Financial Sustainability Review- Full Report

Prepared for Cairns Regional Council | October 2011

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

COMMERCIAL-IN-CONFIDENCE

CREDIT ENTITY NAME IN FULL	CAIRNS REGIONAL COUNCIL
Date of Review	October 2011
Rating	**Sound** with a **Negative** outlook
Previous ratings	**Cairns City Council – has not been rated by QTC**
	Douglas Shire Council – has not been rated by QTC

Cairns Regional Council (CRC, Cairns or Council) has engaged Queensland Treasury Corporation (QTC) to undertake a Financial Sustainability Review of Council for the purposes of assisting Queensland Treasury in its consideration of the Business Case for the proposed Cairns Entertainment Precinct.

To reach our conclusions and recommendations, we:

- evaluated Council's historical performance and forecast financial outcomes, including forecasts (as at September 2011) for capital expenditure, revenues and operating costs associated with the proposed Entertainment Precinct
- held discussions with Council's senior management team
- reviewed regional economic information
- reviewed key business drivers, and
- tested the impact of various events on Council's financial forecasts, including sensitivities associated with the proposed Entertainment Precinct.

RATING RATIONALE

CRC has been rated as **Sound** with a **Negative** outlook.

The **Sound** rating is reflective of Council's current and forecast strong financial profile – sound operating and net results, high degree of fiscal flexibility with high level of own source revenue, negative net debt position and strong debt servicing capacity.

However, while Council has a strong financial profile, it has been offset to some extent by:

- the significant adverse impacts on the regional economy (ie, high unemployment, weak tourism sector) by the global financial crisis, recent natural disasters and the high Australian dollar
- the proposed Entertainment Precinct being a net cost project to Council, and
- unresolved issues around Council's depreciation methodology.

While the proposed Entertainment Precinct will result in Council having to increase borrowings and subsidise forecast operating losses, Council appears to have adequate financial capacity to undertake such a project. However, this assumes Council will be able

to implement forecast increases in rates and utility charges in a difficult regional economic environment, achieve forecast cost efficiencies in FY2012 and that forecast capital, funding and operating results for the Entertainment Precinct eventuate as planned.

The **Negative** outlook is primarily reflective of:

- the uncertainty over how long it will take the regional economy to recover, and whether a prolonged slump in the regional economy will impact on Council's strong financial profile, particularly if Council is constrained in its ability to continue implementing historic levels of rates and utilities charges during the forecast period, and
- to a lesser extent, the current uncertainty over the final forecast capital and whole of life costs for the Entertainment Precinct and funding contributions from the Commonwealth, State and Council.

Further detail on the factors impacting the rating and outlook are discussed below.

Sound Rating

The most significant **positive** factors contributing to the **Sound** rating are:

1. **CRC has the statutory power to regulate rates and utility charges under the *Local Government Act 2009***

Council has the power to levy rates (conferred under the *Local Government Act 2009*), which provides Council with considerable revenue flexibility and certainty.

2. **CRC has a high degree of fiscal flexibility based on a high level of own source revenue**

Council has had a strong level of own source revenue, with net rates and utilities charges averaging 73.3 per cent of operating revenue over the historical period (FY2006 to FY2011) and 82.3 per cent over the forecast period (FY2012 toFY2021). It is noted, however, that the higher proportion of own source revenue in the forecast period is partially attributable to the decline in the level of subsidies and grants revenue compared to the historical period.

3. **Willingness to increase net rates and utilities charges**

CRC has demonstrated a willingness to increase net rates and utility charges as required. Historically, net rates and utilities charges increased on average by 9.1 per cent per annum over the FY2006 to FY2011 period. The increase in net rates and utilities for FY2012 is 3.4 per cent per annum and is projected to increase on average by 6.6 per cent for the remainder of the period. General rates are budgeted to grow by 0.6 per cent in FY2012. The average increase in general rates over the remainder of the forecast period is approximately 6.6 per cent per annum.

4. **Council has a strong balance sheet with low levels of gross debt and sound liquidity**

Council maintained a negative net debt (cash exceeded long term debt) position during the FY2006 to FY2011 period, which is forecast to continue over the forecast period (FY2012 to FY2021). This has been primarily due to a strong cash position and relatively low debt levels. Strong cash positions have been the result of revenue from grants, subsidies, contributions and donations, coupled with Council only requiring limited borrowings to fund its capital expenditure program. Council spent $707.8 million on capital expenditure over the historical period, of which 54.1 per cent was funded by operating cash flow, 29.0 per cent from grants, subsidies and donations, 2.5 per cent from proceeds received on the sale of property, plant and equipment and the remaining 14.4 per cent from borrowings. With the high cash balances and low debt levels, Council's liquidity and debt servicing capacity has been strong and this trend is expected to initially soften before resuming from FY2016 to continue over the forecast period.

5. **Sound net results over the historical period and expected to continue over the forecast period, despite declining capital revenue**

With the exception of FY2009 and FY2011, Council has experienced minor operating surpluses or deficits over the historical period. A significant deficit occurred in FY2009 (15.8 per cent) primarily due to the timing of income and expenses associated with amalgamation. When FY2008 and FY2009 are averaged this anomaly is removed. The majority of the FY2011 operating loss is attributable to an additional two weeks of operating costs being incurred due to the financial accounting year being fixed by the QAO.

Council is forecasting minor operating deficits from FY2012 through to the end of FY2014 because of the general economic downturn in the region, concerns about imposing increases in rates and utilities at historical levels in tough economic conditions (only for FY2012) and forecast reductions in developer contributions resulting from Council's financial incentives to developers to encourage development in the region.

From FY2015, operating results are forecast to revert to a surplus position as rate price increases are maintained at around 4.5 per cent per annum, financial incentives to developers are reduced and general economic conditions in the region improve. Modest losses are forecast in FY2017 and FY2018 due to commissioning of the Entertainment Precinct in this period, before surpluses are again expected from FY2019 to FY2021.

6. **Continued investment in its asset base**

Council has continued to invest in its asset base over the historical period (FY2006 to FY2011), with capital expenditure averaging 1.6 times annual depreciation expense. While this ratio remains at levels greater than 1.0 times over the FY2012 to FY2017 period, it does fall below 1.0 times for the FY2018 to FY2021 period. CRC has advised QTC that this drop off in expenditure is primarily because the water and sewerage assets, being relatively new, do not require any major renewal expenditure at present. These assets also

have long useful lives leading to a lower annual depreciation expense. CRC has advised that as a disciplinary measure it has placed the equivalent of the depreciation expenditure into a cash covered asset replacement reserve or sinking fund to fund future renewals and new capital expenditure. This cash reserve is not reflected in the capital expenditure ratio.

The most significant **adverse** factors contributing to the **Sound** rating are:

1. Ability to increase rates at forecast levels

Council may find it difficult to increase rates and utilities charges (post FY2012) at close to historical levels, particularly if the regional economy continues to remain weak.

The Cairns regional economy has been affected by the Global Financial Crisis (GFC), the Queensland floods, cyclone Yasi, a strong Australian dollar (AUD) and the more recent Tsunami in Japan. These events have heavily impacted tourism, construction and other related retail and hospitality activity within the region and led to high levels of business closure (Babinda Mill, the failure of three major construction companies plus the failure of at least one major builder and numerous small businesses) and high unemployment (8.6 per cent in December 2010 against 5.5 per cent for Queensland).

2. Proposed Entertainment Precinct net cost project to Council

The Entertainment Precinct in itself will not operate on a full cost recovery basis. Council is forecasting an average of $8.5 million per annum in operating losses from FY2017, translating to an average $95 per ratepayer per annum.

3. Ability to contain expenses will ultimately determine forecast operating results

CRC is forecasting significant efficiency gains in FY2012 with materials and services costs expected to reduce in FY2012 when compared to FY2011 by 4.7 per cent or $4.4 million. Initiatives to drive the efficiency gains include further reduction in reliance upon consultants, non filling of vacancies in areas where workloads have been reduced due to the economic downturn (eg assessment of development applications), reduction in backfilling of positions when staff are on leave and cost reductions due to improved procurement practices.

CRC's CCI assumes an increase by only 2.0 per cent in FY2012, compared to the Local Government Association of Queensland (LGAQ) Council Cost Index (CCI) of around 7.5 per cent.

Employee wage price increases are forecast at 4.0 per cent with the current EBA expiring in 2012. The existing EBA prohibits forced redundancies and growth in employee numbers has been capped in dollar terms in certain years. Beyond the EBA period, wages price growth has been forecast at 4.0 per cent. If the next EBA outcome results in greater than 4 per cent growth, a possibility in light of the economic conditions in the region, or if employee numbers increase beyond the dollar cap, additional pressure will be placed on forecast operating results.

4. Unresolved issues around depreciation methodology

Council has traditionally used the straight line depreciation methodology for its fixed assets but has contemplated adopting consumption based depreciation. At the time of compiling the forecasts used in this review CRC advised QTC that depreciation in FY2012 was based on the straight-line methodology while the subsequent nine financial years assume the introduction and use of consumption based depreciation.

CRC has advised that it is now unlikely that the proposed change in depreciation methodology will occur post FY2013 but has retained the forecasts until this decision is finalised.

Negative Outlook

The most significant factors contributing to the **Negative** outlook are:

1. Uncertainty about the regional economy

Uncertainty over how long it will take the regional economy (and in particular, the retail, tourism and construction sectors) to recover and how long Council will continue to be adversely impacted by weak global economic conditions, the high AUD and the resultant impact on Council's ability to increase rates and utility charges.

2. Uncertainty around the economics of the proposed Entertainment Precinct

While the forecasts indicate Council will have adequate financial capacity to undertake the Entertainment Precinct, at the time of this report, uncertainty remains around the capital and whole of life financial impact of the proposed Entertainment Precinct as well as the level of State and Federal government grant funding.[1] The forecasts submitted by CRC assume an additional $57.3 million of cash grant funding plus the land already committed with a value of $40.0 million. It should be noted that if the project forecasts change significantly, these changes may impact the affordability of the project to Council.

Further uncertainty exists around Council's own contribution, which is partly premised on the sale of two property assets worth a total of $16 million.

[1] The financial information on the Entertainment Precinct used in this report was given to QTC directly by CRC. QTC has not reviewed the preliminary evaluation document presented to Queensland Treasury but understands the financial information relates to Stage 1 Option 6 as included in this document.

RECOMMENDATIONS

1. Finalise the business case for the Entertainment Precinct

Council will need to finalise its business case and attempt to resolve a number of current uncertainties including:

- the capital cost and whole of life operating costs
- levels of State and Federal government grant funding
- the sale of assets used to provide Council's own contribution
- the practicality of staging the project, balanced against whether CRC can afford to undertake the complete project in the foreseeable future
- the impact of key sensitivities upon Council's financial sustainability, and
- whether other asset renewal or capital expenditure requirements have been traded off to help fund this project.

2. Consider alternative strategies to stimulate the regional economy

If you accept that at least one justification for undertaking the Entertainment Precinct is to stimulate the regional economy, then it logically follows that CRC should consider all other options for stimulating the regional economy. This should also include less capital intensive options than the Entertainment Precinct.

