capital Expenditure												
Gross total capital expenditure	(23.89)%	(2.69)%	4,379	11,473	2,287	5,427	1,997	1,620	2,227	2,466	1,384	1,290
New borrowings	N/A	N/A	500	7,500	1,500	1,000	500	-	-	-	-	-
Net unfunded depreciation	(100.00)%	(100.00)%	-	-	-	-	-	-	-	-	-	-
1.3 Financial Position												
Total current cash assets (includes unrestricted, restricted & overdraft)	965.90%	26.70%	256	1,993	3,997	4,179	5,800	7,529	9,108	10,751	13,928	17,726
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	N/A	N/A	-	-	-	-	-	-	-	-	-	-
Current assets	803.20%	24.62%	920	2,773	4,843	5,088	6,715	8,513	10,152	11,833	15,079	18,940
Non-current assets	37.18%	3.21%	51,102	61,031	62,345	65,993	65,824	66,316	66,401	66,799	66,448	65,430
Total assets	69.44%	5.42%	52,022	63,804	67,188	71,081	72,539	74,829	76,553	78,632	81,527	84,370
Current interest bearing liabilities (including overdraft)	218.12%	12.27%	50	260	314	360	394	416	426	445	463	439
Current liabilities (includes overdraft)	21.44%	1.96%	272	526	604	638	695	743	766	731	729	725
Non-current interest bearing liabilities	1752.79%	33.90%	984	8,224	9,410	10,050	10,156	9,740	9,314	8,869	8,406	7,967
Non-current liabilities	869.93%	25.51%	1,452	8,733	9,840	10,517	10,634	10,221	9,761	9,325	8,848	8,419
Total liabilities	524.16%	20.10%	1,724	9,259	10,444	11,155	11,329	10,964	10,527	10,056	9,577	9,144
Community equity	55.66%	4.52%	50,298	54,545	56,744	59,926	61,210	63,865	66,026	68,576	71,950	75,226

	% Increase / (Decrease) over forecast period 30/06/2006 to 30/06/2016	Average over forecast period 30/06/2006 to 30/06/2016	FY2007 \$'000	FY2008 \$'000	FY2009 \$'000	FY2010 \$'000	FY2011 \$'000	FY2012 \$'000	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
2. Profitability and Efficiency												
2.1 Forecasting Integrity												
Change in net rates and utilities charges (%)	219.83%	12.33%	9.50%	31.99%	25.12%	7.71%	9.18%	7.82%	9.31%	7.94%	9.44%	8.02%
Change in employee expenses (%)	44.31%	3.74%	(15.39)%	8.62%	4.88%	7.53%	7.35%	4.92%	7.09%	4.90%	4.89%	4.90%
Change in materials and services (%)	332.96%	15.78%	116.72%	9.99%	10.02%	9.96%	7.01%	7.02%	6.99%	6.99%	7.03%	7.01%
Change in depreciation (%)	10.22%	0.98%	(22.83)%	12.56%	7.09%	5.44%	3.12%	(1.18)%	2.58%	2.84%	2.81%	1.67%
Change in operating revenues(%)	147.72%	9.50%	6.78%	21.94%	15.54%	7.19%	7.06%	6.79%	7.73%	7.00%	8.09%	7.84%
Change in operating expenditure (%)	(74.76)%	4.48%	(10.90)%	10.27%	12.65%	7.86%	6.26%	2.85%	4.78%	4.55%	4.02%	4.30%
Change in operating result (excl. capital grants) (%)	(425.32)%	N/A	(102.58)%	2511.54%	41.53%	2.39%	13.11%	34.77%	23.73%	18.27%	24.56%	19.82%
Change in cash balances (%)	965.90%	26.70%	(84.61)%	678.52%	100.55%	4.55%	38.79%	29.81%	20.97%	18.04%	29.55%	27.27%
Interest expense / average debt (%)		4.91%	3.87%	1.20%	5.12%	5.31%	5.46%	5.61%	5.62%	5.63%	5.63%	5.65%
Interest revenue / average cash balance (%)		6.97%	6.25%	21.25%	6.31%	5.65%	5.29%	5.03%	5.00%	4.99%	4.97%	4.95%
