

# Noosa Shire Council Credit Review

PREPARED BY QUEENSLAND TREASURY CORPORATION

APRIL 2015



AUDAX AT FIDELIS

QUEENSLAND  
TREASURY  
CORPORATION

# Executive summary

## Scope

The Department of Infrastructure, Local Government and Planning (DILGP or Department) (formerly known as Department of Community Recovery and Resilience) has engaged Queensland Treasury Corporation (QTC) to assess Noosa Shire Council's capacity to repay existing debt of \$45.1 million and undertake additional borrowings of \$0.794 million for funding of planned infrastructure to be drawn down in financial year (FY) 2014-15.

This review has relied on the following information sources:

- discussions with Council's senior staff
- Council's 10-year financial forecast model
- Council's audited financial statements for the six month period ending 30 June 2014 (FY2014), and
- Council's annual budget for FY2015.

## Summary position at 12 April 2015

### Debt and related facilities

Facilities	Current balance	Comments
Debt Pool Account	\$45.5M	Market value as at 12 April 2015
Cash Fund	\$30.9M	Market value as at 12 April 2015
<b>FY2015 borrowing application</b>	<b>\$0.794M</b>	

Forecast debt, equity, capital expenditure	FY2015 – FY2019	FY2020 – FY2024
Forecast gross capital expenditure	\$104.6M	\$115.7M
Forecast borrowing program	\$0.794M	NIL

### Debt servicing capacity

Can the Local Government service its current debt?	Yes
Can the Local Government service the recommended SBP increase in debt	Yes
Recommended SBP limit	\$0.794M
Portion of SBP limit recommended to be escrowed subject to further review	Nil

QTC Rating: 2015 Rating: **Sound (Positive Outlook)**

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Prior reviews: None

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## Rating rationale

Noosa Shire Council (Council or NSC) has been rated as **Sound** with a **Positive** outlook.

The **sound** rating reflects Council's forecast operating surpluses, strong debt servicing capacity, high level of council controlled revenue and high levels of forecast liquidity.

The key financial challenge for NSC will be maintaining tight expense control as forecast, as well delivering its forecast asset renewal program over the next five years, on budget and on time.

On 1 January 2014, NSC de-amalgamated from Sunshine Coast Regional Council (SCRC) representing almost 20 per cent of rateable properties. NSC has successfully re-established council systems and operations. It has restructured core activities and negotiated key supply contracts, enabling operating costs and employee numbers to be reduced while largely maintaining service levels. In addition Council reported a normalised<sup>1</sup> operating surplus for the six month period to 30 June 2014 and forecasts operating surpluses in each year based on reasonable assumptions. Council expects to report an operating surplus for FY2015 without increasing general rates.

The **positive** outlook reflects the potential for a rating upgrade and is dependent on Council maintaining its credit metrics, continuing its disciplined approach to cost control over a more extended period and developing its asset management plans.

*The most significant factors contributing to the sound rating are:*

- **Forecast surpluses in all years (positive)**

Although NSC reported an operating deficit of \$1.8 million in FY2014 (for the half year period 1 January 2014 to 30 June 2014), this was primarily caused by one-off costs of \$5.1 million associated with the organisational restructure including redundancies. These costs included de-amalgamation costs of \$2.6 million. When normalised for one-off costs, Council would have recorded a \$3.3 million operating surplus for FY2014 (a 7.8 percent operating surplus).

Assuming forecasts are met, NSC is expecting to deliver balanced or positive operating results in all years of the forecast period, with the operating surplus ratio increasing from 0.1 per cent in FY2015 to 2.1 per cent in FY2019.

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<sup>1</sup> Normalised for one-off costs including de-amalgamation costs

▪ **Council is on track to achieve FY2015 budget (positive)**

Council advises that its financial performance for the six months to 31 December 2014 shows a favourable year-to-date variance against budget and is on track to meet its budgeted surplus operating result for FY2015.

▪ **Low level of borrowings with adequate debt servicing capacity (positive)**

Council has adequate capacity to service its current level of debt as indicated by its forecast debt service cover ratio of 3.8 times in FY2015. This is forecast to increase to 4.2 times in FY2019, well above the recommended benchmark of 2.0 times.

Council's forecast FY2015 net financial liabilities ratio of 18.4 per cent is well below DILGP's recommended maximum of 60 per cent, reflecting Council's low debt levels. Given forecast improved operating revenue and no forecast new borrowings from FY2016 onwards, the ratio is forecast to improve further to 8.1 per cent by FY2019.

▪ **High levels of forecast liquidity (positive)**

Council has forecast to maintain a satisfactory cash expense cover ratio averaging 5.4 months between FY2015 to FY2019, exceeding QTC's recommended minimum benchmark level of 3.0 months.

NSC's capital expenditure programs are forecast to be mostly funded from cash resources and operating cash flows, with Council forecasting that it will fund its capital program with an average of 76.9 per cent of operating cashflow per annum between FY2015 to FY2019.

▪ **High level of council controlled revenue and fiscal flexibility (positive)**

Council has forecast to generate on average 82.0 per cent of its total operating revenue from net rates, levies and charges over the forecast period FY2015 to FY2019. This indicates that Council has some fiscal flexibility to withstand unexpected financial shocks as it could increase revenue through higher rates and charges.

▪ **Capacity to increase net rates, levies and charges (positive)**

Council has forecast average growth in net rates and utilities charges of 2.9 per cent per annum between FY2016 to FY2019, including average growth in rateable property numbers of 0.3 per cent per annum. This modest forecast annual increase (essentially at forecast CPI of 2.5 percent) may provide NSC with some capacity to increase rates and charges further, if required.