3. Develop alternate plans if unable to contain forecast employee costs and/or materials and services costs

Achieving budgeted surpluses both in the medium and long-term will be critical to Council. If forecast outcomes in any of the areas targeted for efficiency improvements appear as though they will not be achieved, Council will need to be in a position to quickly make changes so as to minimise the impact on its operating position.

4. Continue to monitor developments in the regional and global economy

Council must continue to monitor developments in their regional economy. It should adjust its forecast assumptions as appropriate and continually revisit the impact of these adjustments on its financial sustainability. This could include providing for a financial buffer to assist in withstanding significant financial shocks.

5. Assess the impact and plan for the introduction of the Carbon Tax

Council needs to assess the impact of increased energy costs together with penalties for emission from both landfill and waste water treatment sites. Ultimately these costs need to be factored into to Council's planning including its budgeting and forecasting systems.

Contents

1 | SCOPE AND APPROACH

CRC has asked QTC to conduct a Financial Sustainability Review (FSR) of Council's business.

Our approach was to:

- evaluate Council's historical performance and forecast financial outcomes through financial ratio analysis
- review regional economic information
- review key business drivers
- test the impact of various sensitivities 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 (FY2006 to FY2011)
- Council's financial model, containing high level financial forecast information (FY2012 to FY2021), and
- publicly available information from the Office of Economic and Statistical Research (OESR) to provide an economic profile for the local government area.

We have not:

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

2 | CAIRNS OVERVIEW

- Cairns Regional Council (CRC or Council), encompassing a total area of 4,135 square kilometres, was formed by an amalgamation of the previous Cairns City Council and Douglas Shire Council in March 2008.
- As at 30 June 2010, the estimated residential population of CRC was approximately 168,000, with a comparably high proportion (23.6 per cent) within the most disadvantaged quintile in terms of the Australian Bureau of Statistics Socio-Economic Index of Disadvantage. By definition the Queensland average for this most disadvantaged quintile is 20.0 per cent of the population.
- Cairns is the regional centre for far north Queensland where all major educational, health, commercial, government, retail and financial services can be accessed. The area is heavily dependent on tourism which is to a large extent linked to the Great Barrier Reef and the Wet Tropics World Heritage Area that includes the Kuranda and Daintree rainforests. The Cairns Airport, which is owned by North Queensland Airports (a private consortium of infrastructure funds), services both domestic and international flights which are essential for the region's tourism. Cairns also has a seaport which is used to import fuel supplies and export raw sugar and other cargo however, it is primarily used to take tourists to the Great Barrier Reef and host cruise ships.

The most significant issues currently facing CRC are:

- facilitating economic and social development within the region, particularly given the current downturn in tourism. This includes partnering with other government agencies and targeted industry groups to gain access to a portion of the fly in, fly out mining market. Council has also initiated a developer contribution discount program ($4m during FY2012, and is currently investigating the implementation of an investment attraction scheme to attract new businesses to the region in order to stimulate the local economy.
- planning and managing for environmental sustainability, given their proximity to both the Great Barrier Reef and rainforests
- delivering on operating efficiencies and savings to avoid unsustainable increases in rates and charges
- obtaining community buy in for a new Entertainment Precinct, completing a rigorous whole-of-life business case and managing a capital intensive project
- translating their strategic asset management planning into genuine operational outcomes and refining the detail of their asset management plans through better data capture and alignment for operational maintenance, and
- continually incorporating feedback from community engagement into long term asset management and financial plans and strengthening these linkages.

3 | ENVIRONMENTAL ISSUES AND ANALYSIS

3.1 Regulatory Environment

3.1.1 Statutory authority to levy rates

CRC is a local government authority incorporated in Australia under the (Queensland) *Local Government Act 2009* (the Act). The Act gives Council authority to levy rates and utility charges respectively.

3.1.2 Governing Body and Elections

Council has an elected body of ten councillors and a Mayor. Council elections are held every four years. Councillors are elected from within their division while the Mayor is elected by a majority popular vote across the entire local government area. The next election is due in March 2012.

3.2 Economic Environment

The region has historically been dependent on the tourism and hospitality industries. This is reflected in the statistics for employment by industry type. At the time of the 2006 Census, retail trade (12.7 per cent of the region's employed labour force) was the largest employer for the region closely followed by accommodation and food services (11.6 per cent). Subsequent to the 2006 Census, tourism has been negatively impacted following the Global Financial Crisis and the current high Australian dollar. This is reflected in the current high level of unemployment, which for the December 2010 quarter was 8.6 per cent, compared to the Queensland average of 5.5 per cent.

The total value of agricultural production in the Council region in 2005-6 was $113.6 million which then comprised 1.3 per cent of the total value of agricultural production in Queensland.

In 2006, the Australian Bureau of Statistics issued a Socio-Economic Index of Disadvantage. This index ranks geographical regions to reflect disadvantage of social and economic conditions. The index focuses on low-income earners, relatively lower education attainment, high unemployment and dwellings without motor vehicles. Queensland has 20 per cent of the population in each quintile, with CRC having 23.6 per cent of the population in the most disadvantaged quintile. Since 2006, unemployment in the region has increased, peaking in June 2010 at 10.1 per cent. Only in the last two quarters, has it begun to show signs of improvement. However it still remains well above the State average.

The average taxable income of residents within CRC in 2007-08, as reported by OESR, was $40,303, below the State average of $41,911.

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

Table 1: Comparison of key economic information for Cairns Regional Council against Queensland

	Cairns Regional Council	State of Queensland
Population (estimated at 30 June 2010)	168,000	4.5 million
Population forecast growth to 2031	1.7 per cent per annum	1.8 per cent per annum
Median age (2006-2007)	35.0 years	36.0 years
45+ age group (per cent of population) – June 2009	34.1 per cent	37.2 per cent
Forecast median age 2031	41.0 years	41.0 years
Average taxable income (2007-08)	$40,303	$41,911
Unemployment rate (December quarter 2010)	8.6 per cent	5.5 per cent
Rateable properties (June 2010)	78,691	
Council employees (June 2010)	1,397	
Council employees per 100 persons	1.2	

Source: OESR's Queensland Regional Profiles, generated 2 June 2011

3.3 Natural Environment

CRC faces the constant risk of adverse weather conditions, particularly during the cyclone season. While CRC escaped major damage from Tropical Cylcone Yasi in February 2011, Council made a claim through the National Disaster Relief and Recovery Arrangement (NDRRA) for approximately $35.8 million, which is expected to cover a significant portion of the costs Council is still expecting to incur.

3.4 Carbon Tax

Local governments are expected to incur liabilities under the proposed climate change plan announced by the Australian Government, with operations expected to be impacted through a combination of:

- an incurred liability for greenhouse gas emissions (direct cost)
- flow on costs through suppliers (indirect cost), and
- the cost to administer compliance with taxation provisions and the trading of emission credits.

The biggest direct cost to local governments is expected to be from emissions at landfill sites, a cost they are expected to incur annually. Council only has one small active landfill that only receives non organic commercial and industrial waste.

Council is waiting to see what is included in the approved legislation and will also be seeking advice from LGAQ on the issue. No allowance has been made for carbon tax impacts in Council's 10 year forecast model.

4 | FINANCIAL ANALYSIS

The financial analysis undertaken by QTC is based on the following information sourced from Council:

- historical and forecast financial information as presented in the Cairns LG Forecasting Model V2.5 received in September 2011 (QTC understands that the figures in this model reflect the forecast financial information relating to Stage 1 of Option 6 for the Entertainment Precinct, as included in the Preliminary Evaluation document presented to Treasury).
- CRC's audited Financial Statements for the year ended 30 June 2011, which have been incorporated as the FY2011 data in the Model, and
- discussions with Council's management.

QTC has not audited or independently verified the Model and we have not made any representation as to the accuracy and completeness of the Model.

CRC' historical and forecast financial data is discussed in sections 4.1 and 4.2.

See Appendix B for the *Historical Financial Summary (FY2006–FY2011) and Forecast Financial Summary (FY2012–FY2021).*

4.1 Historical Review FY2006–FY2011

Due to the Council amalgamations that occurred on the 15 March 2008, it is difficult to directly compare FY2008 and FY2009 financial results and trends. With the exception of rates revenue, all other revenue and expense figures in FY2008 represent an 8.5 month reporting period while the same line items for FY2009 represent a 15.5 month period, (mid March 2008 to 30 June 2009). In both FY2008 and FY2009, revenue figures reflect 12 months of rates revenue.

At times throughout this report, revenue or expenses in these two financial years have been estimated as if they occurred over a 12 month period to allow for comparison with preceding and following years. When this has occurred, it is clearly stated.

4.1.1 Income statement

Table 2 shows Council's historical operating results.

Table 2. Historical operating results

($M)	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Net rates and utilities charges	145.3	155.3	163.3	200.4	213.7	224.4
Fees and charges	22.8	22.2	16.6	26.3	21.1	19.4
Sales, contract and recoverable works	6.6	7.6	3.6	9.3	8.9	5.0
Operating grants, subsidies and donations	27.0	29.6	15.2	31.1	20.1	21.3
Other revenue[2]	4.9	6.2	7.8	7.7	5.5	5.8
Total operating revenue	**212.6**	**229.0**	**213.3**	**286.0**	**277.4**	**286.1**
Employee benefits	68.5	73.2	55.3	113.9	93.4	103.1
Material and services	79.0	85.2	58.4	119.6	93.6	94.3
Depreciation	54.4	62.0	47.4	90.5	81.6	90.8
Other expenses[3]	7.9	6.5	3.7	7.1	8.0	9.2
Total operating expenses	**209.8**	**226.8**	**164.8**	**331.1**	**276.7**	**297.4**
Operating result	**2.8**	**2.2**	**48.5**	**(45.1)**	**0.7**	**(11.3)**

Revenue

CRC derives its revenue from four principal sources

- rates and utilities charges
- operating grants subsidies and donations,
- fees and charges, and
- sales, contract and recoverable works.

Together they account for 94.1 per cent of CRC's total operating revenue over the historical period.

Total operating revenue[4] increased from $212.6 million in FY2006 to $286.1 million in FY2011, a compound annual growth rate (CAGR) of 6.1 per cent. This was largely a consequence of rate increases, with only a modest increase in the number of rateable

[2] Includes gain on sale of land held as inventory, interest received and other income that is recurrent in nature

[3] Includes finance costs and all other expenses

[4] Includes rates and utility charges, fees and charges, sales contract and recoverable works, operating grants, subsidies, contributions and donations, interest received and other income that is recurrent in nature

properties. As shown in Table 3 below, rates and utilities revenue per capita increased by a CAGR of 5.8 per cent over the period or a total of $318 per capita.

