Measures of Financial Sustainability

Background

The Local Government (Finance, Plans and Reporting) Regulation 2009 requires Local Governments to disclose in their annual budget certain measures of financial sustainability. The six financial sustainability measures cover the period of the annual adopted budget plus the next nine financial years (ten years in total).

The measures are designed to demonstrate that the budget and the forecasted indicative budget years are prepared in a prudent financial manner with the intent of ensuring the Council's long term financial sustainability and viability.

The measures are presented in the table below and in a graphical format over the next few pages.

Information to Note

In the table and the graphs two sets of data have been prepared for the 'Net Financial Liabilities Ratio' and the 'Interest Coverage Ratio'. This has been done because calculating these two ratios based on the financial information presented in this budget causes distortion in the measures and this is entirely due to the water distribution and retail reform that is applicable from 1 July 2010.

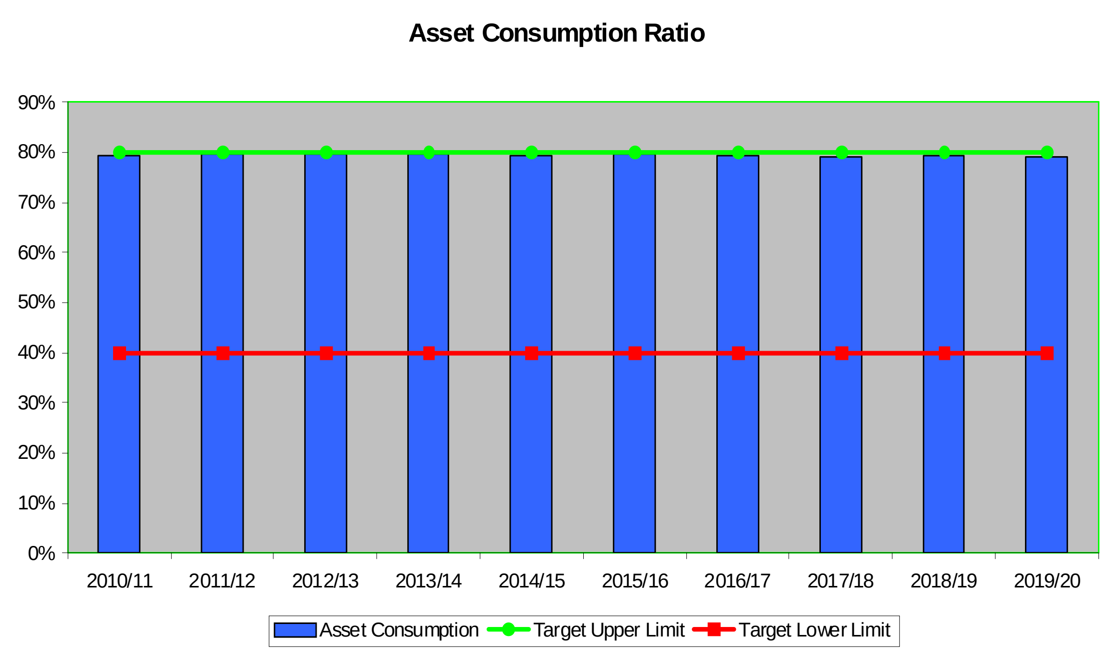
From 1 July 2010 Council will no longer be responsible for the water and sewerage services provided to the region. These services will be the responsibility of Unitywater. Council will have a part ownership of Unitywater and be entitled to equity returns (shareholder dividends) and interest income (Council will hold debt in Unitywater) from Unitywater. Its the very impact of debt and interest income which causes the distortion in these two measures.

Therefore the two measures have been prepared including or excluding certain data relating to debt and interest income of Council and this is noted under the below table.

Additionally on the graphical pages following there is more detailed information outlining how the measures are calculated, what the measures are demonstrating and whether Council is achieving the desired targets. The desired targets have been set by the Queensland Department of Infrastructure and Planning and are outlined in the "Financial management (sustainability) guideline 2009" document which is available from the Department's website.