▪ **Asset management plans (AMP) have not been developed to date (negative)**

Council advised that AMPs have not been developed. However Council indicated that an asset management group has been established to review and develop new AMPs and to undertake asset condition assessment programs to establish any current asset renewal backlog and maintenance requirements. Council is anticipating that it will fully develop and link its AMPs to its long term financial forecasts for the FY2017 budget process. Council advised that its annual maintenance expenditure is currently based on historical five year averages for building and facilities assets, with road and other infrastructure based on re-established service levels.

▪ **Council forecasts adequate investment in its asset base (positive)**

Council advises that it has a priority of managing existing assets over new asset construction or acquisition. NSC's capital expenditure ratio (gross capital expenditure to depreciation) is forecast to average 1.3 times over the FY2015 to FY2019 period which is above the recommended benchmark of 1.1 times.

Council's asset sustainability ratio is forecast to average 100 per cent per annum over the FY2015 to FY2019 period which is above the recommended benchmark of 90 per cent, indicating that NSC appears to be investing adequately in its asset base.

▪ **Zero-based budgeting (positive)**

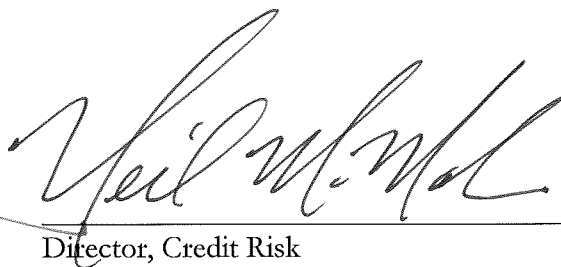
As a result of the de-amalgamation process, NSC adopted an interim budget on 2 January 2014 based on the previous SCRC budget for the Noosa area for the remainder of the FY2014 period. Council advises that it has taken a zero base (as opposed to incremental) approach in developing its FY2015 budget to ensure that costs are minimised and the full cost of delivering current levels of services are understood and appropriately costed. In adopting this 'bottom-up' approach, Council has implemented the process of starting from a "zero base" and justifying all planned expenses for the FY2015 period. The budget process has included undertaking a series of service level reviews across key business areas which will continue over the coming years. This approach, coupled with the successful negotiation of contracts with suppliers, has resulted in an improved cost structure.

**Approval**

2015 Credit Review for Noosa Shire Council



Chief Executive



Director, Credit Risk

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# 1 Key Business Issues

## 1.1 De-amalgamation of Noosa Shire Council

On 1 January 2014, Noosa Shire Council (NSC) de-amalgamated from Sunshine Coast Regional Council (SCRC) representing almost 20 per cent of rateable properties based on the boundaries redrawn as they existed immediately prior to the 2008 amalgamation. NSC now operates independently of the continuing SCRC.

Council advises that the de-amalgamation was completed successfully from an operational perspective and there are no material disputes outstanding.

## 1.2 Unitywater

Council has a \$110.2 investment in Unitywater comprising of 4.25 per cent of Unitywater equity (\$61.0 million) and Shareholder Participation loans of \$49.2 million. The investments are forecast to provide a long term annual income stream to Council of about \$5.5 million per annum by the way of interest, dividends and tax equivalents. Unitywater operates independently of Council and is not expected to require additional capital from Council.

## 2 Financial Profile

- QTC notes that results for FY2012 and FY2013 are not included in the analysis as Noosa Shire Council was not re-established as an independent council until 1 January 2014.
- The audited financial data for FY2014 is for the half-year 1 January 2014 to 30 June 2014.
- Council advises that it has taken a zero base approach in developing the FY2015 budget to ensure that the full cost of delivering current levels of services are understood and appropriately costed. In adopting this 'bottom-up' approach, Council has implemented the process of starting from a "zero base" and justifying all planned expenses for the FY2015 period. The budget process included service level reviews across key business areas which will continue over the coming years.

### 2.1 Forecast assumptions

TABLE 1: SUMMARY FORECAST ASSUMPTIONS

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
	<b>Actual</b>	<b>Budget</b>	<b>F/cast</b>	<b>F/cast</b>	<b>F/cast</b>	<b>F/cast</b>
Population	51,173	51,173	51,429	51,429	51,557	51,815
Annual change	0.5%	0.0%	0.5%	0.0%	0.2%	0.5%
Rateable properties	29,984	29,984	30,134	30,134	30,209	30,360
Annual change	0.5%	0.0%	0.5%	0.0%	0.2%	0.5%
Net rates, levies and charges revenue per rateable property (\$)	2,032*	1,988	2,040	2,093	2,148	2,203
Annual change	N/a	(2.2%)	2.6%	2.6%	2.6%	2.6%
Net rates, levies and charges revenue per capita (\$)	1,191*	1,165	1,195	1,226	1,258	1,291
Annual change	N/a	(2.2%)	2.6%	2.6%	2.6%	2.6%
Total FTE	351.0	352.0	353.0	354.0	355.0	356.0
Annual change	N/a	0.3%	0.3%	0.3%	0.3%	0.3%
Annual increase in net rates, levies and charges	N/a	N/a	3.1%	2.6%	2.9%	3.1%
Annual change employee expenses	N/a	N/a	2.9%	2.5%	2.9%	2.5%
Annual change materials and services	N/a	N/a	2.5%	2.5%	2.5%	2.5%

\*based on annualised figures

Key observations with respect to Council's forecast assumptions include:

- Data relating to the average annual growth in population over the five year period FY2008 to FY2013<sup>2</sup> show that the region experienced a 1.4 per cent growth rate. Council is forecasting population growth on average of approximately 0.3 per cent per annum for the forecast period, which is lower than the Queensland Government population forecast average growth rate of 0.8 per cent<sup>2</sup> per annum for the Noosa region over 25 years. Rateable properties are forecast to grow at an average of 0.3 per cent per annum for the forecast period FY2015 to FY2019 in line with Council population growth assumptions.