Table 3. Historical rates and utility revenue

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Net rates and utilities revenue ($M)	145.3	155.3	163.3	200.4	213.7	224.4
Change in net rates and utility revenue (%)	-	6.9	5.1	22.7	6.7	5.0
Rateable properties	n/a	n/a	n/a	77,195	78,691	79,580
Change in rateable properties (%)	n/a	n/a	n/a	n/a	1.9	1.1
Population	148,327	153,426	158,796	164,354	168,251	172,890
Rates and utilities revenue per rateable property ($)	n/a	n/a	n/a	2,596	2,716	2,820
Change in rates and utilities revenue per rateable property (%)	n/a	n/a	n/a	n/a	4.6	3.8
Rates and utilities revenue per capita ($)	980	1,012	1,028	1,219	1,270	1,298

n/a – information not available

Rates and utilities charges (own source revenue) account for on average 73.3 per cent of total operating revenue over the historical period, providing Council with a sound level of revenue flexibility.

Council received operating grants, subsidies and donations totalling $144.4 million between FY2006 to FY2011, contributing 9.6 per cent (on average) of total operating revenue over the historical period.

- General purpose grant funding represented approximately $55.0 million of this revenue, while State government grant funding represented approximately $44.0 million. This form of grant funding includes Federal Assistance Grants, Roads to Recovery and local roads of regional significance funding programs.
- Subsidies represent developer contributions for roads, sewerage and water infrastructure.
- Grant funding is subject to a high degree of fluctuation on an annual basis, as it is dependent on the State and Federal government's budget position.

Sales, contract and recoverable works, representing on average 2.7 per cent of total operating revenue, is predominantly work undertaken to repair and maintain roads on behalf of the Department of Transport and Main Roads. It is undertaken on a commercial basis.

Total operating expenses

During the historical period, CRC's operating expenses increased from $209.8 million in FY2006 to $297.4 million in FY2011, an increase of $87.6 million or a CAGR of 7.2 per cent.

The major categories of operating expenses were materials and services, employee expenses and depreciation. The changes in each of the categories over the historical period FY2006 to FY2011 are as follows:

- Material and services costs represented 35.2 per cent of total operating expenses over the period. They have remained fairly consistent over the period, increasing by a CAGR of 3.6 per cent.
- Employee benefit costs represent 33.7 per cent of total operating expenses over the period. This cost has increased by a CAGR of 8.5 per cent over the five year historical period.
  - As shown in the table below, the growth in employee benefits appears to have been largely attributable to an increase in the average salary per FTE rather than real growth in FTE numbers. From FY2009 to FY2011, average FTE salaries grew by a CAGR of 7.7 per cent while growth in employee numbers has been modest.[5]
  - Where available, Council employee numbers and average salaries per FTE are shown in table 4 below.

Table 4. Full time employees FY2006 – FY2011

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Total full-time equivalent employees	n/a	n/a	n/a	1,392	1,397	1,404
Growth (%)	n/a	n/a	n/a	-	0.4	0.5
Average Salary per FTE ($)	n/a	n/a	n/a	63,344	66,877	73,438

n/a – information not available from Council.

  - The current Enterprise Bargaining Agreement (EBA), certified in 2009, expires in June 2012. A new EBA is expected to be negotiated in the six month period prior to expiry.
  - Under the current EBA, annual wage increases are the greater of 4.0 per cent per annum or the Australian Bureau of Statistics Wage Price Index (Public Sector) Catalogue number 6345 which has averaged 3.8 per cent over the last two years.
  - CRC has advised that factors leading to employee expenses increases greater than 4 per cent include increases in employee overhead costs (i.e workers compensation), employee classification increments and the payment of overtime.

[5] Data for average FTE salaries and number of FTE's before FY2009 was not available.

- The current EBA states that no forced redundancies of permanent employees will occur for the term of the Agreement. This goes beyond any amalgamation requirement. CRC view this as a commitment to employee security, with natural attrition being relied on to reduce staff establishment.

- Depreciation and amortisation expense increased by a CAGR of 10.8 per cent over the historical period, with the increase being consistent with Council's increased asset base following amalgamation as well as capital expenditure over the period.

Table 5 shows CRC's historical operating expenses and the change in those expenses. When you take into consideration the effect of amalgamation on FY2008 and FY2009, there are no notable changes in these expenses from year to year. Average employee costs and materials and services costs for FY2008 and FY2009 were $84.6 million and $89 million, respectively.

Table 5. Historical operating expenses

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Employee costs ($M)	68.5	73.2	55.3	113.9	93.4	103.1
Change in employee costs (%)	-	6.8	(24.4)	106.0	(18.0)	10.4
Materials and services costs ($M)	79.0	85.2	58.4	119.6	93.6	94.3
Change in materials and services costs (%)	-	7.8	(31.5)	104.8	(21.7)	0.7
Total operating expenses ($M)	**209.88**	**226.8**	**164.8**	**331.1**	**276.7**	**297.4**

Operating result (excluding capital items)

QTC considers a balanced operating result to be optimal for a local government, and where operating deficits do occur, they should not be continuous and be no greater than negative 4.0 per cent of annual operating revenue.

Table 6 shows CRC's historical operating results and highlights that, other than in FY2009 and FY2011, Council has generally maintained a small operating surplus:

Table 6. Historical operating result

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Operating result (excl capital items) ($M)	2.8	2.2	48.5	(45.1)	0.7	(11.3)
Operating result as a percentage of total operating revenue – operating margin (deficit) (%)	1.3	1.0	22.7	(15.8)	0.3	(3.9)

- Over this period, as previously discussed, the FY2008 and FY2009 results are distorted because of the different reporting periods arising from the amalgamation. Estimations of operating results, assuming they occurred over a 12 month period, display operating surpluses of approximately $1.8 million each year (FY2008 and FY2009).

- The FY2011 audited operating loss of $11.3 million is worse than historical results as it includes extra costs due to a change in financial year end dates. Cairns was required to

change its financial year end from 24 June to 30 June as a result of new Queensland Audit Office requirements.

Net result (operating result including capital items)

Table 7. Capital revenue and net result summary ($M)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Operating surplus (deficit)	**2.8**	**2.2**	**48.5**	**(45.1)**	**0.7**	**(11.3)**
Grants, subsidies, contributions and donations	78.6	54.8	47.5	66.0	49.2	22.1
Other capital contributions	0.0	0.0	0.0	52.4	5.9	11.4
Capital income	1.1	0.6	0.0	2,685.6	0.0	2.4
Total capital revenue and income	**79.7**	**55.4**	**47.5**	**2,804.0**	**55.1**	**36.0**
Total capital expenses	**0.2**	**0.5**	**4.0**	**10.1**	**39.0**	**33.1**
Net result	**82.4**	**57.1**	**92.0**	**2,748.9**	**16.8**	**(8.4)**

With the inclusion of capital revenue and expenditure, Council recorded healthy net results over the historical period in every year except FY2011.

- Excluding the one-off gain ($2,685.6 million) arising from the amalgamation, total capital revenue and income over the period was $392.2 million.
- Total capital revenue and income was primarily comprised of $388.0 million in capital grants and contributions and $4.1 million of other capital income. Contributions are tied to capital expenditure, which decreased from $113.8 million in FY2006 to $98.9 million in FY2011.

Key operating ratios

Table 8 below shows CRC's key operating ratios for the period FY2006 to FY2011.

Table 8. Historical interest cover and debt service cover

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Operating margin (%) (QTC better than (4.0%))	1.3	1.0	22.7	(15.8)	0.3	(3.9)
Interest coverage ratio (%) (DLGP 0% to 10%)	0.4	(1.0)	(1.5)	(1.9)	(0.3)	(0.7)
EBITDA interest cover (times) (QTC greater than 6 times))	10.2	13.3	32.0	11.3	14.3	13.3
Gross debt to total operating revenue (%) (QTC no quoted benchmark)	35.9	28.8	28.3	35.6	36.6	33.8
Total debt service cover (times) (QTC greater than 2 times)	n/a	3.3	3.8	3.1	4.1	6.7

- With the exception of FY2009 and FY2011 (for reasons previously discussed) operating margins have been sound.

- Interest coverage (Net Interest Expense as a percentage of Total Operating Revenue) averaged negative 0.8 per cent, which was a consequence of interest received being greater than interest expense. This reflects the low level of debt held by Council.
- EBITDA interest cover has been strong throughout the historical period, ranging from 10.2 times in FY2006 to 32.0 times in FY2008, again reflecting CRC's low debt levels.

4.1.2 Cash flows

Table 9. Historical Key Cashflow Items($M)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Operating cashflows	57.4	70.5	83.6	64.8	62.1	70.1
Capital expenditure	59.0	59.6	63.4	194.7	120.9	96.9
Borrowings	10.2	7.3	8.9	66.1	9.8	0.0

During the FY2006 to FY2011 period, CRC maintained positive operating cash flows, which also demonstrated the high levels of depreciation impacting its operating results. A significant portion (54 per cent) of these cash flows were used to fund its capital expenditure program.

Council spent $707.8 million on gross capital expenditure in this period, of which $382.8 million was funded by operating cash flow, $205.0 million from grants, subsidies and donations, $102.2 million from borrowings and $17.8 million from proceeds received on the sale of property, plant and equipment.

Between FY2006 and FY2011, capital expenditure was greater than annual depreciation expense, with the ratio of annual capital expenditure to annual depreciation ranging from 2.1 times in FY2006 to 1.1 times in FY2011, suggesting that CRC adequately reinvested in its asset base over this period.

Table 10. Historical capital expenditure and depreciation expense

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Capital expenditure (gross)($m)	113.8	99.0	95.3	181.0	119.9	98.9
Depreciation expense ($m)	54.4	62.0	47.4	90.5	81.6	90.8
Capex/depreciation (times)	2.1	1.6	2.0	2.0	1.5	1.1
Average useful lives of depreciable assets (years)	n/a	n/a	n/a	n/a	n/a	30

The average useful life of total property plant and equipment over the historical period is in excess of 40 years, which is reasonable and reflective of the long life assets of local government.

Budgeted gross capital expenditure in FY2011 of $110.6 million ($98.9 million actual) was allocated primarily as follows:

- $41.2 million for infrastructure projects, including $12.7 million for design of the Entertainment Precinct
- $38.4 million in other community infrastructure
- $26.4 transport infrastructure, and
- $4.6 million for drainage and flood mitigation.

4.1.3 Balance sheet

Table 11. Historical Summary Balance Sheet items($M)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Cash	99.3	116.2	154.3	129.4	122.9	126.3
Current assets	126.7	144.7	199.7	172.4	178.7	168.9
Property, plant and equipment	2,132.6	2,289.1	2,459.5	2,602.4	2,892.6	2,936.9
Total assets	2,282.1	2,481.0	2,744.4	2,986.2	3,071.7	3,175.6
Current liabilities*	44.5	47.4	48.8	67.0	59.2	70.2
Total long term debt	58.8	46.0	42.6	91.7	96.6	92.3
Total liabilities	114.3	104.8	102.9	186.1	189.7	180.2
Net community assets / equity	2,167.7	2,376.3	2,641.6	2,800.1	2,882.0	2,995.4

*Excludes current portion of long term debt

Cash

CRCs' cash balance increased from $99.3 million in FY2006 to $126.3 million in FY2011. This cash growth resulted in CRCs' cash expense cover ratio being on average 8.6 months over the period, which is well above QTC's minimum benchmark of 3.0 months. This ratio is however, reduced to 4.1 months if restricted cash is removed.

