

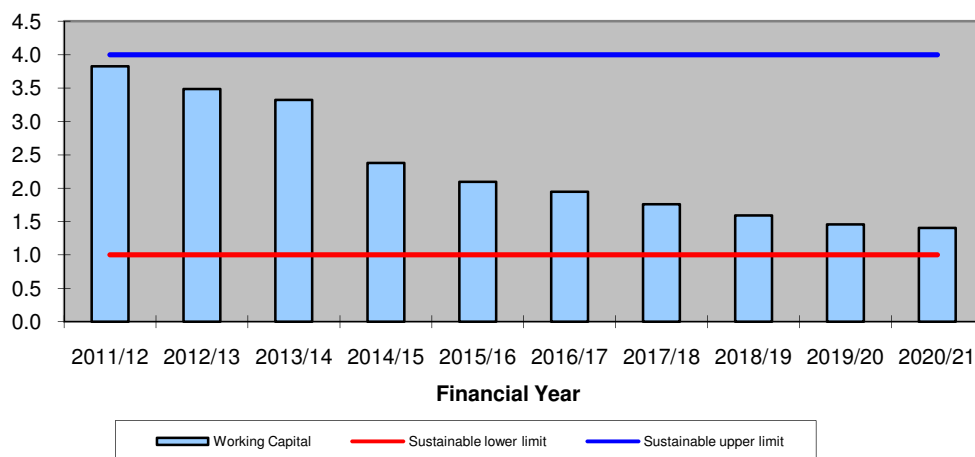
Budget 2011/12

Measures of Financial Sustainability

In accordance with s99(3) of the Local Government (Finance, Plans and Reporting) Regulation 2010, the Council is required to disclose in the budget certain measures of financial sustainability. The Department of Local Government and Planning state the definition of sustainable Local Government in Queensland as being, 'a local government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long term'. To ensure the Council continues along the path of financial sustainability into the future, key long term strategic plans are developed and integrated together, from which the Council can demonstrate a strategy is in place to manage the financial implications of its long term planning.

The six financial sustainability measures cover the period of the annual budget plus the next nine financial years (10 years in total). The targets indicated in each graph are sourced from the 'Financial management (sustainability) guideline 2011' which is available from the website of The Department of Local Government and Planning.

Working Capital Ratio



INDICATOR
Working Capital Ratio

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

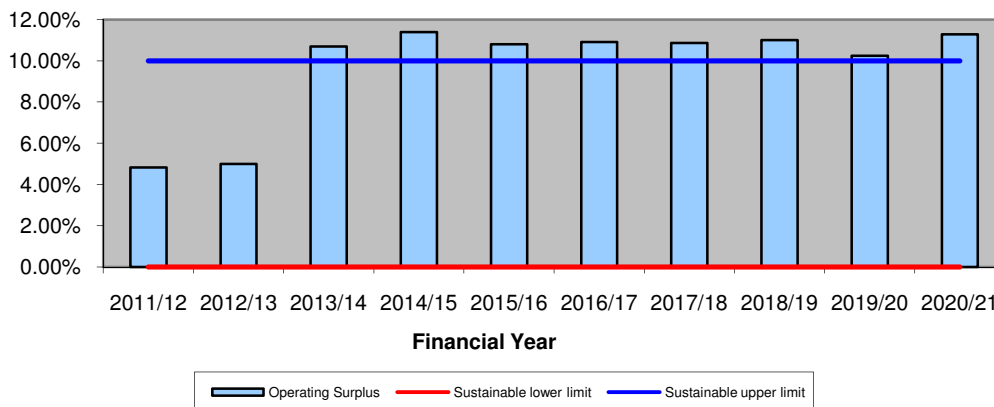
MEASURE
Numerator - Current Assets
Denominator - Current Liabilities
Expressed as a ratio

TARGET
Between 1 and 4

Commentary

The desired target is 1 or greater. Over the ten year forecast period the ratio decreases from just under 4.0 to approximately 1.5 and this is due to cash holdings of the Council decreasing due to the large amount of capital expenditure planned over the next ten years. The ratio remains above minimum target of 1.0 in every year and indicates the ratio is at an acceptable level.