<sup>2</sup> Source *Queensland Regional Profiles: Resident Profile for Noosa Shire Regional Local Government Area*, Government Statistician, Queensland Treasury and Trade, February 2015.



- Following de-amalgamation, Council reduced the number of full time equivalent (FTE) employees by 76 to 344 (18.1 per cent). Council considers that current FTE levels are adequate to service its business model (in line with a Council policy to maintain operational expenditure at sustainable levels). Council is forecasting an average of 0.3 per cent growth per annum in the number of FTE employees from FY2015 to FY2019 which is in line with forecast population/rateable property growth.

## 2.2 Operating performance

TABLE 2: INCOME STATEMENT

\$M	FY2014 Actual	FY2014 Adjusted*	FY2015 Budget	FY2016 F/cast	FY2017 F/cast	FY2018 F/cast	FY2019 F/cast
Net rates, levies and charges	30.5	30.5	59.6	61.5	63.1	64.9	66.9
Fees and charges	2.2	2.2	9.5	9.8	10.0	10.3	10.5
Sales (contract and recoverable works)	3.3	3.3	0.5	0.5	0.5	0.5	0.5
Grants, subsidies, contributions and donations	1.9	1.9	5.0	5.0	5.0	5.0	5.1
Interest revenue	2.5	2.5	4.5	4.5	4.7	4.9	5.0
Other operating revenue	2.0	2.0	5.6	5.7	5.9	6.0	6.2
<b>Total operating revenue</b>	<b>42.4</b>	<b>42.4</b>	<b>84.7</b>	<b>87.0</b>	<b>89.1</b>	<b>91.6</b>	<b>94.2</b>
Employee expenses	18.3	13.4	27.8	28.6	29.3	30.1	30.9
Materials and services costs	16.8	16.5	38.1	39.1	40.0	41.0	42.1
Depreciation and amortisation	7.8	7.8	16.1	16.6	16.8	17.1	17.3
Finance costs	1.4	1.4	2.5	2.4	2.2	2.0	1.8
Other expenses	-	(0.0)	0.1	0.1	0.1	0.1	0.1
<b>Total operating expenses</b>	<b>44.2</b>	<b>39.1</b>	<b>84.6</b>	<b>86.7</b>	<b>88.4</b>	<b>90.4</b>	<b>92.2</b>
<b>Operating surplus/(deficit)</b>	<b>(1.8)</b>	<b>3.3</b>	<b>0.1</b>	<b>0.3</b>	<b>0.7</b>	<b>1.2</b>	<b>2.0</b>
<b>Operating surplus ratio (%)</b>	<b>(4.2%)</b>	<b>7.8%</b>	<b>0.1%</b>	<b>0.3%</b>	<b>0.8%</b>	<b>1.3%</b>	<b>2.1%</b>
<b>Net result (including capital and non-recurrent items)</b>	<b>0.3</b>	<b>3.3</b>	<b>5.2</b>	<b>1.6</b>	<b>4.0</b>	<b>7.5</b>	<b>8.3</b>

\*Note: the FY2014 actuals have been normalised to remove the de-amalgamation costs.

Key observations with respect to Council's operating performance include:

- Council has budgeted zero growth in general rates per rateable property for FY2015. General rates are then forecast to grow on average by 2.8 per cent per annum between FY2016 to FY2019. Net rates, levies and charges revenue is forecast to increase by 2.9 per cent on average per annum (including average growth in rateable property numbers of 0.3 per cent per annum) between FY2016 to FY2019, which is slightly above CPI (assumed to be 2.5 per cent).
- Sales (contract and recoverable works) revenue is forecast to decrease significantly over the forecast period (FY2015 to FY2019) compared to FY2014. NSC advises that the forecast is based on works known for FY2015 at the time of setting the budget and considers it a conservative estimate of likely future works.
- Interest revenue constitutes a comparatively high proportion of total operating revenue given that it includes interest on Council's investments as well as interest on rates arrears, and interest on shareholder loans with Unitywater. The FY2015 interest revenue (\$4.5 million) forecast can be broken down into:
  - interest on cash investments - \$1.2 million (27 per cent)
  - interest on rate arrears - \$0.4 million (9 per cent), and
  - interest on Shareholder loans to Unitywater - \$2.9 million (64 per cent)

- Other revenue of \$5.6 million for FY2015 includes \$2.8 million dividends and tax equivalents from Unitywater.
- On an annualised basis, materials and services costs are forecast to increase by 15.5 per cent in FY2015. Council advises that the increase is due to the timing of certain categories of expenditure, including insurance payments and a number of contributions to external agencies. These costs were not included in the second half of the FY2014 budget as the annual payments had already been made by SCRC in the first half of FY2014 prior to de-amalgamation.
- Materials and services costs and employee costs are expected to increase by an average of 2.5 per cent and 2.7 per cent per annum respectively over the forecast period.
- The current Enterprise Certified Agreement (ECA) provides for increases of 2.5 per cent per annum and expired on 30 June 2014. A new agreement is being negotiated, with the aim of having a new ECA in place before 30 June 2015. Sensitivity analysis shows that if an ECA increase of 3.5 per cent were to be implemented (rather than the 2.5 per cent as currently forecast), Council would continue to generate operating surpluses (although significantly lower) throughout the forecast period (see section 3.2 for further detail).
- NSC recorded an operating deficit of \$1.8 million (4.2 per cent of total operating revenue) in FY2014. The primary reason for the deficit was one-off costs of \$5.1 million, including de-amalgamation costs of \$2.6 million. When normalised for one-off costs, Council would have recorded a \$3.3 million surplus (7.8 per cent of total operating revenue) for the half year period 1 January 2014 to 30 June 2014. However as noted above, this surplus may have benefited from the timing of some payments during the de-amalgamation process.

