

## FINANCIAL SUSTAINABILITY RATIOS

KEY INDICATORS	FORECAST	Queensland Treasury Corporation (QTC)	BUDGET				
	2008/09	Suggested Targets*	2009/10	2010/11	2011/12	2012/13	2013/14
<b>1 Operating Result</b> Surplus/(Deficit) of operating revenue and operating expenses			000's (\$15,091)	000's (\$1,989)	000's \$2,764	000's \$1,862	000's \$6,703
<b>2 Operating position</b>  Operating margin		-4% or above	-3.7%	-0.6%	0.8%	0.5%	1.7%
<b>3 Current Ratio</b> Ratio of Current Assets to Current Liabilities	9.8	3.0 or above	4.3	4.5	3.9	3.4	3.1
<b>4 Debt to Equity Ratio</b> Percentage of Debt to Equity	7.0%		10.3%	5.7%	6.9%	8.0%	9.2%
<b>Interest Cover</b> <b>5 (EBITDA)**</b>  Operating result (excluding capital items, interest and depreciation) divided by interest cost	10.8	6.0 or above	5.4	7.4	5.4	4.7	4.5
<b>6 Debt Service Cover</b>  Capacity to meet debt obligations		between 2.0 to 4.0	2.3	3.5	2.4	2.0	1.9
<b>7 Debt per Capita</b> Amount of debt per capita in the region.	\$742		\$1,070	\$588	\$706	\$811	\$924
<b>8 Rating Capacity</b> Ratio of Rates and Utility Charges to Operating Revenue			77.7%	62.2%	62.1%	62.8%	63.2%
<b>9 Fiscal Flexibility</b>  Self generated operating revenue contribution		60% or above	91%	93%	95%	95%	96%

## **Queensland Treasury Corporation (QTC) Financial Sustainability Indicators**

While there is no one indicator to determine financial sustainability in local government, analysis of a range of quantitative indicators, together with consideration of trends, industry benchmarks and economic factors influencing each local government will assist in providing a sound picture of the financial sustainability of a local government. Qualitative factors such as management's ability to manage core business risks, demographics of the region and the local government's capacity to manage financial shocks are also considered in the rating process.

The table below shows the key quantitative indicators used by Queensland Treasury Corporation (QTC) when reviewing financial sustainability in local government.

TABLE 1: KEY QUANTITATIVE INDICATORS\*

INDICATORS	QUANTITATIVE MEASURE	DEFINITION	QTC MINIMUM INDICATIVE MEASURE	Ratio for MBRC 2009/10
Operating position	Operating margin	Net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items)	>4%	-3.7%
Fiscal flexibility	Self generated operating revenue contribution	Capacity of the local government to significantly influence its own revenue outcomes. It is defined as: Operating income (excluding subsidies, donations and contributions) as a percentage of operating expenses including interest and depreciation	>60%	91%
	Interest cover – EBITDA**	Operating result (excluding capital items, interest and depreciation) divided by interest cost	>6.0 times	5.4
	Current ratio	Current assets divided by current liabilities	>3.0 times	4.3
	Debt service cover ratio	Measures a local government's capacity to meet debt service obligations (both principal and interest). It is defined as: net operating cash flow + interest expense / (interest expense + PY current interest bearing liabilities)	2.0 – 4.0 times	2.3

\* The key quantitative indicators used above were sourced from the QTC Financial Sustainability in Queensland Local Government report published in October 2008.

\*\* Earnings before interest, taxation, depreciation and amortisation (EBITDA).