Employee costs / total operating expenses (excl. borrowing costs) (%)		42.24%	42.05%	41.58%	41.13%	41.19%	41.64%	42.44%	43.10%	43.00%	43.13%	43.17%
Materials and services / total operating expenses (excl. borrowing costs) (%)		27.02%	24.67%	24.70%	25.63%	26.25%	26.45%	27.50%	27.90%	28.39%	29.06%	29.66%
Depreciation / total operating expenses (excl. borrowing) (%)		28.06%	29.29%	30.01%	30.31%	29.77%	28.91%	27.75%	27.00%	26.40%	25.96%	25.18%
Gross interest expense / total operating expenses (excl. borrowing) (%)		5.66%	0.56%	0.94%	7.25%	7.75%	7.81%	7.70%	7.03%	6.41%	5.85%	5.32%
2.2 Fiscal Flexibility Indicators												
Net rates, utilities and charges / operating revenue (%)		61.66%	52.10%	56.39%	61.07%	61.37%	62.58%	63.19%	64.11%	64.67%	65.48%	65.59%
Subsidies, donations and contributions / operating revenue (%)		11.86%	17.74%	14.68%	13.05%	12.53%	11.84%	11.23%	10.45%	9.85%	8.94%	8.29%
Sales - contract and recoverable works / operating revenue (%)		16.95%	23.68%	20.39%	18.53%	18.15%	17.12%	16.20%	15.18%	14.33%	13.39%	12.54%
Operating results before interest and depreciation / interest expense (times) (interest cover)		16.71	53.97	44.82	7.24	6.68	6.65	7.18	8.16	9.21	10.77	12.44
(Net operating cash flow + interest expense) / (int expense + PY current int bearing liabilities) (times) (debt service cover)		6.95	7.31	23.59	4.48	4.16	4.11	4.24	4.60	5.05	5.66	6.35
Restricted cash / total cash assets (%)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Payback years - total debt / operating cash flows (excludes interest revenue)		2.79	0.90	3.81	3.74	3.76	3.52	3.16	2.78	2.44	2.07	1.76
Net operating cashflow / total capital expenditure (%)		174.44%	27.52%	21.50%	121.91%	55.28%	163.19%	219.32%	176.11%	175.18%	354.12%	430.31%
2.3 Equity Maintenance Indicators												
Operating results (\$'000)	(425.32)%	N/A	26	679	961	984	1,113	1,500	1,856	2,195	2,734	3,276
Net results (includes capital revenues & expenses and extraordinary items) (\$'000)	(2741.94)%	N/A	1,321	4,247	1,109	2,742	1,284	1,675	2,161	2,395	2,874	3,276
Unfunded depreciation / total depreciation		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Annual capital expenditure / depreciation (times)		1.79	2.71	6.31	1.17	2.64	0.94	0.77	1.04	1.12	0.61	0.56
Operating revenue / operating expense (incl. int & depn) (%)		118.12%	100.47%	111.10%	113.94%	113.24%	114.09%	118.46%	121.80%	124.67%	129.53%	133.93%
2.4 Liquidity indicators												
Current assets / current liabilities (current ratio)		12.20	3.38	5.27	8.02	7.97	9.66	11.46	13.25	16.19	20.68	26.12

APPENDIX D: SENSITIVITY ANALYSIS – 20.0 PER CENT INCREASE IN CAPITAL EXPENDITURE

	% Increase / (Decrease) over forecast period 30/06/2006 to 30/06/2016	Average over forecast period 30/06/2006 to 30/06/2016	FY2007 \$'000	FY2008 \$'000	FY2009 \$'000	FY2010 \$'000	FY2011 \$'000	FY2012 \$'000	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
1. Summary of Financial Information												