TABLE 3: ONE-OFF COSTS

\$M	FY2014 Actual
Employee expenses	4.8
Materials and services costs	0.2
Other expenses	0.0
<b>Total one-off costs *</b>	<b>5.1</b>

\* Includes de-amalgamation costs of \$2.6 million

TABLE 4: ACTUAL VERSUS BUDGET FOR THE SIX MONTHS ENDING 31 DECEMBER 2014

\$M	Budget YTD	Actual YTD	Variance
Net rates, levies and charges	29.7	29.7	0.0
Fees and charges	5.0	6.4	1.4
Sales (contract and recoverable works)	1.6	1.8	0.2
Grants, subsidies, contributions and donations	1.4	2.5	1.1
Interest revenue	2.3	2.5	0.2
Employee expenses	13.1	13.2	0.0
Materials and services costs	16.5	15.6	(1.0)
Depreciation and amortisation	8.2	8.8	0.6
Finance costs	1.4	1.3	(0.1)
<b>Operating Result*</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>0.0</b>

\*Please note that the table may not balance as not all revenue and expense items are shown in the table

- Council advises that the FY2015 year-to-date actual operating position is favourable compared to the FY2015 year-to-date budget, and Council is expecting to meet its budgeted revenue and expense targets for the full year FY2015 and report a balanced operating result.

## 2.3 Liquidity

TABLE 5: SUMMARY CASHFLOW AND BALANCE SHEET ITEMS

	FY2014 Actual	FY2015 Budget	FY2016 F/cast	FY2017 F/cast	FY2018 F/cast	FY2019 F/cast
Cash & cash equivalents (\$M)	28.9	33.5	31.7	30.1	30.3	30.3
Cash expense cover ratio (months)	4.9*	6.1	5.6	5.2	5.1	5.0

\*based on annualised figures

Key observations with respect to Council's liquidity position include:

- Council's cash expense cover ratio is forecast to decline from 6.1 months in FY2015 to 5.0 months in FY2019, although this still exceeds the recommended benchmark ratio of 3.0 months. This suggests that Council is forecasting adequate liquidity to meet its short term financial commitments.
- Council forecast (and has now received) a \$10.5 million cash receipt from SCRC in FY2015, relating to the transfer of assets on de-amalgamation.

## 2.4 Fiscal flexibility

TABLE 6: DEBT SERVICE CAPACITY METRICS

	FY2014 Actual	FY2015 Budget	FY2016 F/cast	FY2017 F/cast	FY2018 F/cast	FY2019 F/cast
Total debt (\$M)	41.2	39.4	36.6	33.6	30.5	27.2
Total debt service cover (times)	3.0x	3.8x	3.8x	3.9x	4.1x	4.2x
Interest cover (times)	5.7x	8.1x	8.8x	9.8x	11.1x	12.9x
Net financial liabilities (\$M)	13.4	15.6	14.9	13.8	10.6	7.6
Net financial liabilities ratio (%)	15.9%*	18.4%	17.1%	15.5%	11.6%	8.1%

\*based on annualised figures

Key observations with respect to Council's fiscal flexibility include:

- Council has applied to borrow \$0.8 million in FY2015 for its waste management landfill projects in Noosaville (bio basin, sediment control and stormwater) with no further borrowings forecast for the remainder of the forecast period (FY2016 to FY2019).
- Total debt service cover is forecast to increase from 3.8 times in FY2015 to 4.2 times in FY2019, which is above the benchmark of 2.0 times. This indicates Council has some flexibility to service additional borrowings in the future if needed.
- Council's net financial liabilities ratio is also strong. It is forecast to improve from 18.4 per cent in FY2015 to 8.1 per cent in FY2019 which is below the recommended maximum benchmark of 60 per cent and reflects Council's low level of net debt. This along with Council's strong total debt service cover ratio indicates that NSC has capacity to service forecast debt.

## 2.5 Asset sustainability

TABLE 7: KEY ASSET SUSTAINABILITY METRICS

	FY2014 Actual	FY2015 Budget	FY2016 F/cast	FY2017 F/cast	FY2018 F/cast	FY2019 F/cast
Property, plant & equipment (\$M)	871.9	901.8	924.6	950.7	978.9	1,008.5
Gross capital expenditure, including intangibles (\$M)	4.0	23.4	17.5	19.7	21.4	22.6
Capital expenditure ratio (times)	0.5	1.5	1.1	1.2	1.3	1.4
Asset sustainability ratio (%)	31.9%	98.9%	96.5%	103.2%	99.2%	104.8%

TABLE 8: FORECAST CAPITAL EXPENDITURE BY FUNDING SOURCE

\$M	FY2015 Budget	FY2016 F/cast	FY2017 F/cast	FY2018 F/cast	FY2019 F/cast
Capex funded by cash subsidies, donations and contributions	4.9	1.5	3.5	6.5	6.5
Capex funded by non-cash subsidies, donations & contributions	-	-	-	-	-
Proceeds from borrowings	0.8	-	-	-	-
Proceeds from sale of property, plant and equipment	0.4	-	-	-	-
Operating cash	17.3	16.0	16.2	14.9	16.1
<b>Total gross capital expenditure</b>	<b>23.4</b>	<b>17.5</b>	<b>19.7</b>	<b>21.4</b>	<b>22.6</b>

Key observations with respect to Council's asset sustainability include:

- Council has a total investment of \$110.2 million in Unitywater comprising of 4.25 per cent of equity (\$61.0 million) and Shareholder Participation loans of \$49.2 million.
- Council advises that it has a priority of managing existing assets over new asset construction or acquisition in its FY2015 budget. As such, the majority of capital works included in the forecast is related to renewal works, with some upgraded capacity included. NSC advises that an asset management group has been established with the key objective of reviewing and developing new asset management plans (AMPs) for Council's various asset classes. NSC advises that at this time the plans have not been fully integrated with Council's long term financial forecast. Council is anticipating the full development and linkage of its AMPs to its long term financial forecasts for the FY2017 budget process.
- Council advises that in the absence of AMPs, forecast asset maintenance costs were based on five years' historical actual averages for building and facilities assets, with roads and other infrastructure based on re-established service levels as set out in NSC's maintenance manuals for roads and parks assets.
- Council's capital program averages \$20.9 million per year between FY2015 to FY2019. NSC is forecasting to fund its capital program with approximately 76.9 per cent operating cash on an average, per annum basis between FY2015 to FY2019.
- QTC has completed sensitivity analysis outlining the effect of a potential budget overrun (10 per cent) on Council's forecast capital projects (see section 3.1 for further detail). The results indicate that Council could sustain an increase of 10 per cent per annum in its forecast capital expenditure program, with minimal negative effect on Council's financial position.

- Council advises that as at 9 February 2015, it had completed approximately 21 per cent of the FY2015 capital program. Council advises that it expects to complete the majority of its forecast capital program for FY2015, which is in excess of \$23 million. Council's FY2015 capital works forecast can be broken down into the following major projects:
  - Walter Hay drive reseal (\$4.0 million)
  - Fleet and plant replacement (\$1.7 million)
  - Munna Point bridge stabilisation (\$1.4 million), and
  - Whole of Council flood mitigation (\$2.8 million).
- NSC's capital expenditure ratio (gross capital expenditure to depreciation) is forecast to be consistently above the benchmark of greater than 1.1 times between FY2015 to FY2019, averaging 1.3 times per annum. This suggests NSC is adequately investing in its asset base.
- Council's asset sustainability ratio is forecast to be in excess of the benchmark of 90 per cent (averaging 100 per cent) throughout the period FY2015 to FY2019. This suggests that Council is allocating adequate capital expenditure to renew its asset base.
- Council has forecast that it will fund its capital program between FY2015 to FY2019 through a combination of:
  - operating cash (76.9 per cent)
  - cash subsidies, donations and contributions (21.9 per cent)
  - borrowings (0.8 per cent), and
  - proceeds from the sale of property, plant and equipment (0.4 per cent).

## 3 Sensitivity Analysis

### 3.1 Sensitivity 1 – 10 per cent increase in forecast capital expenditure

Council advises that it is in the process of undertaking asset condition assessment programs to establish a baseline for any current asset renewal backlogs and maintenance requirements. Once complete, there is a possibility that Council may have underestimated its forecast capital expenditure program. QTC has therefore undertaken sensitivity analysis to measure the effect on Council's financial position of a 10 per cent increase in forecast capital expenditure.

Key observations over the five year forecast period include:

- Although Council's operating surplus ratio<sup>3</sup> reduces slightly over the forecast period, operating surpluses continue to be generated.
- Interest revenue decreases in line with lower cash holdings. The lower level of forecast cash balances results in deterioration in the net financial liabilities ratio, however this ratio is still well within benchmark.
- Council's liquidity position declines over the forecast period (FY2015 to FY2019) as existing cash is used to fund the additional capital expenditure, however it remains above the recommended benchmark.
- All financial ratios continue to meet or exceed recommended the recommended benchmarks.

The sensitivity indicates that Council could sustain an increase of 10 per cent per annum in its forecast capital expenditure program, with minimal negative effect on Council's financial position, given that all financial ratios continue to meet or exceed recommended benchmarks between FY2015 to FY2019. The main impact would be a reduction in cash from \$31.2 million in FY2015 to \$19.2 million in FY2019.

### 3.2 Sensitivity 2 – Additional increase of 1.0 percent in forecast ECA to 3.5 per cent from FY2016 to FY2019

Council advises that it has yet to complete negotiations on a new ECA agreement, although it anticipates an increase of approximately 2.5 per cent. QTC has therefore prepared a sensitivity analysis to measure the effect of an ECA increase of 3.5 per cent.

This sensitivity indicates that whilst all financial ratios would still meet or exceed the recommended benchmarks from FY2016 to FY2019, the increase in employee expenses does have a significant adverse impact on forecast operating surpluses. The average surplus over this period declines from 1.1 per cent to 0.3 percent, indicating that Council's financial performance is sensitive to increasing operating costs.

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<sup>3</sup> A positive ratio means that the surplus can be used for capital expenditure or debt repayment, whilst a negative ratio may indicate an additional funding need.