As shown in Table 12 below, the current ratio was sound across the period and generally near or exceeding the QTC recommended minimum benchmark (of at least 3) in historical years. In FY2011 this ratio was affected by additional expenses incurred because of changes in accounting period end dates.

Table 12. Historical cash and liquidity

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Cash ($M)	99.3	116.2	154.3	129.4	122.9	126.3
Restricted cash ($M)*	41.3	38.7	95.2	86.9	58.6	69.0
Current ratio (times) (QTC greater than 3 times)	2.8	3.1	4.1	2.6	3.0	**2.4**
Cash expenses cover (months) (QTC greater than 3 months)	8.0	8.7	16.2	6.6	7.8	7.6
Current ratio excluding restricted cash (times) (QTC)	1.9	2.2	2.1	1.3	2.0	1.4

*Included in total cash balance

Debt

With Council holding a negative net debt position (cash exceeding debt) throughout the historical period, the net financial liabilities to revenue ratio has been extremely sound (average negative 7.5 per cent) and well below the DLGP benchmark upper limit of 60 per cent. This ratio indicates that Council's net financial liabilities could be readily serviced by operating revenues.

Historical key leverage ratios indicate very low gearing levels as shown in Table 13 below:

Table 13. Historical leverage ratios

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Gross debt ($M)	76.4	66.0	60.4	101.9	101.6	96.6
Net financial asset to liability ratio (DLGP) (%)	(5.8)	(17.4)	(45.4)	4.8	4.0	4.0
Gross debt to community equity (%)	3.5	2.8	2.3	3.6	3.5	3.2
Gross debt per capita ($)	515	430	380	620	604	559
Gross debt per rateable property ($)	n/a	n/a	n/a	1,320	1,291	1,214

n/a – information not available

Net community assets

Net community assets increased from $2,167.7 million in FY2006 to $2,995.4 million in FY2011. With only minor operating surpluses throughout the period, the growth over the historical period was primarily a result of the $2,685.6 million capital gain realised on the amalgamation and subsequent asset revaluations.

4.1.4 Commitments and contingent liabilities

Council has reported the following contingent liabilities:

- Various legal claims are pending against Council. In the opinion of CRC's solicitor the potential loss on all claims as at 30 June 2011 should not exceed $80,000.
- CRC is a member of the Queensland local government worker's compensation self-insurance scheme, Local Government Workcare. Under this scheme Council has provided an indemnity towards a bank guarantee to cover liabilities that may remain should the self insurance licence be cancelled and there are insufficient funds available to cover outstanding liabilities. Only the Queensland Government's workers compensation authority may call on any part of the guarantee should the above circumstances arise. The Council's maximum exposure to the bank guarantee is $3.1 million.
- CRC is a member of the local government mutual liability self-insurance pool, LGM Queensland. In the event that the pool is wound up or it is unable to meet its debts as they fall due, the trust deed and rules provide that any accumulated deficit will be met by the individual pool members in the same proportion as their contribution is to the total pool contributions in respect to any year that a deficit arises. As at 30 June 2010, the financial statements reported an accumulated surplus or equity balance of $16.2 million and it is not anticipated any liability will arise.
- CRC has guaranteed a number of loans of local sporting clubs and associations. These loans totalled $743,044 as at 30 June 2011.
- There are also a number of native title claim applications over land and sea within the CRC area. These are only minor concerns to Council at the present time and are over land for which Council is trustee. Council is in continued negotiations with these applicants and has not quantified the value of these claims.

4.2 Financial Forecasts FY2012–FY2020

4.2.1 Key assumptions

The key assumptions used by Council in its financial forecast for the FY2012 to FY2021 period are summarised in Table 14.

Table 14. Key Forecast Assumptions

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
CRC population growth (%) (per OESR)	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Non-price growth in rates	0.5	0.5	1.0	1.0	1.5	1.5	1.5	1.5	1.5	1.5
Price growth in average general rates per property (%)	1.7	5.5	5.5	5.5	5.5	4.5	4.0	4.0	4.0	4.0
CPI (%) [6]	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
CRC CCI (%)	2.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Sales and recoverable works revenue (%)	21.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating grants, donations and subsidies (%)	(26.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fees and charges (%)	11.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
LGAQ CCI (%)	7.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wage dollar caps above EBA ($m)	0.0	1.5	2.0	2.5	2.5	2.5	2.5	2.5	2.5	2.5

[6] The Consumer Price Index (CPI) of 3.0 per cent has been included by QTC only for comparative purposes. Cairns have not directly used CPI in their forecast assumptions.

4.2.2 Income statement

Table 15 below provides a summary of the forecast income statement for CRC.

Table 15 Summary income statement ($M)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Total operating revenue	294.2	307.4	324.2	342.4	362.0	383.4	401.9	421.7	442.6	464.7
Total operating expenses	295.6	310.4	326.5	340.8	356.9	383.7	402.7	419.7	440.8	461.6
Operating result (deficit)	**(1.4)**	**(3.1)**	**(2.2)**	**1.6**	**5.1**	**(0.4)**	**(0.8)**	**2.1**	**1.8**	**3.1**
Operating margin (deficit) (%)	(0.5)	(1.0)	(0.7)	0.5	1.4	(0.1)	(0.2)	0.5	0.4	0.7
Total capital revenue and income	76.0	84.4	57.5	41.9	23.5	27.9	18.6	18.9	21.2	21.3
Total capital expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net result	**74.6**	**81.3**	**55.3**	**43.5**	**28.6**	**27.5**	**17.7**	**20.9**	**23.0**	**24.4**

Operating revenue

Over the forecast period, total operating revenue is expected to increase by a CAGR of 5.2 per cent per annum compared to a CAGR of 6.1 per cent historically. The table below provides a breakdown of total operating revenue.

Table 16. Summary of operating revenue ($M)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Net rates and utility charges	232.1	246.1	261.9	278.8	298.2	316.0	333.4	351.6	370.9	391.3
Fess and charges	21.5	22.4	23.3	24.2	25.2	26.2	27.2	28.3	29.4	30.6
Sales and recoverable works revenue	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Operating grants, subsidies, contributions and donations	19.6	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Other recurrent revenue	14.8	15.8	15.8	16.2	15.4	18.0	18.1	18.6	19.1	19.6
Total operating revenue	**294.2**	**307.4**	**324.2**	**342.4**	**362.0**	**383.4**	**401.9**	**421.7**	**442.6**	**464.7**

- Net rates and utilities charges make up the largest component of total operating revenue, contributing 82.3 per cent of total operating revenue over the forecast period. The combination of price growth and growth in rateable properties, equates to a CAGR of 6.0 per cent in net rates and utilities revenue over the forecast period.
  - Cairns' forecasts for non-price growth in rates in the first four forecast years are low at between 0.5 and 1 per cent per annum, primarily due to the general economic downturn in the region. However, Council has forecast that by FY2016 non-price growth in rates will increase to 1.5 per cent per annum and continue at this level

throughout the remaining forecast period to FY2021. This growth is expected to be the result of population increases and increases in the number of rateable properties. This growth forecast is closer to OESR's forecast population growth of 1.7 per cent per annum over the period FY2012 to FY2021.

  - Cairns is forecasting a modest increase in rates price growth of 1.7 per cent in FY2012 primarily because of capacity to pay concerns and negative community sentiment that would accompany a major increase in rates receiving greater focus in an election year. From FY2013, general rates price increases are forecast at between 4.0 and 5.5 per cent per annum which is considerably higher than current market estimates for CPI of 3 per cent. Given the current downturn in the regional economic climate and the high level of unemployment, the forecast rates increases post FY2012 could prove difficult to implement.

- Fees and charges revenue is budgeted to increase by 11.0 per cent or $2.1 million in FY2012, followed by smaller increases of 4.0 per cent per annum for the remainder of the forecast period.
- Sales contract and recoverable works revenue is budgeted to increase by $1.1 million in FY2012 to $6.2 million. Most of this forecast revenue is associated with scheduled works to be completed by Council on behalf of the Department of Main Roads. No growth has been applied to this forecast beyond FY2012 due to the uncertainty of the level of future work. With an average of $6.8 million in revenue being generated from this source historically, this level of forecast revenue appears reasonable.
- Operating grants, subsidies and donations are forecast to decrease by 8 per cent in FY2012, reflecting lower developer contributions and a reduction in the availability of State and Federal grant funding. Beyond FY2013, Council has forecast no growth in operating grants and subsidies.
- Other recurrent revenue is expected to contribute 2.1 per cent of total operating revenue over the forecast period, with interest revenue making up the largest portion of other recurrent revenue. Forecast interest revenue appears reasonable when considered against forecast cash balances and a forecast interest rate of 4.75 per cent.

The Entertainment Precinct is anticipated to generate operating revenue of approximately $3 to $4 million per annum with the first full year of that revenue expected in FY2017. These revenue forecasts are included in Other Recurrent Revenue in the tables above.

Operating expenses

Table 17. Operating expenses summary ($M)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Employee expenses	106.7	114.3	120.4	126.7	132.3	140.2	148.2	154.1	162.8	171.9
Annual change (%)	*3.6*	*7.0*	*5.3*	*5.2*	*4.4*	*5.9*	*5.7*	*4.0*	*5.7*	*5.5*
Materials and services costs	89.8	96.3	100.2	104.3	108.3	119.6	125.6	131.9	139.3	145.5
Annual change (%)	*(4.7)*	*7.2*	*4.1*	*4.0*	*3.9*	*10.4*	*5.0*	*5.0*	*5.6*	*4.5*
Depreciation and amortisation	89.5	91.0	96.1	100.3	107.2	115.3	121.2	126.4	132.0	137.7
Other expenses	9.5	8.8	9.7	9.6	9.1	8.7	7.8	7.2	6.7	6.5
Total operating expenses	**295.6**	**310.4**	**326.5**	**340.8**	**356.9**	**383.7**	**402.7**	**419.7**	**440.8**	**461.6**
Annual change (%)	*(0.6)*	*5.0*	*5.2*	*4.4*	*4.7*	*7.5*	*4.9*	*4.3*	*5.0*	*4.7*

Employee expenses

- Employee expenses are forecast to grow by a CAGR of 5.4 per cent over the forecast period which is lower than the historical CAGR of 8.5 per cent. The forecast growth is premised on a 4 per cent EBA growth in salaries plus a dollar cap on employee headcount growth.
  - Employee wage price increases are forecast at 4.0 per cent for the full forecast period FY2012 to FY2021, which is in line with the current Enterprise Bargaining Agreement. This agreement expires in 2012, however negotiations are expected to result in at least a similar annual increase in light of the high unemployment and poor economic conditions in the region.
  - CRC have not provided any numbers for forecast full time employee (FTE) growth. Instead, Council advised QTC that beyond forecast wage price increases, employee growth has been capped in dollar terms at $1.5 million for FY2013, $2.0 million for FY2014 and for the remaining forecast years until FY2021, $2.5 million. Using FY2011 numbers, $1.0 million in wages growth would equate to approximately 13 full time equivalent staff.