1.1 Operating Results												
Net rates and utility charges	219.83%	12.33%	2,904	3,833	4,796	5,166	5,640	6,081	6,647	7,175	7,852	8,482
Sales - contract and recoverable works	50.60%	4.18%	1,320	1,386	1,455	1,528	1,543	1,559	1,574	1,590	1,606	1,622
Subsidies, donations and contributions	7.41%	0.72%	989	998	1,025	1,055	1,067	1,081	1,083	1,093	1,072	1,072
Other operating income	171.20%	10.49%	341	483	406	460	514	625	754	887	1,075	1,337
Total operating income	139.71%	9.14%	5,554	6,700	7,682	8,209	8,764	9,346	10,058	10,745	11,605	12,513
Total borrowing costs	1184.21%	29.08%	31	57	466	535	572	581	559	536	512	488
Employee expenses	44.31%	3.74%	2,320	2,520	2,643	2,842	3,051	3,201	3,428	3,596	3,772	3,957
Materials and services	332.96%	15.78%	1,361	1,497	1,647	1,811	1,938	2,074	2,219	2,374	2,541	2,719
Depreciation expense	20.63%	1.89%	1,650	1,894	2,046	2,176	2,264	2,257	2,329	2,409	2,484	2,526
Other operating expenses	(74.76)%	(12.86)%	220	225	188	192	220	175	159	185	162	183
Total operating expenses (including borrowing costs)	58.55%	4.72%	5,582	6,193	6,990	7,556	8,045	8,288	8,694	9,100	9,471	9,873
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	(362.16)%	N/A	(28)	507	692	653	719	1,058	1,364	1,645	2,134	2,640
Net operating cash flow	142.92%	9.28%	1,185	2,370	2,617	2,791	3,011	3,275	3,612	3,971	4,515	5,133
Net cash flow	609.55%	21.65%	(2,206)	(654)	1,381	(791)	1,009	1,137	834	801	2,523	3,122
1.2 Capital Expenditure												
Gross total capital expenditure	(8.67)%	(0.90)%	5,158	13,767	2,744	6,511	2,396	1,944	2,672	2,959	1,660	1,548
New borrowings	N/A	N/A	500	7,500	1,500	1,000	500	-	-	-	-	-
Net unfunded depreciation	(100.00)%	(100.00)%	28	-	-	-	-	-	-	-	-	-
1.3 Financial Position												
Total current cash assets (includes unrestricted, restricted & overdraft)	430.31%	18.16%	(543)	(1,197)	184	(607)	402	1,539	2,373	3,174	5,697	8,819
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	N/A	N/A	-	-	-	-	-	-	-	-	-	-
Current assets	378.45%	16.95%	664	780	1,030	909	1,317	2,523	3,417	4,256	6,848	10,033
Non-current assets	48.41%	4.03%	51,847	63,995	65,668	70,278	70,362	71,014	71,362	72,052	71,763	70,785
Total assets	62.31%	4.96%	52,511	64,775	66,698	71,187	71,679	73,537	74,779	76,308	78,611	80,818
Current interest bearing liabilities (including overdraft)	218.12%	12.27%	593	1,457	314	967	394	416	426	445	463	439
Current liabilities (includes overdraft)	21.44%	1.96%	815	1,723	604	1,245	695	743	766	731	729	725
Non-current interest bearing liabilities	1752.79%	33.90%	984	8,224	9,410	10,050	10,156	9,740	9,314	8,869	8,406	7,967
Non-current liabilities	869.93%	25.51%	1,452	8,733	9,840	10,517	10,634	10,221	9,761	9,325	8,848	8,419
Total liabilities	524.16%	20.10%	2,267	10,456	10,444	11,762	11,329	10,964	10,527	10,056	9,577	9,144
Community equity	48.31%	4.02%	50,244	54,319	56,254	59,425	60,350	62,573	64,252	66,252	69,034	71,674