## Disclaimer

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# Appendix A: Financial Statements—Historical and Forecast

## A.1: Income Statement

	Actual FY2014	Forecast										
		Budget FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Forecast FY2024	
Netrates and utility charges	30.5	59.6	61.5	63.1	64.9	66.9	68.8	70.9	73.0	75.2	77.4	
Fees and charges	2.2	9.5	9.8	10.0	10.3	10.5	10.8	11.0	11.3	11.6	11.9	
Sales - contract and recoverable works	3.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	
Gain on sale of land held as inventory	-	-	-	-	-	-	-	-	-	-	-	
Grants, subsidies, contributions and donations	1.9	5.0	5.0	5.0	5.0	5.1	5.2	5.2	5.3	5.3	5.4	
Interest received	2.5	4.5	4.5	4.7	4.9	5.0	5.2	5.4	5.6	5.7	5.9	
Other operating income	2.0	5.6	5.7	5.9	6.0	6.2	6.3	6.5	6.7	6.8	7.0	
<b>Total operating revenue</b>	<b>42.4</b>	<b>84.7</b>	<b>87.0</b>	<b>89.1</b>	<b>91.6</b>	<b>94.2</b>	<b>96.8</b>	<b>99.6</b>	<b>102.3</b>	<b>105.2</b>	<b>108.1</b>	
Employee benefits	18.3	27.8	28.6	29.3	30.1	30.9	31.8	32.6	33.5	34.3	35.3	
Materials and services	16.8	38.1	39.1	40.0	41.0	42.1	43.1	44.2	45.3	46.4	47.6	
Depreciation and amortisation	7.8	16.1	16.6	16.8	17.1	17.3	18.0	18.6	19.4	20.0	20.2	
Finance costs	1.4	2.5	2.4	2.2	2.0	1.8	1.6	1.4	1.2	1.0	0.7	
Other expenses	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
<b>Total operating expenses</b>	<b>44.2</b>	<b>84.6</b>	<b>86.7</b>	<b>88.4</b>	<b>90.4</b>	<b>92.2</b>	<b>94.7</b>	<b>96.9</b>	<b>99.5</b>	<b>101.8</b>	<b>104.0</b>	
<b>Operating result</b>	<b>(1.8)</b>	<b>0.1</b>	<b>0.3</b>	<b>0.7</b>	<b>1.2</b>	<b>2.0</b>	<b>2.2</b>	<b>2.7</b>	<b>2.7</b>	<b>3.4</b>	<b>4.1</b>	
Grants, subsidies, contributions and donations	2.4	3.1	-	2.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Other capital contributions	-	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	
Profit/(loss) on sale of property, plant and equipment	0.0	0.4	-	-	-	-	-	-	-	-	-	
Profit/(loss) from investments	-	-	-	-	-	-	-	-	-	-	-	
Revaluations	-	-	-	-	-	-	-	-	-	-	-	
Other capital income	-	-	-	-	-	-	-	-	-	-	-	
<b>Total capital income and revenue</b>	<b>2.4</b>	<b>5.3</b>	<b>1.5</b>	<b>3.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	
Revaluation decrements	-	-	-	-	-	-	-	-	-	-	-	
Other capital expenses	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
<b>Total capital expenses</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	
<b>Result from ordinary activities</b>	<b>0.3</b>	<b>5.2</b>	<b>1.6</b>	<b>4.0</b>	<b>7.5</b>	<b>8.3</b>	<b>8.4</b>	<b>9.0</b>	<b>9.0</b>	<b>9.7</b>	<b>10.4</b>	



## A.2: Balance Sheet

\$m	Actual FY2014	Forecast									
		Budget FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Forecast FY2024
Cash assets and cash equivalents	28.9	33.5	31.7	30.1	30.3	30.3	31.0	32.7	34.2	36.6	39.0
Inventories	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Receivables	7.9	7.7	7.9	8.1	8.3	8.5	8.8	9.0	9.3	9.6	9.8
Prepayments	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other current assets	10.5	-	-	-	-	-	-	-	-	-	-
<b>Total current assets</b>	<b>47.8</b>	<b>41.7</b>	<b>40.1</b>	<b>38.7</b>	<b>39.2</b>	<b>39.4</b>	<b>40.4</b>	<b>42.3</b>	<b>44.1</b>	<b>46.7</b>	<b>49.4</b>
Inventory	-	-	-	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	-	-	-	-	-	-	-
Investments	111.2	111.2	111.2	111.2	111.2	111.2	111.2	111.2	111.2	111.2	111.2
Property, plant and equipment	871.9	901.8	924.6	950.7	978.9	1,008.5	1,037.4	1,066.5	1,096.0	1,125.7	1,156.5
Intangible assets	2.3	3.1	3.5	3.2	2.7	2.1	2.1	1.7	1.4	1.1	0.8
Capital works in progress	1.5	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-
<b>Total non-current assets</b>	<b>987.0</b>	<b>1,016.1</b>	<b>1,039.4</b>	<b>1,065.1</b>	<b>1,092.8</b>	<b>1,121.9</b>	<b>1,150.7</b>	<b>1,179.4</b>	<b>1,208.7</b>	<b>1,238.1</b>	<b>1,268.5</b>
<b>Total assets</b>	<b>1,034.8</b>	<b>1,057.9</b>	<b>1,079.5</b>	<b>1,103.8</b>	<b>1,132.0</b>	<b>1,161.2</b>	<b>1,191.0</b>	<b>1,221.7</b>	<b>1,252.8</b>	<b>1,284.8</b>	<b>1,317.9</b>
Overdraft	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables	3.2	3.2	3.2	3.3	3.4	3.5	3.6	3.7	3.7	3.8	3.9
Borrowings	2.6	2.8	3.0	3.1	3.3	3.5	3.7	3.9	4.2	4.4	4.7
Employee payables/provisions	7.8	5.5	5.7	5.8	6.0	6.1	6.3	6.4	6.6	6.8	6.9
Other provisions	-	-	-	-	-	-	-	-	-	-	-
Other	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1
<b>Total current liabilities</b>	<b>14.5</b>	<b>12.3</b>	<b>12.7</b>	<b>13.2</b>	<b>13.6</b>	<b>14.0</b>	<b>14.5</b>	<b>15.0</b>	<b>15.5</b>	<b>16.1</b>	<b>16.6</b>
Trade and other payables	-	-	-	-	-	-	-	-	-	-	-
Borrowings	38.6	36.6	33.6	30.5	27.2	23.7	19.9	16.0	11.8	7.4	2.7
Employee payables/provisions	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Other provisions	7.8	8.0	8.2	8.4	8.6	8.8	9.0	9.2	9.5	9.7	9.9
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>46.8</b>	<b>45.0</b>	<b>42.3</b>	<b>39.3</b>	<b>36.2</b>	<b>32.9</b>	<b>29.5</b>	<b>25.7</b>	<b>21.8</b>	<b>17.6</b>	<b>13.2</b>
<b>Total liabilities</b>	<b>61.3</b>	<b>57.3</b>	<b>55.0</b>	<b>52.5</b>	<b>49.8</b>	<b>47.0</b>	<b>44.0</b>	<b>40.8</b>	<b>37.3</b>	<b>33.7</b>	<b>29.8</b>
<b>Net community assets</b>	<b>973.5</b>	<b>1,000.5</b>	<b>1,024.5</b>	<b>1,051.3</b>	<b>1,082.2</b>	<b>1,114.3</b>	<b>1,147.1</b>	<b>1,181.0</b>	<b>1,215.4</b>	<b>1,251.1</b>	<b>1,288.1</b>
Asset revaluation reserve	-	21.8	44.2	67.0	90.3	114.1	138.5	163.4	188.9	214.9	241.4
Retained surplus (deficiency)	973.5	978.7	980.3	984.3	991.8	1,000.1	1,008.6	1,017.6	1,026.6	1,036.3	1,046.7
<b>Total community equity</b>	<b>973.5</b>	<b>1,000.5</b>	<b>1,024.5</b>	<b>1,051.3</b>	<b>1,082.2</b>	<b>1,114.3</b>	<b>1,147.1</b>	<b>1,181.0</b>	<b>1,215.4</b>	<b>1,251.1</b>	<b>1,288.1</b>