Materials and services costs

- Materials and services costs are expected to reduce in FY2012 as operating efficiencies are realised.
- CRC has been active in looking for ways to minimise overhead costs over the last 12 months, with specific initiatives identified for FY2012. These initiatives include further reduction in reliance upon consultants, non filling of vacancies in areas where workloads have been reduced due to the economic downturn (eg assessment of development

applications), reduction in backfilling of positions when staff are on leave and cost reductions due to improved procurement practices.

- These initiatives are expected to result in a reduction in materials and services expenses in FY2012 of 4.7 per cent or $4.4 million when compared to FY2011. Thereafter, for the remainder of the forecast period, CRC are expecting materials and services costs to increase at a CAGR of 5.5 per cent.
- Council has used their own Council Cost Index (CCI) to forecast increases in materials and services costs. With the exception of FY2012 (2.0 per cent), the assumption throughout the forecast period is above CPI, but still well below the LGAQ current CCI forecast of 7.5 per cent.

Depreciation and amortisation expense

- Over the forecast period, depreciation and amortisation expense comprises 29.9 per cent, on average, of total operating expenditure. This compares to 28.3 per cent over the historical period.
- CRC have traditionally used the straight line depreciation methodology but have advised QTC that their forecasts (except for FY2012) are based on the use of consumption based depreciation.
  - CRC has advised that it is now unlikely that the proposed change in depreciation methodology will occur in FY2013 but that there is still a possibility that it will occur at some future date. Due to this uncertainty, Council has retained the forecasts as is for the present time.
  - While this lack of clarity poses some uncertainty to its review, QTC does not believe that total depreciation for Council over a 10 year period using either straight line or consumption based methods different will result in significant variations to the ratios considered in this report.

Finance costs

- Finance costs, which comprise the majority of other expenses, average $7.8 million per annum over the forecast period. Borrowings are calculated at an interest rate of 6.5 per cent per annum, which is consistent with current interest rate assumptions. Annual finance costs are consistent with gross debt levels throughout the forecast period.

Operating result

- A balanced operating result is considered optimal by QTC for a local government. Council is forecasting relatively minor operating deficits from FY2012 to FY2014 which do not exceed 1.0 per cent of operating revenue in FY2012. Further minor deficits are expected in FY2017 and FY2018 and do not exceed 0.2 per cent. All other years (beyond FY2018) have minor operating surpluses that peak in FY2021 at 0.7 per cent of operating revenue.
- Forecasts from FY2013 also include operating expenses from the proposed Entertainment Precinct. From FY2016 to FY2021 (after the Entertainment Precinct is commissioned), it is forecast to generate an average operating deficit of $7.6 million per annum, increasing to $8.6 million (FY2017 to FY2021). As the forecasts for the Entertainment Precinct are still being finalised, there is a degree of uncertainty surrounding potential operating results for CRC.
- Revenue for the Entertainment Precinct appears as other recurrent revenue. Expenses for the Entertainment Precinct appear on a number of line items including other materials and supplies, depreciation and finance costs.

Key operating ratios

The capacity of a local government to respond to changing circumstances, including unforeseen financial shocks, by adjusting revenues and/or expense levels or by optimising balance sheet arrangements reflects the degree of financial flexibility. There are a number of indicators which provide an insight into the financial flexibility of a local government. These are shown in table 18 below:

Table 18. Key forecast operating ratios

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
EBITDA[7] ($m)	94.2	93.8	101.0	110.1	120.3	122.3	127.2	134.4	139.3	145.8
Own source revenue ratio[8] (%)	78.9	80.1	80.8	81.4	82.4	82.4	83.0	83.4	83.8	84.2
EBITDA interest cover[9] (times)	15.4	16.0	14.1	13.3	15.2	16.6	18.3	22.5	25.3	29.3
Net interest expense[10]to operating revenue (DIP) %	(0.5)	(0.4)	(0.0)	(0.1)	(0.2)	(0.2)	(0.4)	(0.5)	(0.6)	(0.7)
Net financial liabilities to operating revenue[11] (DIP) (%)	10.1	14.8	14.6	10.5	7.4	(1.5)	(10.6)	(20.7)	(32.5)	(39.9)
Total debt service cover[12] (times)	6.4	10.1	8.6	8.0	8.8	9.0	9.3	9.8	10.1	10.5

- The own source revenue ratio (ie, net rates and utilities charges to operating revenue) indicates the level of control and flexibility a local government has over its revenue sources. As a local government has limited ability to influence external revenue sources, a high percentage of own source revenue should provide a local government with greater flexibility in responding to adverse events. QTC recommends a benchmark ratio of 60 per cent for local governments.
- The own source revenue ratio for Cairns over the forecast period is expected to be strong, averaging 82.3 per cent. This is 9.0 per cent higher than the average 73.3 per cent realised over the historical period. However the higher ratio is also reflective of substantially reduced operating grants and subsidies expected over the forecast period. Overall, the high level of own source revenue would suggest that Council expects to have a high degree of flexibility to influence revenue levels should circumstances require an adjustment to funding needs.

[7] Operating result before interest, tax, depreciation and amortisation.

[8] Own source revenue refers to net rates and utilities charges and excludes other fees and charges. The ratio is defined as net rates and utilities charges as a percentage of operating revenue.

[9] EBITDA/finance costs charged by QTC.

[10] Finance costs + interest received.

[11] (Total liabilities – current assets) / total operating revenue

[12] (Net operating cash flow + interest expense) / (interest expense + prior year current interest bearing liabilities).

- EBITDA interest coverage and net financial liabilities to operating revenue ratios remain strong over the forecast period, reflective of Council's forecast low debt levels. These results are well within recommended benchmarks of greater than six times and less than 60 per cent respectively.

  Any major increase in interest rates for future borrowings are unlikely to have a significant financial impact on Cairns financial profile or fiscal flexibility.

Net result

Table 19. Capital revenue and net result summary ($M)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Operating surplus (deficit)	**(1.4)**	**(3.1)**	**(2.2)**	**1.6**	**5.1**	**(0.4)**	**(0.8)**	**2.1**	**1.8**	**3.1**
Grants, subsidies, contributions and donations	72.0	78.4	51.3	34.0	17.1	16.6	11.9	12.1	14.2	14.2
Other capital contributions	3.2	6.0	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.1
Capital income	0.8	0.0	0.0	1.6	0.0	4.8	0.0	0.0	0.0	0.0
Total capital revenue and income	**76.0**	**84.4**	**57.5**	**41.9**	**23.5**	**27.9**	**18.6**	**18.9**	**21.2**	**21.3**
Total capital expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net result	**74.6**	**81.3**	**55.3**	**43.5**	**28.6**	**27.5**	**17.7**	**20.9**	**23.0**	**24.4**

- Council's capital revenue is mainly comprised of capital grants and subsidies. Movements in capital revenue are primarily a function of any changes in planned capital expenditure and the level of capital subsidies provided by the Commonwealth and State governments.
- With the inclusion of $391.1 million in capital revenue over the forecast period, CRC is expecting to record positive net results in each forecast year. Net results, including capital items, are forecast to peak between FY2012 and FY2014, reflecting the receipt of capital grant funding for the Entertainment Precinct totalling $97.3 million ($39.6 million in FY2012, $33.3 million in FY2013, $19.2 million in FY2014, $4.7 million in FY2015 and $0.5 million in FY2016) of which $57.3 million is from the State and $40.0 million is Federal.
- Developer contributions are forecast to decrease by 72.3 per cent in FY2012 (from $11.4 million in FY2011 to $3.2 million in FY2012), as a direct result of CRC having recently introduced short term concessions to developers to stimulate development activity. Developer contributions are expected to recover to 52.8 per cent of FY2011 levels in FY2013, reflecting a partial recovery in development activity. Developer contributions are then forecast to increase by 2.0 per cent year on year from FY2014.

- CRC has forecast $16.0 million in proceeds and $7.2 million in capital income from FY2012 to FY2021, reflecting the sale of property, plant and equipment. These proceeds have been identified against existing valuations and are forecast to be used as part of the funding strategy for the new Entertainment Precinct. However, these proceeds cannot be assumed as certain in the current economic environment.

Summary

The key factors associated with CRC achieving forecast operating results include:

- achieving consistent rate increases over the forecast period of an average 6 per cent
- achieving tight control over employee costs with employee numbers capped in dollar terms plus wage increases forecast at 4.0 per cent per annum
- delivering on reduced growth in material and services costs (4.7 per cent reduction in these costs in FY2012 and growth at a CAGR of 5.5 per cent thereafter). This may be difficult to achieve given the current LGAQ Council Cost Index of 7.5 per cent in FY2012
- not incurring deficits for the Entertainment Precinct beyond current forecasts of an average $8.6 million per annum from FY2017, and
- securing the sale of two property assets, representing $7.2 million in income and $16 million in cash to fund part of their contribution to the Entertainment Precinct.

Based on a comparison of their FY2011 actual results to budget, for which variances were minimal, it appears that Council has a recent track record of delivering to budget.

4.2.3 Cash flows

Table 20. Key Cashflow Items($M)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Operating cashflows	60.7	89.5	93.4	101.0	111.6	116.6	120.3	128.8	134.2	140.8
Capital expenditure	171.1	177.8	142.5	128.6	115.9	103.3	91.3	92.2	87.8	110.0
Borrowings	0.0	23.7	21.4	0.4	0.6	0.1	0.1	0.6	0.5	0.4
Closing cash balance	**77.4**	**83.1**	**97.9**	**103.2**	**103.4**	**131.1**	**153.4**	**191.2**	**240.5**	**273.7**
Restricted cash component	61.4	51.9	54.6	52.8	60.6	69.2	78.0	86.9	97.5	110.2
Unrestricted cash component	16.0	31.2	43.3	50.4	42.8	61.9	75.4	104.3	143.0	163.5

Capital expenditure

Council has identified and prioritised its immediate infrastructure requirements as part of its aim to meet community needs within the region. Excluding buildings, of which $154.6

million has been forecast for the Entertainment Precinct, the upgrade and replacement of the roads, drainage and bridges network dominates Council's capital expenditure forecast, comprising 41.0 per cent of the total capital expenditure forecast, followed by water and sewerage expenditure at 22.8 per cent.

Total capital expenditure of $1,327.3 million over the forecast period includes:

- $544.4 million for roads, drainage and bridge networks
- $307.2 million for buildings (includes $154.6 million for the new Entertainment Precinct)
- $207.3 million for water infrastructure
- $172.0 million for other, which includes plant and equipment, and
- $95.5 million for sewerage infrastructure.