	% Increase / (Decrease) over forecast period 30/06/2006 to 30/06/2016	Average over forecast period 30/06/2006 to 30/06/2016	FY2007 \$'000	FY2008 \$'000	FY2009 \$'000	FY2010 \$'000	FY2011 \$'000	FY2012 \$'000	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
2. Profitability and Efficiency												
2.1 Forecasting Integrity												
Change in net rates and utilities charges (%)	219.83%	12.33%	9.50%	31.99%	25.12%	7.71%	9.18%	7.82%	9.31%	7.94%	9.44%	8.02%
Change in employee expenses (%)	44.31%	3.74%	(15.39)%	8.62%	4.88%	7.53%	7.35%	4.92%	7.09%	4.90%	4.89%	4.90%
Change in materials and services (%)	332.96%	15.78%	116.72%	9.99%	10.02%	9.96%	7.01%	7.02%	6.99%	6.99%	7.03%	7.01%
Change in depreciation (%)	20.63%	1.89%	(21.20)%	14.79%	8.03%	6.35%	4.04%	(0.31)%	3.19%	3.43%	3.11%	1.69%
Change in operating revenues(%)	139.71%	9.14%	6.40%	20.63%	14.66%	6.86%	6.76%	6.64%	7.62%	6.83%	8.00%	7.82%
Change in operating expenditure (%)	(74.76)%	4.72%	(10.36)%	10.95%	12.87%	8.10%	6.47%	3.02%	4.90%	4.67%	4.08%	4.24%
Change in operating result (excl. capital grants) (%)	(362.16)%	N/A	(97.22)%	(1910.71)%	36.49%	(5.64)%	10.11%	47.15%	28.92%	20.60%	29.73%	23.71%
Change in cash balances (%)	430.31%	18.16%	(132.65)%	120.44%	(115.37)%	(429.89)%	(166.23)%	282.84%	54.19%	33.75%	79.49%	54.80%
Interest expense / average debt (%)	4.73%	2.89%	2.89%	1.01%	4.80%	5.16%	5.30%	5.61%	5.62%	5.63%	5.63%	5.65%
Interest revenue / average cash balance (%)	(1.20)%	7.14%	(16.32)%	(3.55)%	(10.40)%	(15.61)%	5.87%	5.42%	5.26%	5.12%	5.03%	5.03%
Employee costs / total operating expenses (excl. borrowing costs) (%)	41.46%	41.79%	41.79%	41.07%	40.51%	40.48%	40.83%	41.53%	42.14%	41.99%	42.10%	42.16%
Materials and services / total operating expenses (excl. borrowing costs) (%)	26.51%	24.52%	24.52%	24.40%	25.25%	25.79%	25.93%	26.91%	27.28%	27.72%	28.36%	28.97%
Depreciation / total operating expenses (excl. borrowing) (%)	29.39%	29.72%	29.72%	30.87%	31.36%	30.99%	30.30%	29.29%	28.63%	28.13%	27.73%	26.92%
Gross interest expense / total operating expenses (excl. borrowing) (%)	5.55%	0.56%	0.56%	0.93%	7.14%	7.62%	7.65%	7.54%	6.87%	6.26%	5.71%	5.20%
2.2 Fiscal Flexibility Indicators												
Net rates, utilities and charges / operating revenue (%)	63.26%	52.29%	52.29%	57.21%	62.43%	62.93%	64.35%	65.07%	66.09%	66.78%	67.66%	67.79%
Subsidies, donations and contributions / operating revenue (%)	12.14%	17.81%	17.81%	14.90%	13.34%	12.85%	12.17%	11.57%	10.77%	10.17%	9.24%	8.57%
Sales - contract and recoverable works / operating revenue (%)	17.35%	23.77%	23.77%	20.69%	18.94%	18.61%	17.61%	16.68%	15.65%	14.80%	13.84%	12.96%
Operating results before interest and depreciation / interest expense (times) (Interest cover)	16.03	53.32	53.32	43.12	6.88	6.29	6.22	6.71	7.61	8.56	10.02	11.59
(Net operating cash flow + interest expense) / (int expense + PY current int bearing liabilities) (times) (debt service cover)	4.29	7.20	7.20	3.73	1.60	3.92	2.33	3.95	4.28	4.69	5.25	5.91