Operating Surplus Ratio



INDICATOR
Operating Surplus Ratio

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

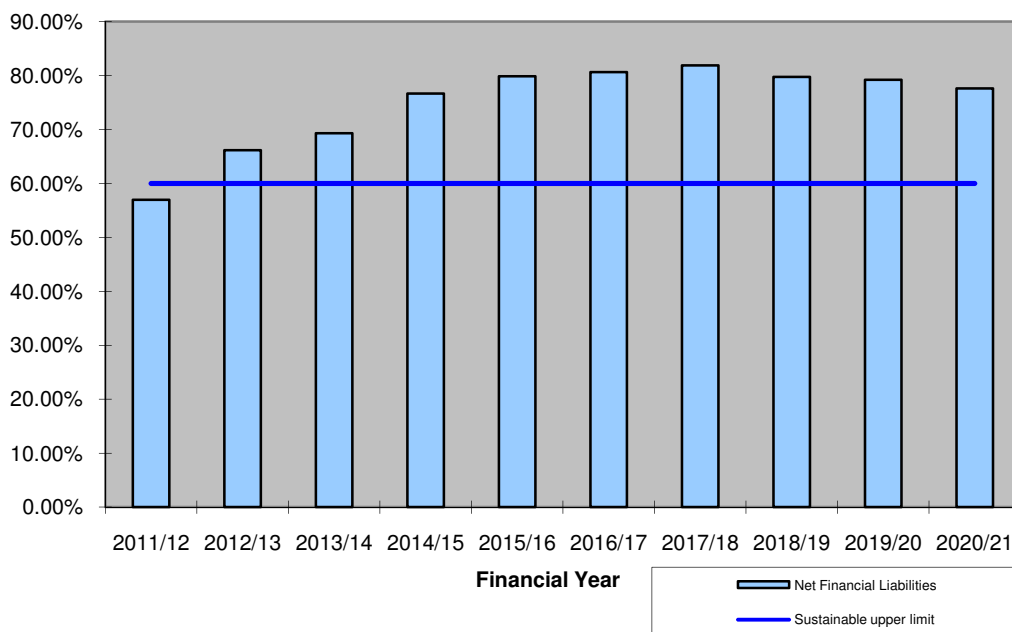
MEASURE
Numerator - Net Operating Surplus (Deficit)
Denominator - Operating Revenue

TARGET
Between 0% and 10%

Commentary

Council is forecasting an operating surplus in each of the ten years. Operating surpluses result in a positive operating surplus ratio (as indicated in the graph). A positive ratio (above 0%) indicates that recurring operating revenue exceeds recurring operating expenses and this facilitates utilising operating surpluses in assisting in funding capital expenditure. This results in less reliance to borrow money to fund capital expenditure and thus reduces Council debt. The positive operating surplus ratio of Council for the entire ten year period is a strong indicator of long term sustainability.

Net Financial Asset / Liability Ratio



INDICATOR

Net Financial Asset / Liability 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 Current Assets
Denominator - Operating Revenue

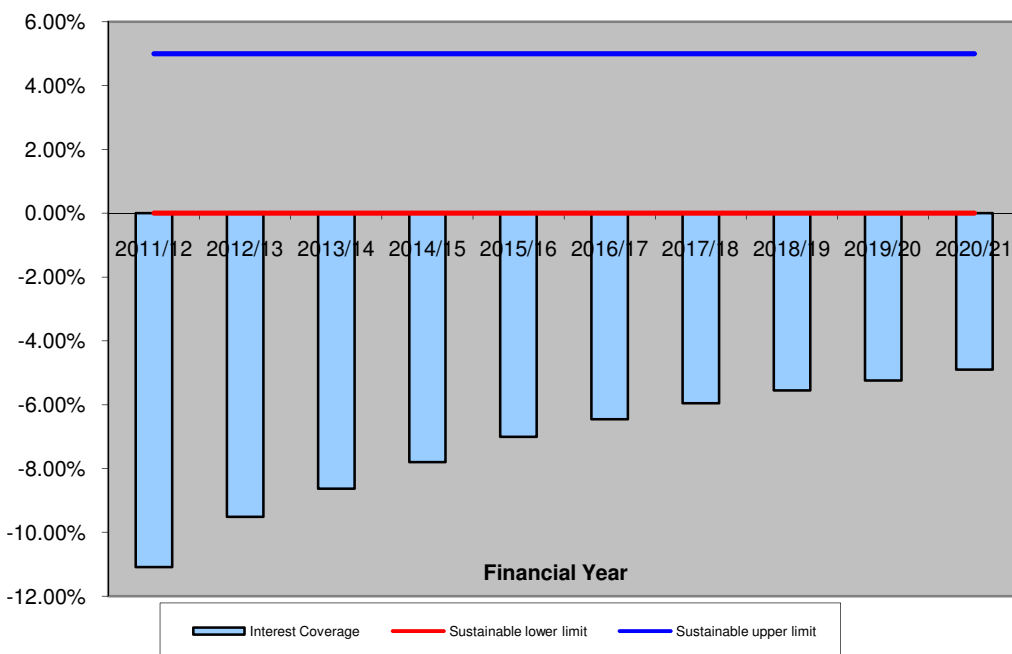
TARGET

Not greater than 60%

Commentary

This ratio indicates Council exceeds the desired target range from 2012/13 onwards and reflects a greater reliance on its operating revenues to meet financial liabilities. Despite this, given the large size of Council's operating revenue base and its relatively stable level of total liabilities across the ten year forecast period (the ratio peaks in 2017/18 and then slowly declines) there is no undue pressure on Council in the long term in meeting its financial liabilities as they fall due.