Capital expenditure is expected to be funded as follows:

- $939.9 million from operating cash flows and existing cash reserves (70.8 per cent)
- $322 million from capital subsidies and contributions (including $107 million in non-cash contributions) (24.3 per cent)
- $47.6 million from new borrowings (3.6 per cent), and
- $17.9 million from sales of assets (1.3 per cent).

Table 21 below shows the expected outlay of total capital expenditure over the forecast period. The higher capital expenditure between FY2012 and FY2015 reflects $154.6 million for the proposed Entertainment Precinct.

Table 21. Forecast capital expenditure and depreciation expense

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Gross total capital expenditure[13] ($m)	183.4	188.2	153.0	139.1	126.4	113.8	101.8	102.7	98.3	120.5
Depreciation expense (excl amortisation) ($m)	89.5	91.0	96.1	100.3	107.2	115.3	121.2	126.4	132.0	137.7
Capital expenditure to depreciation expense (times)	2.0	2.1	1.6	1.4	1.2	1.0	**0.8**	**0.8**	**0.7**	**0.9**
Average useful life of depreciable assets (years)	32	32	31	30	29	27	25	24	23	22

- Capital expenditure to depreciation expense averages 1.5 times over the period FY2012 to FY2017, indicating that Council is forecasting to adequately reinvest in its asset base

[13] Cash payments for PP&E + non cash capital grants, subsidies, contributions and donations.

over this period. A ratio of at least 1.0 times would suggest that Council is adequately reinvesting in its asset base.

- This ratio falls below 1.0 times however, from FY2018 to FY2021, which tends to suggest a potential under investment in Council's asset base during this later period.
- This observation is consistent with:
  - the outcome of the DLGP asset sustainability ratio on asset renewal (capital expenditure on the replacement of assets/depreciation expense) which averages 59.6 per cent from FY2012 to FY2021 against a recommended benchmark of above 90 per cent, and
  - the decline in average useful life of depreciable assets from 30 years in FY2015 to 22 years by the end of FY2021. Generally, the average useful life of local government's depreciable assets falls in the range of 30 to 40 years.
- In response to queries about this declining trend, CRC advised that for a large portion of its assets (ie, water and waste), capex renewals over the ensuing ten year period are not warranted as they are relatively new. Further, a sinking fund has been created for the renewal of water and waste assets whereby the equivalent of the depreciation each year is being allocated to a Future Capital Sustainability Reserve. The balance of this sinking fund is not factored into the measures outlined above until the funds are actually spent.

Entertainment Precinct

Council's current forecasts include $154.6 million in capital expenditure for construction of the Entertainment Precinct. Council has currently forecast to fund the $154.6 million with $40 million from the Commonwealth, $57.3 million from the State and $57.3 million from their own sources (including $16.0 million in asset sale proceeds). Table 22 below, provides a summary of the proposed funding sources for the Entertainment Precinct project.

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Total
Capital expenditure	**39.6**	**66.3**	**38.4**	**9.3**	**1.0-**	**-**	**154.6**
Grant funding State		33.0	19.2	4.6	0.5	-	57.3
Grant funding Commonwealth	39.6	0.4		-	-	-	40.0
Future asset acquisition reserve	-	10.5		-	-	-	10.5
New borrowings (repayments)	-	22.4	19.2		(2.8)	(8.0)	30.8
Asset disposal proceeds	-	-	-	8.0	-	8.0	16.0
Total funding	**39.6**	**66.3**	**38.4**	**12.6**	**-2.3-**	**0.0-**	**154.6**

- QTC notes that no land value has been included in these project costs. The estimated cost of the land is $40.0 million, which the State has committed to provide. While the

land may be leased to Council on the basis of a peppercorn rental, QTC understands that the State may look to have the land value acknowledged as part of its funding contribution for the project, which may reduce the cash grant funding from the State for this project.

The table below gives a summary of the anticipated operating cost of the Entertainment Precinct once opened in FY2016. It is noted that these estimates were provided by Council to QTC to reflect the forecast financial information relating to stage 1 of option 6 as included in the Preliminary Evaluation document presented to Treasury.

Table 23. Forecast Revenue and Operating Costs Entertainment Precinct ($M) - (base case $154.6M)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	0.7	3.3	3.4	3.4	3.5	3.6
Operational expenditure	0.5	7.3	7.7	8.0	8.4	8.9
Depreciation (40 years)	1.6	3.9	3.9	3.9	3.9	3.9
Interest expense (6.5% per annum)	2.3	2.2	1.6	1.4	1.4	1.1
Total expenses	4.3	13.4	13.2	13.3	13.6	13.8
Net operating cost	(2.5)	(8.9)	(8.5)	(8.5)	(8.6)	(8.6)
Approx cost per rateable property	$28	$101	$95	$94	$93	$92

As shown in the table above, an average annual operating deficit of $7.6 million is expected from the Entertainment Precinct over FY2016 to FY2021. Over FY2017 to FY2021 period the average operating deficit is $8.6 million. This equates to a per annum cost to ratepayers associated with the entertainment precinct of an average of $95 per rateable property.

4.2.4 Balance sheet

Table 24. Summary Balance Sheet items($M)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Cash	77.4	83.1	97.9	103.2	103.4	131.1	153.4	191.2	240.5	273.7
Current assets	116.8	124.2	141.3	149.0	151.9	182.4	207.3	247.7	299.8	335.9
Property, plant and equipment	3,088.1	3,245.1	3,363.2	3,457.9	3,539.8	3,597.6	3,640.5	3,678.5	3,705.9	3,749.5
Total assets	3,274.6	3,439.2	3,574.3	3,676.7	3,761.5	3,849.8	3,917.6	3,996.0	4,075.5	4,155.2
Current liabilities*	39.1	42.8	45.0	46.4	48.4	52.7	55.7	58.6	61.7	63.1
Total long term debt	88.2	107.5	123.5	118.1	109.0	102.3	86.6	78.9	70.5	63.0
Total liabilities	146.5	169.8	188.5	185.1	178.6	176.8	164.6	160.4	155.9	150.4
Net community assets / equity	3,128.2	3,269.4	3,385.8	3,491.6	3,582.9	3,673.0	3,752.9	3,835.6	3,919.6	4,004.8

*Excludes current portion of long term debt

Cash and equivalents

Council's cash assets and equivalents are forecast to increase from $77.4 million in FY2012 to $273.7 million by FY2021. Cash expenses cover averages 6.8 months per annum for the forecast period, with a minimum of 4.6 months in FY2012. Compared to QTC's recommended minimum benchmark of 3 months, this indicates that CRC has access to adequate cash to cover core operating expenses and has the capacity to cover any moderate financial shock, should it occur during the forecast period. Restricted and unrestricted cash balances have been shown in table 20. It is noted that the cash expenses cover excluding unrestricted cash is lower at 3.4 months.

The current ratio[14] is adequate, averaging 3.8 times over the forecast period, which indicates that Council has capacity to meet its short term obligations. QTC's recommended benchmark is greater than 3 times. The current ratio drops to 2.9 times in FY2013 before steadily improving. Again, it is noted that the current ratio excluding unrestricted cash is lower at 2.4 times.

The Working Capital ratio is strong, with the forecast average over the period of 3.8:1 being within the DLGP target range of 1:1 to 4:1.

[14] Also reflected as DLGP's Working Capital Ratio.

Table 25 below shows Council's forecast cash and liquidity indicators.

Table 25. Forecast cash and liquidity indicators

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Current ratio[15] (times)	3.0	2.9	3.1	3.2	3.1	3.5	3.7	4.2	4.9	5.3
Working capital ratio (DLGP)	3.0:1	2.9:1	3.1:1	3.2:1	3.1:1	3.5:1	3.7:1	4.2:1	4.9:1	5.3:1
Cash expenses cover[16] (months)	4.6	4.7	5.3	5.3	5.1	6.0	6.7	8.0	9.5	10.3

Property, plant and equipment

CRC's property, plant and equipment (PP&E) balance is influenced by the capital expenditure program of $1.3 billion, total depreciation charge of $1.1 billion over the forecast period and the asset revaluation assumption of 2.0 per cent per annum. Taking these factors into consideration, the PP&E balance is forecast to increase by a CAGR of 2.2 per cent over the period.

Long term debt

Throughout the forecast period, CRC is expecting to operate with low or negative net debt (ie, cash greater than long term debt) balances. Gross debt levels (current and non-current borrowings), increase from $96.6 million in FY2011 to a peak of $128.8 million in FY2014. Council's capital expenditure program will be 4.0 per cent funded by new borrowings of approximately $47.6 million, including $23.7 million to be drawn down in FY2013 and $21.4 million to be drawn down in FY2014.

Net community assets

CRCs' net community assets are forecast to increase by $0.9 billion, primarily a result of positive net results (including capital items), $0.3 billion across the forecast period and asset revaluations of $0.5 billion. Much of the positive operating result is based on Council receiving forecast revenue and capital grant funding as well as achieving rates revenue growth and maintaining tight control over operating expenses, particularly employee expenses and materials and services costs.

[15] Total current assets/total current liabilities

[16] Cash x 12 months/(total recurrent expense – depreciation – finance costs charged by QTC)

5 | SCENARIO ANALYSIS

QTC has modelled and analysed the following four scenarios based on the forecasts provided by CRC:

- Scenario 1 – QTC has labelled this the "base case". It is based on CRC's original forecast but with the Entertainment Precinct removed. This includes $154.6 million of capital expenditure, $97.3 million of grant funding, $42.1 million of new debt and all related net operating revenues and expenditures including salaries, materials, depreciation and interest expense.
- Scenario 2 – is based on CRC's forecasts analysed in detail in Section 4 of this review. It includes the Entertainment Precinct with $154.6 million of capital expenditure, $40.0 million of Commonwealth funding, $57.3 million of additional State funding (beyond the State's existing $40 million land contribution), $42.1 million of new debt and the net operating expenditure as outlined in table 23.
- Scenario 3 – is based on Scenario 2 except State grant funding is reduced from $57.3 million to $17.3 million (ie. reduced by the value of land already contributed) and CRC is left to debt fund the balance in FY2013.
- Scenario 4 – is based on Scenario 2 except State grant funding is reduced from $57.3 million to nil (ie no further State funding is assumed to be available) and CRC is left to debt fund the balance in the respective years as outlined in table 22.

We have also applied the following sensitivities to Scenario 2, which appears to be the only viable Scenario for consideration of the Entertainment Precinct. These sensitivities are modelled and discussed on a cumulative basis in the context of Scenario 2.

- price growth in average general rates (as summarised year by year in table 14 is held to a maximum 3.0 per cent in all years from FY2013 to FY2021.
- growth in materials and services expense in FY2012 is increased to 4.9 per cent and all subsequent forecast years (FY2013 to FY2021) are increased in the same percentage terms as outlined in table 14 on a year by year basis.
- the Capital cost of the Entertainment Precinct is increased by a 10 per cent contingency of $15.5 million and this increase is assumed to be fully debt funded in FY2016.
- planned property asset disposal proceeds of $16.0 million are unable to be realised, resulting in the need to debt fund an additional $16.0 million with $8.0 million in FY2015 and $8.0 million in FY2017.