Restricted cash / total cash assets (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Payback years - total debt / operating cash flows (excludes interest revenue)	2.92	1.38	1.38	4.35	3.74	3.98	3.52	3.16	2.78	2.44	2.07	1.76
Net operating cashflow / total capital expenditure (%)	134.55%	22.97%	22.97%	17.22%	95.37%	42.87%	125.67%	168.47%	135.18%	134.20%	271.99%	331.59%
2.3 Equity Maintenance Indicators												
Operating results (\$'000)	(362.16)%	N/A	(28)	507	692	653	719	1,058	1,364	1,645	2,134	2,640
Net results (includes capital revenues & expenses and extraordinary items) (\$'000)	(2229.03)%	N/A	1,267	4,075	845	2,731	925	1,243	1,679	1,845	2,282	2,640
Unfunded depreciation / total depreciation	0.17%	1.70%	1.70%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Annual capital expenditure / depreciation (times)	2.03	3.13	3.13	7.27	1.34	2.99	1.06	0.86	1.15	1.23	0.67	0.61
Operating revenue / operating expense (incl. int & depn) (%)	113.10%	99.50%	99.50%	108.19%	109.90%	108.64%	108.94%	112.77%	115.69%	118.08%	122.53%	126.74%
2.4 Liquidity indicators												
Current assets / current liabilities (current ratio)	4.25	0.81	0.81	0.45	1.71	0.73	1.89	3.40	4.46	5.82	9.39	13.84

APPENDIX E: SENSITIVITY ANALYSIS – 5.0 PER CENT INCREASE IN RATES GROWTH

	% Increase / (Decrease) over forecast period 30/06/2006 to 30/06/2016	Average over forecast period 30/06/2006 to 30/06/2016	FY2007 \$'000	FY2008 \$'000	FY2009 \$'000	FY2010 \$'000	FY2011 \$'000	FY2012 \$'000	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
1. Summary of Financial Information												
1.1 Operating Results												
Net rates and utility charges	68.25%	5.34%	2,904	3,114	3,259	3,412	3,570	3,736	3,908	4,086	4,270	4,462
Sales - contract and recoverable works	50.60%	4.18%	1,320	1,386	1,455	1,528	1,543	1,559	1,574	1,590	1,606	1,622
Subsidies, donations and contributions	7.41%	0.72%	989	998	1,025	1,055	1,067	1,081	1,083	1,093	1,072	1,072
Other operating income	97.16%	7.02%	361	564	506	515	506	568	648	741	848	972
Total operating income	55.71%	4.53%	5,574	6,062	6,245	6,510	6,686	6,944	7,213	7,510	7,796	8,128
Total borrowing costs	2184.21%	36.73%	31	57	466	535	572	629	677	755	822	868
Employee expenses	44.31%	3.74%	2,320	2,520	2,643	2,842	3,051	3,201	3,428	3,596	3,772	3,957
Materials and services	332.96%	15.78%	1,361	1,497	1,647	1,811	1,938	2,074	2,219	2,374	2,541	2,719
Depreciation expense	10.22%	0.98%	1,616	1,819	1,948	2,054	2,118	2,093	2,147	2,208	2,270	2,308
Other operating expenses	(74.76)%	(12.86)%	220	225	188	192	220	175	159	185	162	183
Total operating expenses (including borrowing costs)	61.15%	4.89%	5,548	6,118	6,892	7,434	7,899	8,172	8,630	9,118	9,567	10,035
Operating result (after interest but excluding capital revenues & expenses and extraordinary items)	89.37%	6.59%	26	(56)	(647)	(924)	(1,213)	(1,228)	(1,417)	(1,608)	(1,771)	(1,907)
Net operating cash flow	(80.88)%	(15.25)%	1,205	1,791	1,247	1,110	959	847	682	546	436	404