	------------------------- B U D G E T					Y E A R S -------------------------				
Sustainability Indicator	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Asset Consumption Ratio	**79.3%**	79.5%	79.6%	79.6%	79.4%	79.5%	79.3%	79.1%	79.2%	78.9%
Asset Sustainability Ratio	**79.2%**	72.6%	75.9%	74.8%	75.8%	78.9%	81.1%	84.6%	88.2%	91.8%
Interest Coverage Ratio [1]	**-13%**	-11%	-9%	-8%	-6%	-4%	-3%	-2%	-1%	-1%
Interest Coverage Ratio [2]	**3%**	4%	5%	6%	6%	6%	6%	7%	7%	8%
Net Financial Liabilities [3]	**72%**	81%	90%	94%	100%	104%	109%	113%	118%	122%
Net Financial Liabilities [4]	**-23%**	-7%	5%	12%	22%	27%	32%	36%	39%	41%
Operating Surplus Ratio	**-2%**	2%	3%	3%	2%	2%	3%	4%	4%	4%
Working Capital Ratio	**4.21**	4.26	4.06	4.14	4.26	4.28	4.25	4.22	4.21	4.21

1 Includes Interest Income earned on Senior and Subordinated Debt held in Unity Water
2 Excludes Interest Income earned on Senior and Subordinated Debt held in Unity Water
3 Includes water borrowings restructured to interest only and held by Council
4 Excludes water borrowings restructured to interest only and held by Council.



INDICATOR
Asset consumption ratio

DESCRIPTION
Demonstrates the aged condition of Councils physical stock of assets by looking at the written down current value of assets relative to their as new value

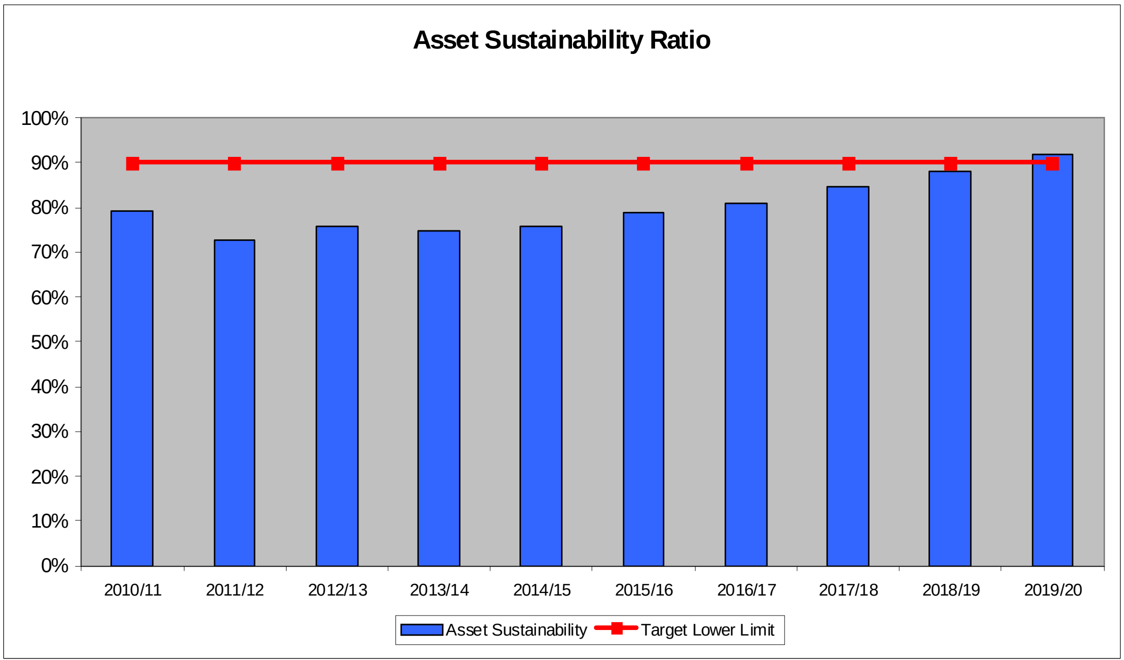
MEASURE
Numerator - Assets written down value
Denominator - Gross Current Replacement Cost

TARGET
Between 40% and 80%

OUTCOME
Achieved

COMMENTARY

Throughout the ten year forecast period the Councils ratio remains within the target range of 40% to 80%. A ratio above 80% indicates that assets are being replaced earlier than required, whilst a ratio below 40% indicates assets are run down and not being replaced within an acceptable time period. The ratio indicates Council is replacing its assets on average at the earliest possible time it should be.