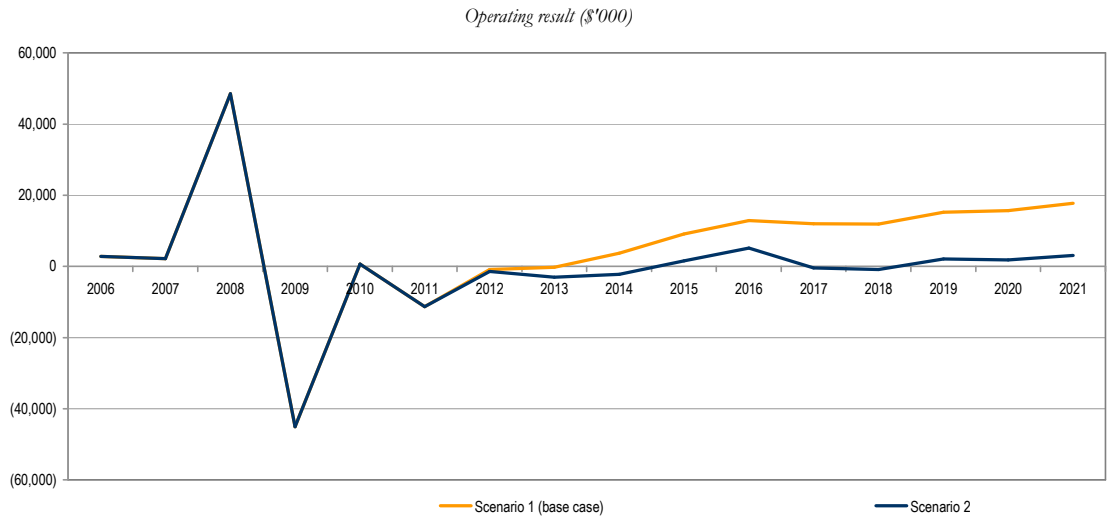
The assumptions and financial outcomes of the scenarios are discussed and compared below.

5.1 Scenario 1

(base case) $154.6 Million Entertainment Precinct Removed

As can be seen from Figure 1 below as well as table 26, CRC would clearly be in a stronger financial position without committing to the Entertainment Precinct. Operating results and all of the key QTC credit metrics would be stronger for every measure, except the capital expenditure ratio, if the project was not undertaken. The capital expenditure ratio remains adequate at 1.1 times.

Figure 1: Total Operating Result – Scenario 1 (base case) v Scenario 2



5.2 Scenario 2

(as submitted by CRC) includes $154.6 Million Entertainment Precinct with $97.3 Million of Grant Funding

With the Entertainment Precinct budgeted at $154.6 million and funded by $97.3 million of grant funding the project is modestly affordable within the context of CRC's current 10 year financial forecast.

However when that forecast is stressed for the sensitivities outlined above, it is apparent from the results in Figure 2 below that CRC will be under significant pressure to maintain price growth in general rates above CPI for the last nine years of the ten year forecast, as well as deliver early efficiencies in materials and services expense from FY2012.

CRC is also exposed to the last two sensitivities that we have outlined (increase in the capital cost of the project by 10 per cent and no disposal proceeds from the sale of surplus land), but the impact of this on their operating result and key QTC metrics is less significant than the first two sensitivities.

Whilst QTC concede that CRC is unlikely to be impacted by all of these sensitivities at the same time, it can be seen from table 26 that even the impact of the first sensitivity is sufficient to place CRC under financial pressure and leave them exposed to not meeting financial sustainability ratios.

Figure 2: Total Operating Result – Scenario 2 with cumulative sensitivities

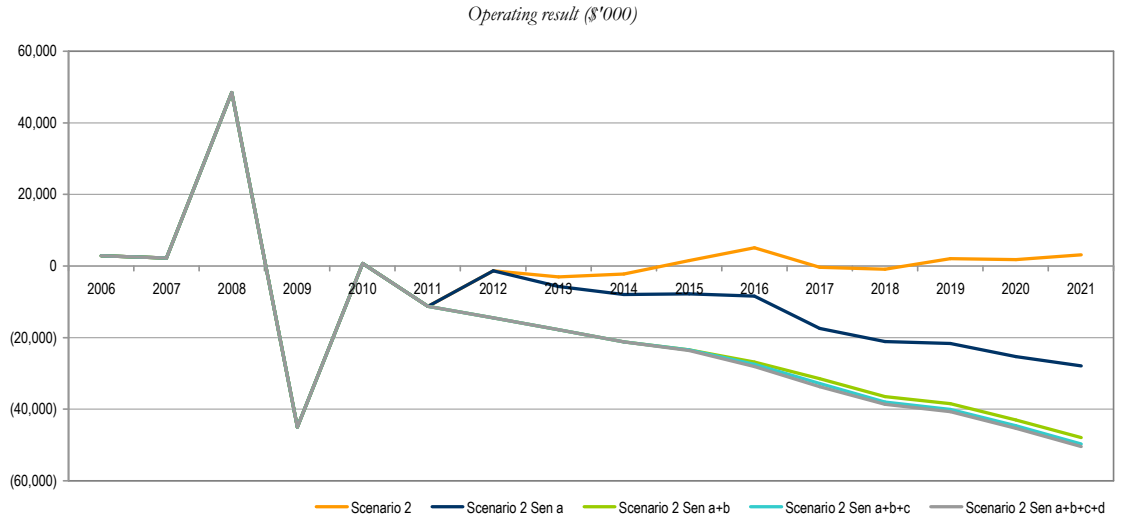


Table 26. Scenarios Compared: Impact on key QTC Financial Metrics for change in grant under differing Scenarios based on $180.0 million building cost

Financial Metric	QTC Benchmark	Average over full forecast period FY2012 to FY2021					Average over last six years FY2016 to FY2021				
		Scenario 1	**Scenario 2**	**Scenario 2 (plus first sensitivity)**	**Scenario3**	**Scenario 4**	**Scenario 1**	**Scenario 2**	**Scenario 2 (plus first sensitivity)**	**Scenario 3**	**Scenario 4**
Operating Margin	better than (4.0)%	2.6	0.2	(4.0)	(0.5)	(0.8)	3.5	0.4	**(5.2)**	(0.4)	(0.8)
Own Source Revenue	greater than 60.0%	82.2	82.3	82.2	82.4	82.5	83.3	83.3	83.4	83.5	83.6
EBITDA net interest Cover		(17.7)	(42.4)	10,496.6	(1,317.1)	95.9	(16.7)	(45.7)	71.7	180.4	55.3
EBITDA gross interest Cover	greater than 6 times	25.8	18.0	15.7	14.2	12.9	33.8	20.4	17.0	14.9	13.4
Total Debt Service Cover	greater than 2 times	12.5	9.1	8.0	7.5	6.9	14.3	9.4	7.8	7.3	6.7
Cash expenses cover	greater than 3 months	8.8	6.8	4.4	6.2	5.8	10.4	7.8	4.2	6.8	6.4
Cash expenses cover excluding restricted cash		5.3	3.4	1.0	2.8	2.4	6.8	4.2	0.7	3.3	2.8
Current Ratio	greater than 3 times	4.8	3.8	**2.8**	3.5	3.3	5.6	4.2	**2.7**	3.7	3.5
Current Ratio excluding restricted cash		3.3	2.4	1.4	2.1	1.9	5.1	3.6	2.0	3.1	2.9
Capital Expenditure Ratio	Greater than 1.1 times	1.1	1.2	1.2	1.2	1.2	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**

5.3 Scenario 3

$154.6 Million Entertainment Precinct with $57.3 Million of Grant Funding (State Grant Funding $17.3 Million extra)

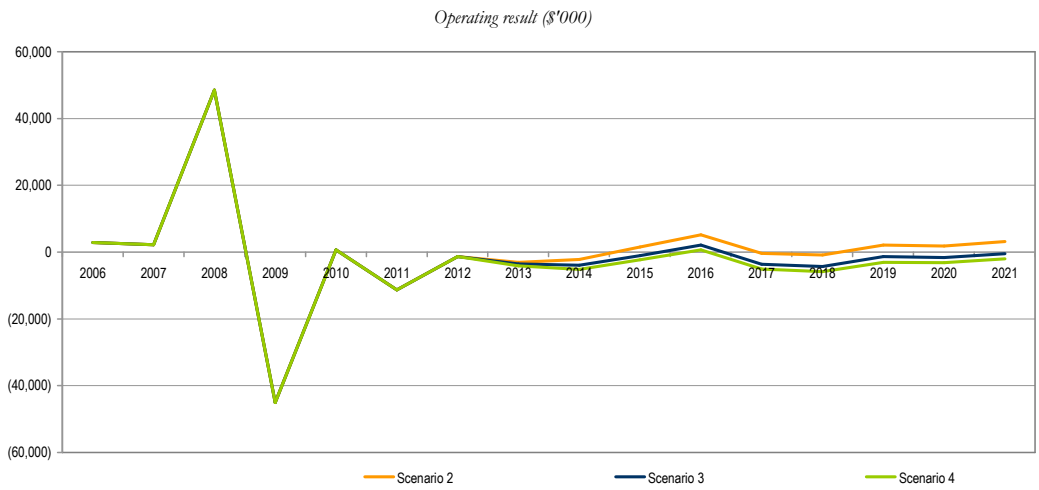
Whilst this scenario would appear sustainable in the context of CRC's existing forecast in terms of QTC's key metrics summarised in table 26 above, it is also important to note that the operating deficits are ongoing and do not return to surplus during the forecast period, except for FY2016 which does not have 12 months worth of net operating expenses for the Entertainment Precinct (see figure 3 below). This scenario would be further exposed to the same sensitivities that QTC has outlined above. These factors combine to suggest that this scenario is unsustainable.

5.4 Scenario 4

$154.6 Million Entertainment Precinct with $40.0 Million of Grant Funding (State Grant Funding $nil extra)

The financial sustainability of this scenario is worse than scenario 3. This conclusion is both intuitive and outlined in detail against the operating result in Figure 3 below and against the QTC metrics in table 26 above. Again this scenario would be further exposed to the same sensitivities outlined above and these factors combine to suggest that this scenario is also unsustainable.

Figure 3: Total Operating Result—Scenario 2, 3 and 4 comparisons ($000)



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APPENDIX A: FINANCIAL SUSTAINABILITY REVIEW RATINGS AND OUTLOOK DEFINITIONS

Ratings

Very Strong	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.
Strong	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.
Sound	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.
Moderate	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.
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 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.
Very weak	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.
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. 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.

Outlooks

A rating outlook generally focuses on the potential movement in a local government's rating in the short-term (ie, less than two years). Outlooks may be positive, neutral, or negative.

Positive / Negative	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.
Neutral	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.