Net cash flow	(406.59)%	N/A	(1,407)	1,061	463	(1,708)	(679)	(977)	(1,661)	(2,131)	(1,288)	(1,349)
1.2 Capital Expenditure												
Gross total capital expenditure	(23.89)%	(2.69)%	4,379	11,473	2,287	5,427	1,997	1,620	2,227	2,466	1,384	1,290
New borrowings	N/A	N/A	500	7,500	1,500	1,000	500	-	-	-	-	-
Net unfunded depreciation	89.37%	6.59%	-	56	647	924	1,213	1,228	1,417	1,608	1,771	1,907
1.3 Financial Position												
Total current cash assets (includes unrestricted, restricted & overdraft)	(581.84)%	N/A	256	1,317	1,780	72	(607)	(1,584)	(3,245)	(5,376)	(6,664)	(8,013)
Restricted cash (eg. unspent loan monies, grants & subsidies, developer contributions)	N/A	N/A	-	-	-	-	-	-	-	-	-	-
Current assets	(57.84)%	(8.28)%	920	2,038	2,500	837	745	792	819	828	857	884
Non-current assets	37.18%	3.21%	51,102	61,031	62,345	65,993	65,824	66,316	66,401	66,799	66,448	65,430
Total assets	33.18%	2.91%	52,022	63,069	64,845	66,830	66,569	67,108	67,220	67,627	67,305	66,314
Current interest bearing liabilities (including overdraft)	6024.64%	50.91%	50	260	314	360	1,001	2,000	3,671	5,821	7,127	8,452
Current liabilities (includes overdraft)	1363.65%	30.78%	272	526	604	638	1,302	2,327	4,011	6,107	7,393	8,738
Non-current interest bearing liabilities	1752.79%	33.90%	984	8,224	9,410	10,050	10,156	9,740	9,314	8,869	8,406	7,967
Non-current liabilities	869.93%	25.51%	1,452	8,733	9,840	10,517	10,634	10,221	9,761	9,325	8,848	8,419
Total liabilities	1071.13%	27.90%	1,724	9,259	10,444	11,155	11,936	12,548	13,772	15,432	16,241	17,157
Community equity	1.72%	0.17%	50,298	53,810	54,401	55,675	54,633	54,560	53,448	52,195	51,064	49,157

	% Increase / (Decrease) over forecast period 30/06/2006 to 30/06/2016	Average over forecast period 30/06/2006 to 30/06/2016	FY2007 \$'000	FY2008 \$'000	FY2009 \$'000	FY2010 \$'000	FY2011 \$'000	FY2012 \$'000	FY2013 \$'000	FY2014 \$'000	FY2015 \$'000	FY2016 \$'000
2. Profitability and Efficiency												
2.1 Forecasting Integrity												
Change in net rates and utilities charges (%)	68.25%	5.34%	9.50%	7.23%	4.66%	4.69%	4.63%	4.65%	4.60%	4.55%	4.50%	4.50%
Change in employee expenses (%)	44.31%	3.74%	(15.39)%	8.62%	4.88%	7.53%	7.35%	4.92%	7.09%	4.90%	4.89%	4.90%
Change in materials and services (%)	332.96%	15.78%	116.72%	9.99%	10.02%	9.96%	7.01%	7.02%	6.99%	6.99%	7.03%	7.01%
Change in depreciation (%)	10.22%	0.98%	(22.83)%	12.56%	7.09%	5.44%	3.12%	(1.18)%	2.58%	2.84%	2.81%	1.67%
Change in operating revenues(%)	55.71%	4.53%	6.78%	8.75%	3.02%	4.24%	2.70%	3.86%	3.87%	4.12%	3.81%	4.26%
Change in operating expenditure (%)	(74.76)%	4.89%	(10.90)%	10.27%	12.65%	7.86%	6.26%	3.46%	5.60%	5.65%	4.92%	4.89%
Change in operating result (excl. capital grants) (%)	89.37%	6.59%	(102.58)%	(315.38)%	1055.36%	42.81%	31.28%	1.24%	15.39%	13.48%	10.14%	7.68%
Change in cash balances (%)	(581.84)%	N/A	(84.61)%	414.45%	35.16%	(95.96)%	(943.06)%	160.96%	104.86%	65.67%	23.96%	20.24%
Interest expense / average debt (%)		4.81%	3.87%	1.20%	5.12%	5.31%	5.30%	5.49%	5.48%	5.46%	5.44%	5.43%