INDICATOR
Asset sustainability ratio

DESCRIPTION
Demonstrates whether Council is renewing infrastructure assets at the same rate that it is wearing out its overall stock of assets

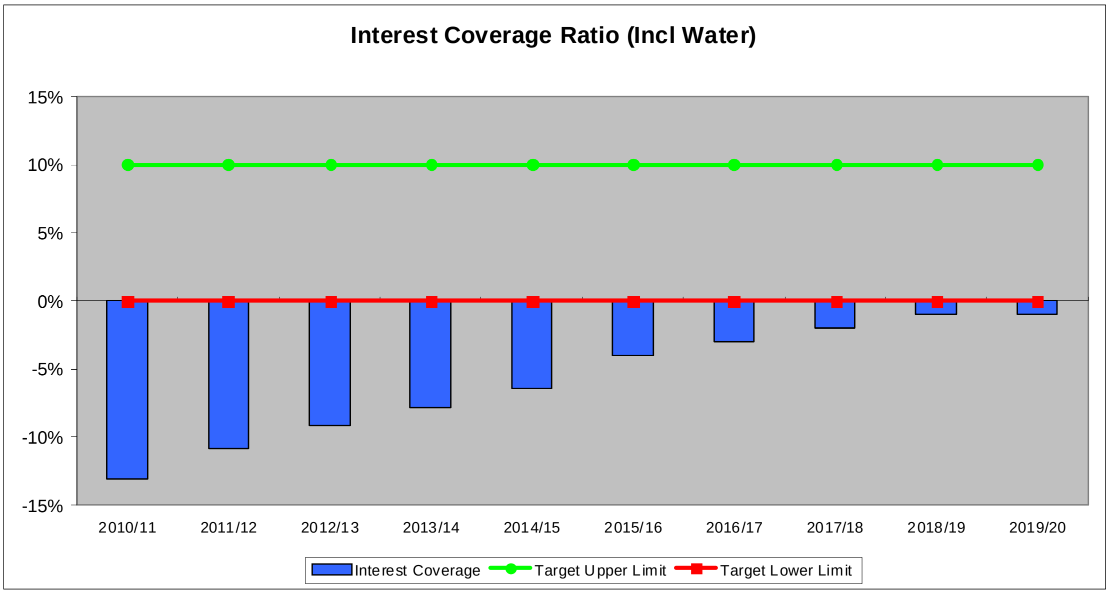
MEASURE
Numerator - Capital expenditure on replacement assets
Denominator - Depreciation Expense

TARGET
Greater than 90%

OUTCOME
Not achieved until 2019/20

COMMENTARY
Capital expenditure can broadly be classified as New (building something entirely new) or renewal (replacing an old asset with a new one). This ratio measures how much capital expenditure goes toward replacing existing assets each year when divided by depreciation expense. As the ten year forecast indicates Council's ratio steadily increases and culminates in reaching the required target by 2019/20.