### A.3: Cash Flow Statement

\$m	Actual FY2014	Budget FY2015	Forecast FY2016	Forecast FY2017	Forecast FY2018	Forecast FY2019	Forecast FY2020	Forecast FY2021	Forecast FY2022	Forecast FY2023	Forecast FY2024
Receipts from customers	38.6	71.4	73.2	75.0	77.1	79.4	81.7	84.1	86.5	89.1	91.6
Payments to suppliers and employees	(36.8)	(68.6)	(67.7)	(69.4)	(71.2)	(73.0)	(74.9)	(76.8)	(78.8)	(80.8)	(82.9)
Net proceeds from sale of land held as inventory	-	-	-	-	-	-	-	-	-	-	-
Interest received	2.5	4.5	4.5	4.7	4.9	5.0	5.2	5.4	5.6	5.7	5.9
Finance costs	(1.4)	(2.3)	(2.2)	(2.0)	(1.8)	(1.6)	(1.4)	(1.2)	(1.0)	(0.8)	(0.5)
Dividends received	1.4	2.8	2.9	3.0	3.1	3.1	3.2	3.3	3.4	3.5	3.5
Other	-	6.1	6.2	6.2	6.3	6.4	6.4	6.5	6.6	6.7	6.8
<b>Net cash inflow (outflow) from operating activities</b>	<b>4.4</b>	<b>14.0</b>	<b>16.9</b>	<b>17.5</b>	<b>18.3</b>	<b>19.3</b>	<b>20.2</b>	<b>21.3</b>	<b>22.2</b>	<b>23.4</b>	<b>24.4</b>
Payments for property, plant and equipment	(6.3)	(22.4)	(16.6)	(19.5)	(21.3)	(22.5)	(21.8)	(22.1)	(22.9)	(23.3)	(24.0)
Subsidies, donations and contributions for new capital expenditure	1.5	4.9	1.5	3.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Proceeds from sale of property, plant and equipment	-	0.4	-	-	-	-	-	-	-	-	-
Payments for intangible assets	-	(1.1)	(0.9)	(0.2)	(0.1)	(0.1)	(0.7)	(0.4)	(0.4)	(0.1)	(0.1)
Other	-	10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash inflow (outflow) from investing activities</b>	<b>(4.8)</b>	<b>(7.6)</b>	<b>(15.9)</b>	<b>(16.2)</b>	<b>(14.9)</b>	<b>(16.0)</b>	<b>(16.0)</b>	<b>(15.9)</b>	<b>(16.7)</b>	<b>(16.9)</b>	<b>(17.6)</b>
Proceeds from borrowings	2.3	0.8	-	-	-	-	-	-	-	-	-
Repayment of borrowings	(1.2)	(2.6)	(2.8)	(3.0)	(3.1)	(3.3)	(3.5)	(3.7)	(3.9)	(4.2)	(4.4)
<b>Net cash inflow (outflow) from financing activities</b>	<b>1.1</b>	<b>(1.8)</b>	<b>(2.8)</b>	<b>(3.0)</b>	<b>(3.1)</b>	<b>(3.3)</b>	<b>(3.5)</b>	<b>(3.7)</b>	<b>(3.9)</b>	<b>(4.2)</b>	<b>(4.4)</b>
<b>Net increase (decrease) in cash held</b>	<b>0.7</b>	<b>4.7</b>	<b>(1.9)</b>	<b>(1.6)</b>	<b>0.3</b>	<b>(0.1)</b>	<b>0.7</b>	<b>1.6</b>	<b>1.6</b>	<b>2.3</b>	<b>2.4</b>
<b>Cash at beginning of reporting period</b>	<b>36.8</b>	<b>28.9</b>	<b>33.5</b>	<b>31.7</b>	<b>30.1</b>	<b>30.3</b>	<b>30.3</b>	<b>31.0</b>	<b>32.7</b>	<b>34.2</b>	<b>36.6</b>
<b>Cash at end of reporting period</b>	<b>37.5</b>	<b>33.5</b>	<b>31.7</b>	<b>30.1</b>	<b>30.3</b>	<b>30.3</b>	<b>31.0</b>	<b>32.7</b>	<b>34.2</b>	<b>36.6</b>	<b>39.0</b>