Interest revenue / average cash balance (%)		4.76%	6.25%	28.35%	7.62%	8.32%	(2.99)%	0.00%	0.00%	0.00%	0.00%	0.00%
Employee costs / total operating expenses (excl. borrowing costs) (%)		42.24%	42.05%	41.58%	41.13%	41.19%	41.64%	42.44%	43.10%	43.00%	43.13%	43.17%
Materials and services / total operating expenses (excl. borrowing costs) (%)		27.02%	24.67%	24.70%	25.63%	26.25%	26.45%	27.50%	27.90%	28.39%	29.06%	29.66%
Depreciation / total operating expenses (excl. borrowing) (%)		28.06%	29.29%	30.01%	30.31%	29.77%	28.91%	27.75%	27.00%	26.40%	25.96%	25.18%
Gross interest expense / total operating expenses (excl. borrowing) (%)		6.91%	0.56%	0.94%	7.25%	7.75%	7.81%	8.34%	8.51%	9.03%	9.40%	9.47%
2.2 Fiscal Flexibility Indicators												
Net rates, utilities and charges / operating revenue (%)		53.35%	52.10%	51.37%	52.19%	52.41%	53.40%	53.80%	54.18%	54.41%	54.77%	54.90%
Subsidies, donations and contributions / operating revenue (%)		15.49%	17.74%	16.46%	16.41%	16.21%	15.96%	15.57%	15.01%	14.55%	13.75%	13.19%
Sales - contract and recoverable works / operating revenue (%)		22.24%	23.68%	22.86%	23.30%	23.47%	23.08%	22.45%	21.82%	21.17%	20.60%	19.96%
Operating results before interest and depreciation / interest expense (times) (interest cover)		10.47	53.97	31.93	3.79	3.11	2.58	2.38	2.08	1.79	1.61	1.46
(Net operating cash flow + interest expense) / (int expense + PY current int bearing liabilities) (times) (debt service cover)		3.26	7.31	17.27	2.36	1.94	1.64	0.91	0.51	0.29	0.19	0.16
Restricted cash / total cash assets (%)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Payback years - total debt / operating cash flows (excludes interest revenue)		17.28	0.90	5.41	8.61	10.08	11.73	13.86	19.04	26.90	35.63	40.64
Net operating cashflow / total capital expenditure (%)		33.40%	27.52%	15.61%	54.53%	20.45%	48.02%	52.28%	30.62%	22.14%	31.50%	31.32%
2.3 Equity Maintenance Indicators												
Operating results (\$'000)	89.37%	6.59%	26	(56)	(647)	(924)	(1,213)	(1,228)	(1,417)	(1,608)	(1,771)	(1,907)
Net results (includes capital revenues & expenses and extraordinary items) (\$'000)	1437.90%	31.43%	1,321	3,512	(499)	834	(1,042)	(1,053)	(1,112)	(1,408)	(1,631)	(1,907)
Unfunded depreciation / total depreciation		49.67%	0.00%	3.08%	33.21%	44.99%	57.27%	58.67%	66.00%	72.83%	78.02%	82.63%
Annual capital expenditure / depreciation (times)		1.79	2.71	6.31	1.17	2.64	0.94	0.77	1.04	1.12	0.61	0.56
Operating revenue / operating expense (incl. int & depn) (%)		87.58%	100.47%	99.08%	90.61%	87.57%	84.64%	84.97%	83.58%	82.36%	81.49%	81.00%
2.4 Liquidity indicators												
Current assets / current liabilities (current ratio)		1.42	3.38	3.87	4.14	1.31	0.57	0.34	0.20	0.14	0.12	0.10

APPENDIX F: GENERIC FINANCIAL RISKS AND MITIGATION STRATEGIES FOR LOCAL GOVERNMENT

The following table summarises the key risks facing all Council's and some suggested actions to mitigate those risks.