Interest Coverage Ratio



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

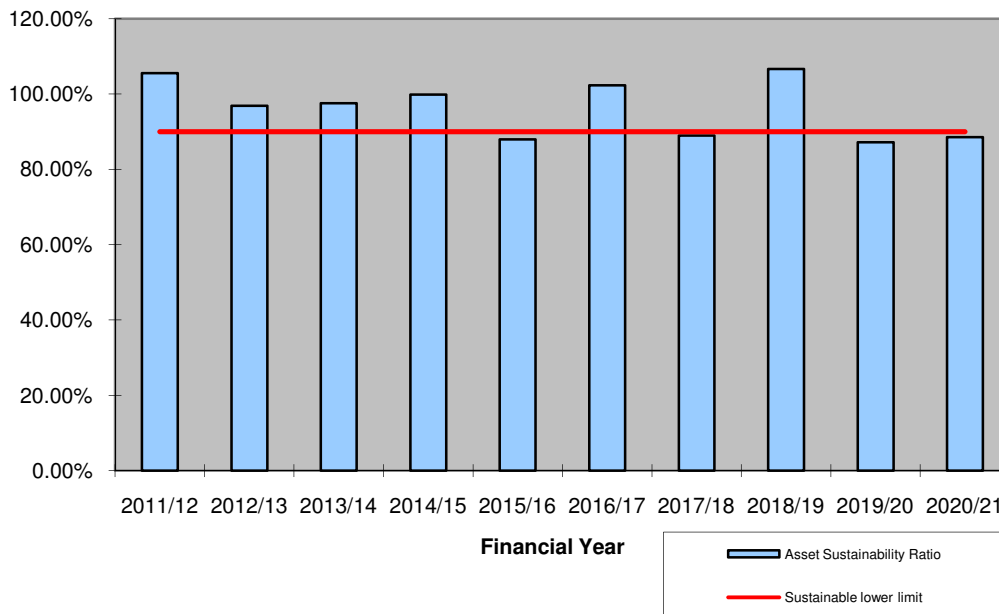
TARGET

Between 0% and 5%

Commentary

This ratio indicates an exceptionally positive outcome for Council across the 10 year forecast period. A negative percentage as indicated in the graph signifies that Council derives more interest income from investments than it incurs on paying interest on debt.

Asset Sustainability Ratio



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

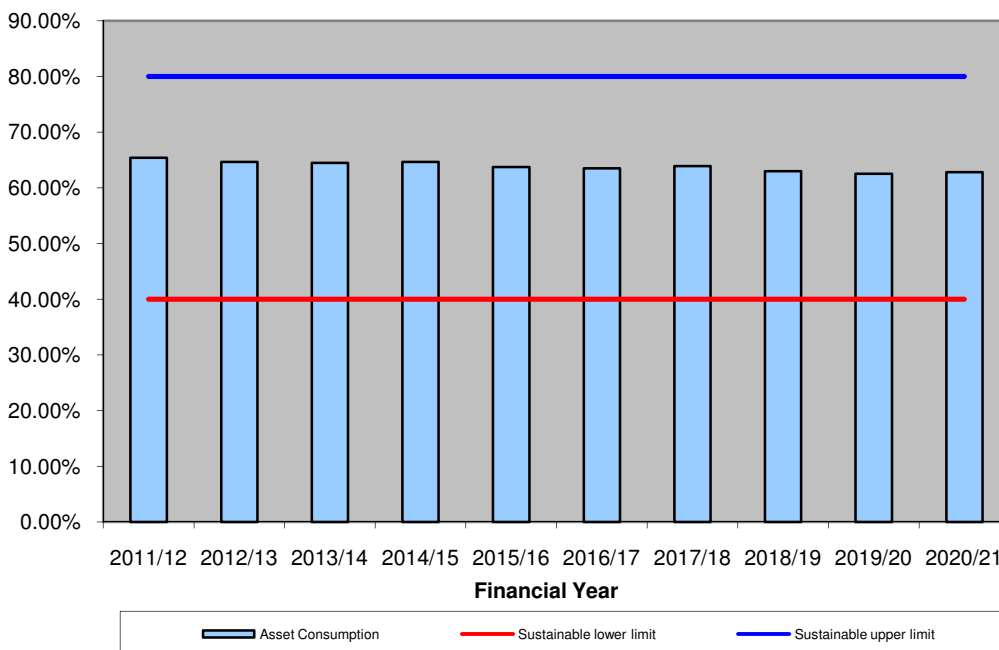
TARGET

Greater than 90%

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 is around the target of 90% or better and highlights that infrastructure assets are being replaced in an appropriate timeframe.

Asset Consumption Ratio



INDICATOR

Asset Consumption Ratio

DESCRIPTION

Demonstrates the aged condition of Council's 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%

Commentary

Throughout the ten year forecast period the Council's 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 around the median on the targeted range and is replacing its assets on average at the earliest possible time it should be.