## Appendix B: Key Financial Ratios Definitions and Benchmarks

Ratio	Definition	FY2014 Actual	FY2015 Budget	FY2016 F/cast	FY2017 F/cast	FY2018 F/cast	FY2019 F/cast
<b>Operating performance</b>							
Operating surplus ratio <sup>1</sup> (%)	Operating result (excluding capital items) as a percentage of operating revenue	(4.2%)	0.1%	0.3%	0.8%	1.3%	2.1%
<b>Fiscal flexibility</b>							
Council controlled revenue ratio (%)	Net rates, levies and charges and fees and charges / total operating revenue	77.0%	81.7%	81.9%	82.0%	82.0%	82.2%
Total debt service cover ratio (times)	(Operating result (excluding capital items) + depreciation and amortisation + gross interest expense) / (gross interest expense + prior year current interest bearing liabilities)	3.0	3.8	3.8	3.9	4.1	4.2
Net financial liabilities ratio <sup>1</sup> (%)	(Total liabilities - current assets) / total operating revenue (excluding capital items)	15.9% <sup>2</sup>	18.4%	17.1%	15.5%	11.6%	8.1%
<b>Liquidity</b>							
Cash expense cover ratio (months)	Current year's cash and cash equivalents balance / (total operating expenses - depreciation and amortisation - finance costs charged by QTC - interest paid on overdraft) * 12	4.9 <sup>2</sup>	6.1	5.6	5.2	5.1	5.0
<b>Asset sustainability</b>							
Asset sustainability ratio <sup>1</sup> (%)	Capital expenditure on replacement assets (renew als) / depreciation expense	31.9%	98.9%	96.5%	103.2%	99.2%	104.8%
Capital expenditure ratio (times)	Gross capital expenditure / depreciation	0.5	1.5	1.1	1.2	1.3	1.4
Average useful life of depreciable assets (years)	Property, plant and equipment / depreciation	48.4 <sup>2</sup>	49.2	49.4	50.5	51.5	52.4

1. DLGCR Financial Management (sustainability) Guideline 2013

2. Based on annualised figures

## Appendix C: QTC's Local Government Credit Rating and Outlook Definitions

### Ratings

<b>Very Strong</b>	A local government with a very strong capacity to meet its financial commitments in the short, medium and long-term. It has a record of reporting operating surpluses and is highly likely to be able to manage major unforeseen financial shocks and any adverse changes in its business without revenue and/or expense adjustments. Its capacity to manage core business risks is very strong.
<b>Strong</b>	A local government with a strong capacity to meet its financial commitments in the short, medium and long-term. It generally has a record of operating surpluses and may occasionally report minor operating deficits. It is able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business, with minor revenue and/or expense adjustments. The expense adjustments are likely to result in only minor changes to the range of and/or quality of services offered. Its capacity to manage core business risks is strong.
<b>Sound</b>	A local government with an adequate capacity to meet its financial commitments in the short, medium and long-term. While it is likely that it may have a record of minor to moderate operating deficits, the local government is expected to regularly report operating surpluses. It is likely able to address its operating deficits, manage major unforeseen financial shocks and any adverse changes in its business, with minor or moderate revenue and/or expense adjustments. The expense adjustments are likely to result in some changes to the range of and/or quality of services offered. Its capacity to manage core business risks is sound.
<b>Moderate</b>	A local government with an adequate capacity to meet its financial commitments in the short to medium-term and an acceptable capacity in the long-term. While it has some record of reporting minor to moderate operating deficits, the local government may also have recently reported a significant operating deficit. It is likely able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered. Its capacity to manage core business risks is moderate.
<b>Weak</b>	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 has a record of reporting moderate to significant operating deficits with a recent operating deficit being significant. It is unlikely to be able to address its operating deficits, manage unforeseen financial shocks, and any adverse changes in its business, without the need for significant revenue and/or expense adjustments. The expense adjustments would result in significant changes to the range of and/or quality of services offered. It may experience difficulty in managing core business risks.
<b>Very Weak</b>	A local government with a limited capacity to meet its financial commitments in the short and medium-term, and a very limited capacity long-term. It has a record of reporting significant operating deficits. It is highly unlikely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business without the need for structural reform and major revenue and/or expense adjustments. The expense adjustments are likely to result in significant changes to the range and/or quality of services offered and it may need the assistance from higher levels of government. It will have difficulty in managing its core business risks.

## Ratings (cont)

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<b><i>Distressed</i></b>	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. It has a record of reporting significant operating deficits. To be able to address its operating deficits, meet its medium and long-term obligations, manage unforeseen financial shocks and any adverse changes in its business, major revenue and expense adjustments and structural reform will be required. The local government is unlikely to have the capacity to manage core business risks and may need assistance from higher levels of government.
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## Outlooks

A ratings outlook generally focuses on the potential movement in an entity's rating in the short term (ie, less than 24 months). Outlooks may be positive, neutral or negative.

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<b><i>Positive or negative</i></b>	As a result of a foreseeable event or circumstance occurring, there is the potential for enhancement/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.
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<b><i>Neutral</i></b>	There are no known foreseeable events that would have a direct impact on the local government's capacity to meet its financial commitments. 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.
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<b><i>Developing</i></b>	A developing outlook is where a current situation exists that could have a significant direct impact on the financial sustainability of the local government, but the impact of that situation is uncertain.
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