Measures of Financial Sustainability



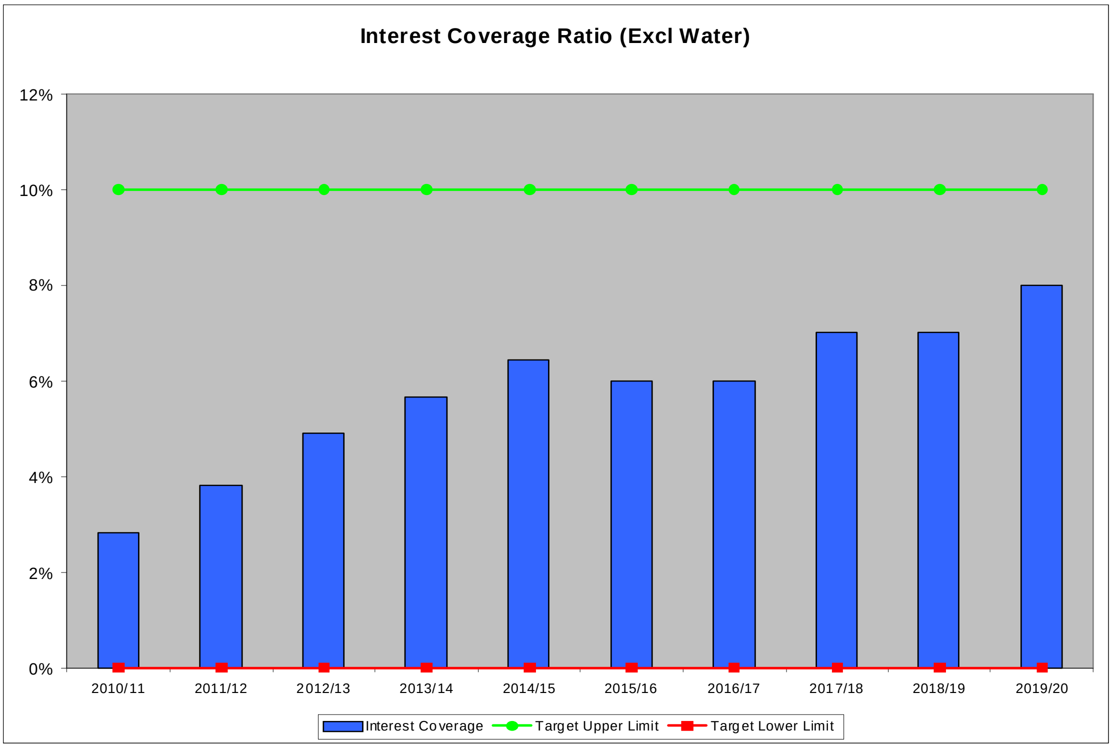
INDICATOR
Interest coverage ratio

DESCRIPTION
Demonstrates the extent to which operating revenues are being used to meet the financing charges associated with debt servicing obligations

MEASURE
Numerator - Net Interest Expense
Denominator - Operating Revenue

TARGET
Between 0% and 10%

COMMENTARY
This ratio as calculated indicates a fantastic result for Council however this ratio is somewhat distorted. The distortion surrounds forecasted interest income versus interest expense. In a normal operating environment Council would generally incur more interest expense than interest income and hence the ratio would sit within the range of 0% to 10%. This ratio however indicates Council will receive more interest income than incur interest expense and indicates a negative percentage. This occurs because Council will be receiving additional interest income from the investment it will hold in the new water retail and distribution business (Unitywater) from 1 July 2010. This income is reflective of the shareholder loans Council holds in Unitywater.



INDICATOR
Interest coverage ratio

DESCRIPTION
Demonstrates the extent to which operating revenues are being used to meet the financing charges associated with debt servicing obligations

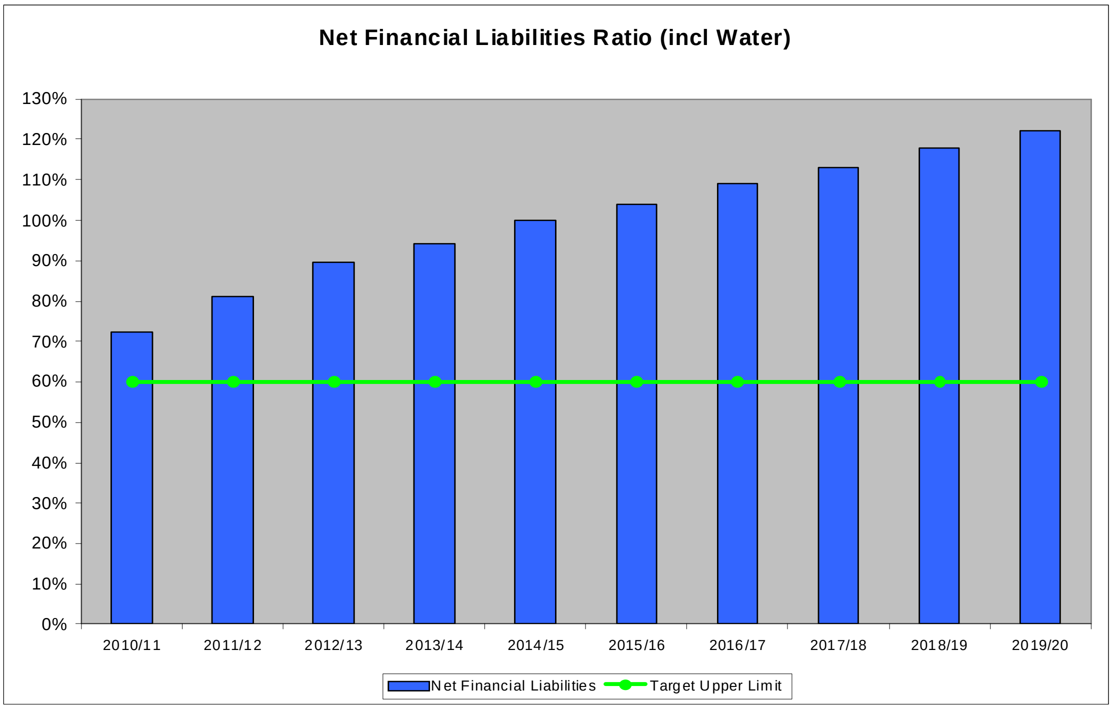
MEASURE
Numerator - Net Interest Expense
Denominator - Operating Revenue