Risk	Cause	Effect	Mitigation
1. Operating revenues are not sufficient to support Council's operations, including the funding mix for capital expenditure	Poor financial forecasting or forecast model Whole of life costs for major projects not recognised in forecasts Inappropriate rate increases applied Population does not grow at forecast levels Failure to ensure that rate adjustments keep pace with increases in Council's cost of goods/services Expense overruns Poor control over expenses Poor budget process Significant rate arrears Rapid growth in town requires additional expenditure Increase in services and service levels provided to community without understanding financial impact Depreciation expense not fully funded Poor budgeting processes FAGS do not grow in real terms Inadequate budget monitoring process Own source revenue percentage not maintained	Difficulty or inability to implement Council's objectives Run down of cash holdings Operating Deficit recorded Reputation damage Financial loss / impact on Council budget and ratepayers Possible Ratepayer and community dissatisfaction Potential to default on loans Potential inability to pay suppliers Unfunded depreciation increases Council projects, programs / maintenance may be scaled back, deferred or cancelled Council will need to consider revenue/expenditure adjustments	Ensure Council has a rigorous budget process and budget review process Monitor and gather relevant information on costs Ensure adequate controls exist in terms of approving expenditure Ensure that depreciation is appropriate Maintain a 10 year forecast model Whole of life project costs analysis to be undertaken and incorporated into 10 year forecast model Review operating and service levels for all programs Monitor costs to budget Review revenue and depreciation policy Benchmark and review against similar Councils Establish appropriate management and budget monitoring reports Review and understand Council's costs drivers
2. Operating expenses over budget and are in excess of requirements for a Council of this type	Poor financial forecasting or forecasting model Whole of life cost analysis not undertaken for substantial projects, not fed into budget process Materials and services expenses increase over budget forecasts	Financial loss / impact on budget Difficulty or inability to implement Council's objectives Run down of cash holdings Operating Deficit recorded Reputational damage	Ensure Council has a rigorous budget process and budget review process Monitor and gather relevant information on costs Adequate controls exist in terms of approving expenditure Ensure that depreciation is appropriate

Risk	Cause	Effect	Mitigation
	Over servicing of functions, ie., roads, administration etc	Financial impact on Council budget and ratepayers	Maintain a 10 year forecast model
	Failure to manage expenses efficiently	Possible Ratepayer and community dissatisfaction	Whole of life project costs analysis to be undertaken and incorporated into 10 year forecast model
	Insufficient reporting mechanisms	Potential to default on loans	Review operating and service levels for all programs
	Poor monitoring and review of budget	Potential inability to pay suppliers	Monitor costs to budget
	Poor financial controls	Unfunded depreciation increases	Review revenue policy
	Poor budgeting processes	Council projects, programs / maintenance may be scaled back, deferred or cancelled	Benchmark and review against similar Councils
	Unique operating conditions impact on cost of service	Council will need to consider revenue/expenditure adjustments	Establish appropriate management and budget monitoring reports Review and understand Council's costs drivers
3.	Insufficient working capital to manage the business appropriately	Financial loss	Implement sound cash flow forecasting, short and longer term
	Major cost overruns on projects etc	Difficulty in managing cash flow cycle	Maintain and regularly review Ten year forecast model
	Poor financial controls	Reputational damage	Monitor actual cost to budget
	Large unforeseen expenditure arises	Financial impact on Council budget and ratepayers	Actively manage rates arrears
	Forecast revenues not received	Possible ratepayer and community dissatisfaction	Review Revenue policy
	Gradual run down in cash holdings over time	Possible default on loans	Review services and service levels provided
	Rate arrears not managed	May need to secure short term funding	Review cash management processes
	Inappropriate revenue policy	Possible inability to pay suppliers	
	Expense overruns	Possibility that capital works programs may be cancelled or delayed and/or maintenance programs may be cut or scaled back	
	Inappropriate funding mix used to finance business		
	Whole of life costs for major projects not recognised in forecasts		
	Increase in services and service levels provided to community without understanding financial impact		
	Poor budgeting process		

Risk	Cause	Effect	Mitigation
4. Capital expenditure costs are in excess of forecasts	Poor control over projects	Financial loss	Monitor the construction market for likely escalation in costs
	Costs escalate from that forecast	Budget over runs	Develop business cases and financial forecasts for major projects
	Significant scope change after contracts signed	Reputational damage	Implement Sound project management and governance processes
	Poor capital expenditure forecasting	Financial impact on Council budget and ratepayers	Ensure any significant changes to scope are approved before commencing
	Poor financial controls	Possible default on loans	Undertake whole of life project analysis and feed into budget process
	Major / unforeseen expenditure arises	Possible inability to pay suppliers	Review financial controls and monitor budget
	Failure to monitor industry costs	Possibility that capital works programs may be cancelled or delayed and/or maintenance programs may be cut or scaled back	
		May require additional funding to support business	
		Possible ratepayer and community dissatisfaction	