TARGET
Between 0% and 10%

OUTCOME
Achieved

COMMENTARY
This graph is the interest coverage ratio adjusted to reflect the removal of the interest income derived by Council from the shareholder loans held in Unitywater. This graph is reflective of a 'normal' operating environment of Council where interest expense is greater than interest income. It can be seen from this adjusted graph that the ratios sit comfortably between the 0% and 10% target range and indicates that the percentage of operating revenues covering financing charges associated with debt obligations is a relatively small percentage.

Measures of Financial Sustainability



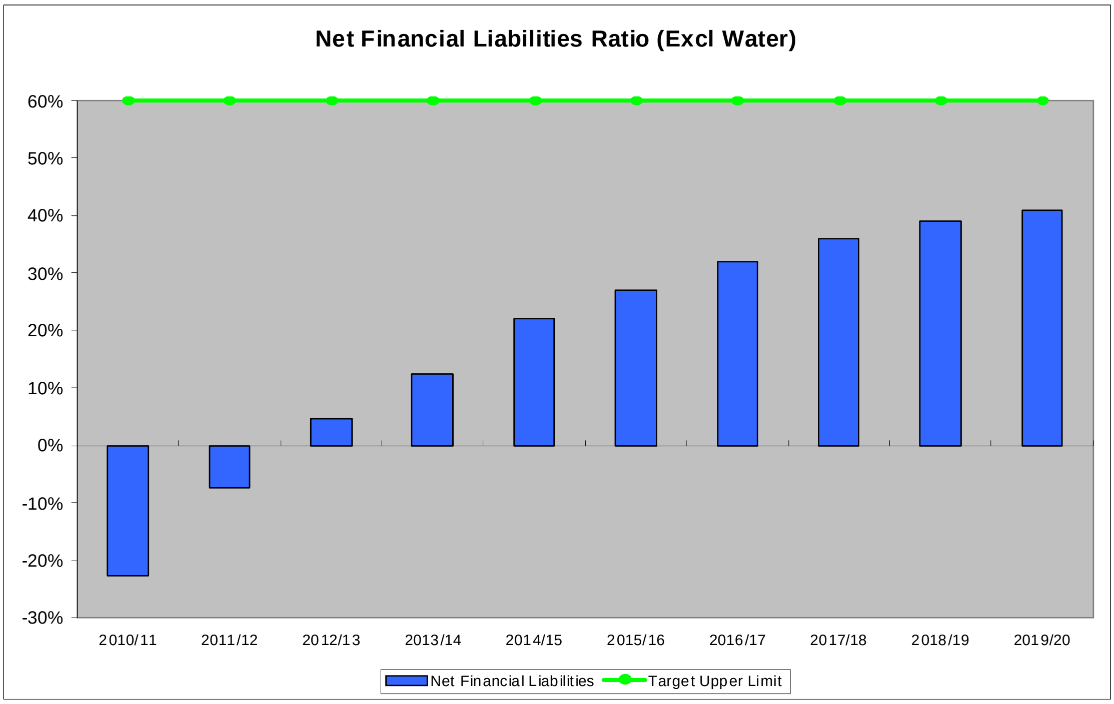
INDICATOR
Net Financial liabilities ratio

DESCRIPTION
Demonstrates the extent to which the net financial liabilities of Council can be serviced by its operating revenues

MEASURE
Numerator - Total Liabilities less less Current Assets
Denominator - Operating Revenue

TARGET
Not greater than 60%

COMMENTARY
This ratio indicates Council exceeds the desired target and reflects Council is placing greater reliance on its operating revenues to meet financial liabilities. However like the interest coverage ratio this ratio is distorted by the structural arrangements in place between Council and the new water retail and distribution business (Unitywater). The reason for the target being exceeded is due to the water debt Council holds which has not been transferred to Unitywater. Council will retain this debt which increases total liabilities and causes the target to exceed 60%. Even though this ratio exceeds the target it does not place any pressure on Council to meets its financial liabilities.



INDICATOR
Net Financial liabilities ratio

DESCRIPTION
Demonstrates the extent to which the net financial liabilities of Council can be serviced by its operating revenues

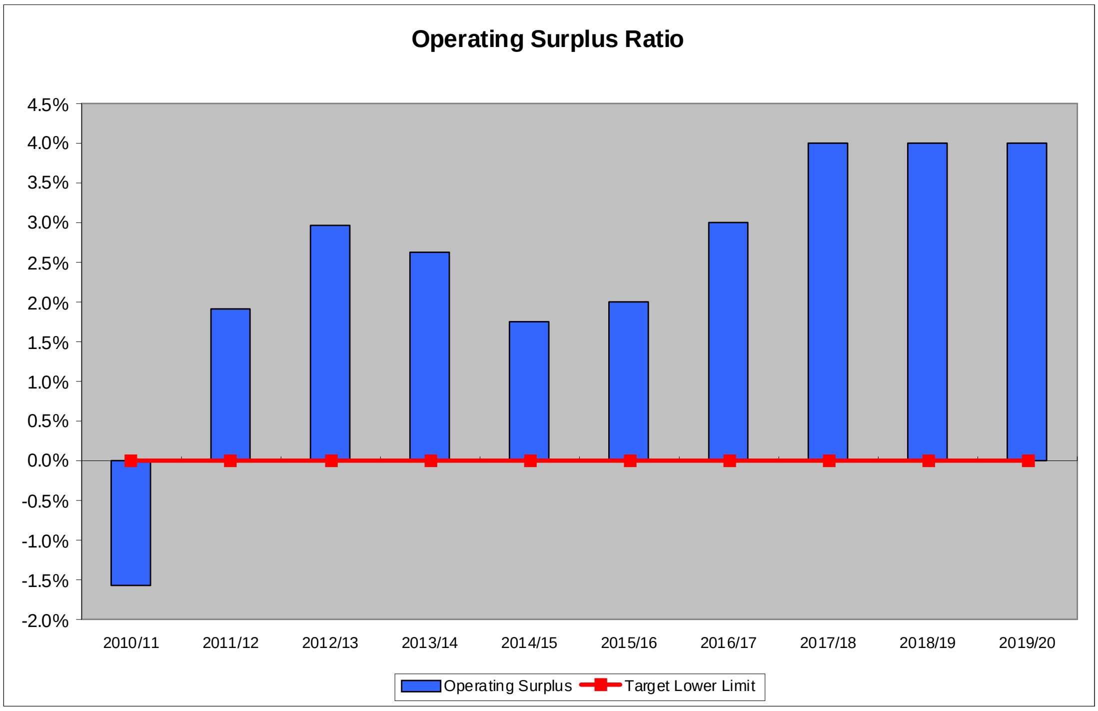
MEASURE
Numerator - Total Liabilities less less Current Assets
Denominator - Operating Revenue

TARGET
Not greater than 60%

OUTCOME
Achieved

COMMENTARY
This is the net financial liabilities ratio amended to reflect the water debt held by Council being removed from the total liabilities of Council. The purpose of this is to show that when this debt is excluded from total liabilities the ratio comes in well under the 60% target. This amended graph shows how the ratio increases over time due to the Council increasing its debt holdings into the future, however despite this the ratio remains very good and well under 60%.

Measures of Financial Sustainability



INDICATOR
Operating surplus

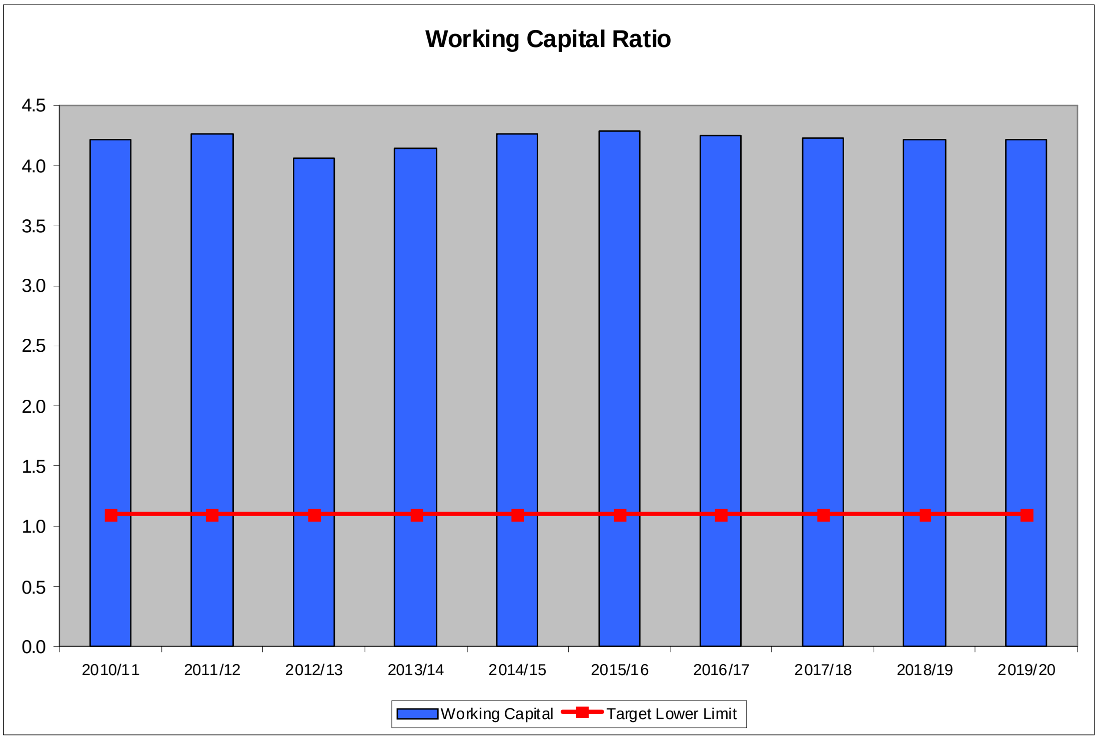
DESCRIPTION
Demonstrates the extent to which operating revenues cover cover operating expenses only or are available for capital purposes

MEASURE
Numerator - Net Operating Surplus/(Deficit)
Denominator - Operating Revenue

TARGET
Between 0% and 15%

OUTCOME
Achieved in every year except 2010/11

COMMENTARY
Council is forecasting an operating deficit in 2010/11 with surpluses predicted for the next nine years. The sole reason for the deficit ratio in 2010/11 is that the Councils temporary water rebate assistance scheme is not able to be fully funded through operations. The approximate cost of the scheme in 2010/11 is $23 million. The scheme concludes in 2011/12 at which point Council experiences ongoing operating surpluses. Council is committed to achieving strong operating surplus ratios into the future to ensure the long term financial sustainability of Council.



INDICATOR
Working capital ratio

DESCRIPTION
Demonstrates the extent to which Council has liquid assets available to meet short term debt obligations

MEASURE
Numerator - Current Assets
Denominator - Current liabilities

TARGET
Greater than 1:1

OUTCOME
Achieved

COMMENTARY
Council achieves a very strong working capital ratio over the entire forecast period which indicates that Council's current assets (cash, amounts owed to Council, inventory) exceed current liabilities (amounts Council owes, debt, employee entitlements) by at least 400% meaning Council could in theory pay its current liabilities 4 times using current assets.