APPENDIX B: HISTORICAL AND FINANCIAL FORECASTS: (I) INCOME STATEMENT

Year ended	30-Jun-06 $	30-Jun-07 $	30-Jun-08 $	30-Jun-09 $	30-Jun-10 $	30-Jun-11 $	30-Jun-12 $	30-Jun-13 $	30-Jun-14 $	30-Jun-15 $	30-Jun-16 $	30-Jun-17 $	30-Jun-18 $	30-Jun-19 $	30-Jun-20 $	30-Jun-21 $
Revenue																
Recurrent revenue:																
Net rates and utility charges	145,275,880	155,292,668	163,267,955	200,388,747	213,735,132	224,389,940	232,128,008	246,050,176	261,932,598	278,844,433	298,212,441	316,020,867	333,353,544	351,639,517	370,931,218	391,283,964
Fees and charges	22,817,450	22,213,285	16,630,352	26,282,821	21,109,540	19,372,599	21,512,881	22,373,393	23,268,326	24,199,056	25,167,016	26,173,694	27,220,639	28,309,462	29,441,837	30,619,507
Sales - contract and recoverable works	6,554,675	7,580,571	3,598,115	9,339,033	8,859,156	5,037,007	6,154,766	6,154,766	6,154,766	6,154,766	6,154,766	6,154,766	6,154,766	6,154,766	6,154,766	6,154,766
Gain on sale of land held as inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grants, subsidies, contributions and donations	27,009,490	29,621,744	15,155,321	31,126,029	20,135,862	21,334,741	19,644,991	17,023,652	17,023,652	17,023,652	17,023,652	17,023,652	17,023,652	17,023,652	17,023,652	17,023,652
Interest received	6,052,251	8,134,243	6,874,685	11,189,591	8,040,751	10,135,910	8,818,621	9,554,844	9,381,231	9,465,612	9,284,185	9,091,696	8,895,737	9,021,255	9,153,677	9,293,384
Profit/(loss) from investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other recurrent income	4,888,823	6,181,747	7,778,452	7,688,965	5,481,096	5,824,409	5,967,039	6,205,718	6,453,944	6,712,099	6,157,251	8,902,615	9,223,228	9,556,468	9,907,733	10,323,381
Total recurrent revenue	212,598,569	229,024,258	213,304,880	286,015,186	277,361,537	286,094,606	294,226,306	307,362,549	324,214,517	342,399,618	361,999,311	383,367,290	401,871,566	421,705,120	442,612,883	464,698,654
Capital revenue:																
Grants, subsidies, contributions and donations	78,642,307	54,807,152	47,468,873	66,028,729	49,216,359	22,119,036	71,985,722	78,357,000	51,343,400	34,027,400	17,102,000	16,590,000	11,905,000	12,080,000	14,230,000	14,230,000
Other capital contributions	-	-	-	52,378,390	5,889,840	11,442,437	3,166,729	6,042,400	6,162,148	6,284,291	6,408,877	6,535,955	6,665,573	6,797,785	6,932,641	7,070,194
Total capital revenue	78,642,307	54,807,152	47,468,873	118,407,119	55,106,199	33,561,473	75,152,451	84,399,400	57,505,548	40,311,691	23,510,877	23,125,955	18,570,573	18,877,785	21,162,641	21,300,194
Capital income:																
Gain on sale of property, plant and equipment	1,082,030	500,295	-	-	-	-	850,000	-	-	1,600,000	-	4,770,000	-	-	-	-
Profit from investments	-	114,922	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other capital income	-	-	-	2,685,635,256	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation up of PPE (reversing previous down revaluations)	-	-	-	-	-	2,411,686	-	-	-	-	-	-	-	-	-	-
Total capital income	1,082,030	615,217	-	2,685,635,256	-	2,411,686	850,000	-	-	1,600,000	-	4,770,000	-	-	-	-
Total capital revenue and capital income	**79,724,337**	**55,422,369**	**47,468,873**	**2,804,042,375**	**55,106,199**	**35,973,159**	**76,002,451**	**84,399,400**	**57,505,548**	**41,911,691**	**23,510,877**	**27,895,955**	**18,570,573**	**18,877,785**	**21,162,641**	**21,300,194**
Total income	**292,322,906**	**284,446,627**	**260,773,753**	**3,090,057,561**	**332,467,736**	**322,067,765**	**370,228,757**	**391,761,949**	**381,720,065**	**384,311,309**	**385,510,188**	**411,263,245**	**420,442,139**	**440,582,905**	**463,775,524**	**485,998,848**
Expenses																
Recurrent expenses:																
Employee benefits	68,502,758	73,158,193	55,291,384	113,892,275	93,426,988	103,106,748	106,783,926	114,309,739	120,382,125	126,697,402	132,305,666	140,156,271	148,201,801	154,129,866	162,847,768	171,861,673
Materials and services	79,041,625	85,227,731	58,385,351	119,597,776	93,595,564	94,273,943	89,844,079	96,303,146	100,235,499	104,252,013	108,278,362	119,581,302	125,606,562	131,903,692	139,265,912	145,544,906
Loss on sale of land held as inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortisation	54,378,699	61,986,751	47,383,430	90,468,008	81,609,202	90,765,185	89,508,100	91,018,364	96,117,596	100,281,829	107,226,375	115,345,065	121,150,024	126,382,063	131,972,976	137,686,797
Other expenses	965,901	598,980	96,382	1,501,111	906,822	1,188,498	2,287,673	443,453	376,058	379,100	382,264	385,555	388,977	392,536	396,238	400,087
Finance costs	6,884,440	5,871,188	3,627,544	5,618,986	7,112,847	8,052,943	7,202,497	8,340,532	9,349,116	9,210,480	8,702,111	8,280,706	7,371,036	6,844,101	6,337,733	6,091,980
Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total recurrent expenses	209,773,423	226,842,843	164,784,091	331,078,156	276,651,423	297,387,317	295,626,275	310,415,234	326,460,394	340,820,824	356,894,778	383,748,899	402,718,400	419,652,258	440,820,627	461,585,443
Capital expenses:																
Loss on sale of property, plant and equipment	189,200	493,144	2,181,785	1,392,183	3,502	41,272	-	-	-	-	-	-	-	-	-	-
Loss on investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other capital expenses	-	-	-	930,991	38,994,620	12,964,757	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation decrements	-	-	1,808,681	7,737,761	-	20,109,530	-	-	-	-	-	-	-	-	-	-
Total capital expenses	189,200	493,144	3,990,466	10,060,935	38,998,122	33,115,559	-	-	-	-	-	-	-	-	-	-
Total expenses	**209,962,623**	**227,335,987**	**168,774,557**	**341,139,091**	**315,649,545**	**330,502,876**	**295,626,275**	**310,415,234**	**326,460,394**	**340,820,824**	**356,894,778**	**383,748,899**	**402,718,400**	**419,652,258**	**440,820,627**	**461,585,443**
Result from ordinary activities	**82,360,283**	**57,110,640**	**91,999,196**	**2,748,918,470**	**16,818,191**	**(8,435,111)**	**74,602,482**	**81,346,715**	**55,259,671**	**43,490,485**	**28,615,410**	**27,514,346**	**17,723,739**	**20,930,647**	**22,954,897**	**24,413,405**
Other non-recurrent items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net result attributable to Council	**82,360,283**	**57,110,640**	**91,999,196**	**2,748,918,470**	**16,818,191**	**(8,435,111)**	**74,602,482**	**81,346,715**	**55,259,671**	**43,490,485**	**28,615,410**	**27,514,346**	**17,723,739**	**20,930,647**	**22,954,897**	**24,413,405**
OPERATING RESULT																
Operating revenue	212,598,569	229,024,258	213,304,880	286,015,186	277,361,537	286,094,606	294,226,306	307,362,549	324,214,517	342,399,618	361,999,311	383,367,290	401,871,566	421,705,120	442,612,883	464,698,654
Operating expense	209,773,423	226,842,843	164,784,091	331,078,156	276,651,423	297,387,317	295,626,275	310,415,234	326,460,394	340,820,824	356,894,778	383,748,899	402,718,400	419,652,258	440,820,627	461,585,443
Operating result	2,825,146	2,181,415	48,520,789	(45,062,970)	710,114	(11,292,711)	(1,399,969)	(3,052,685)	(2,245,877)	1,578,794	5,104,533	(381,609)	(846,834)	2,052,862	1,792,256	3,113,211

APPENDIX B: HISTORICAL AND FINANCIAL FORECASTS: (II) BALANCE SHEET

Year ended	30-Jun-06 $	30-Jun-07 $	30-Jun-08 $	30-Jun-09 $	30-Jun-10 $	30-Jun-11 $	30-Jun-12 $	30-Jun-13 $	30-Jun-14 $	30-Jun-15 $	30-Jun-16 $	30-Jun-17 $	30-Jun-18 $	30-Jun-19 $	30-Jun-20 $	30-Jun-21 $
Current assets																
Restricted component	41,315,954	38,671,586	95,214,619	86,938,381	58,604,441	69,000,000	61,366,896	51,926,183	54,559,255	52,749,866	60,581,743	69,180,651	77,969,224	86,890,009	97,456,371	110,217,867
Unrestricted component	57,934,880	77,516,104	59,097,163	42,434,438	64,330,539	57,281,048	16,008,662	31,165,848	43,314,500	50,441,217	42,826,204	61,870,694	75,450,455	104,315,905	143,070,470	163,494,422
Cash assets and cash equivalents	99,250,834	116,187,690	154,311,782	129,372,819	122,934,980	126,281,048	77,375,558	83,092,031	97,873,755	103,191,083	103,407,947	131,051,345	153,419,679	191,205,914	240,526,841	273,712,289
Land held for development or sale	5,000,000	5,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other inventory	-	-	1,932,723	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	5,000,000	5,000,000	1,932,723	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	20,068,305	20,701,547	40,186,721	21,587,688	37,465,144	39,341,748	35,187,249	36,716,018	38,815,063	41,046,658	43,485,426	46,143,566	48,449,075	50,878,833	53,440,176	56,145,855
Tax assets	197,680	208,739	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepayments	-	26,726	-	2,715,279	1,950,401	1,664,521	2,691,000	2,798,640	2,910,585	3,027,008	3,148,088	3,274,011	3,404,971	3,541,169	3,682,815	3,830,127
Other current assets	2,186,889	2,590,158	3,250,412	18,730,046	16,366,824	1,569,511	1,508,000	1,628,640	1,693,786	1,761,537	1,831,998	1,905,278	1,981,489	2,060,749	2,143,179	2,228,906
Total current assets	126,703,708	144,714,860	199,681,638	172,405,832	178,717,349	168,856,828	116,761,807	124,235,329	141,293,189	149,026,286	151,873,459	182,374,200	207,255,214	247,686,665	299,793,011	335,917,177
Non-current assets																
Land held for development or sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	11,242	4,782	3,750	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	2,132,586,157	2,289,135,496	2,459,477,247	2,602,383,264	2,892,593,966	2,936,898,611	3,088,051,635	3,245,109,372	3,363,213,127	3,457,864,009	3,539,765,744	3,597,583,081	3,640,488,014	3,678,522,593	3,705,876,987	3,749,457,136
Leased assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	271,088	395,063	667,779	686,188	686,188	686,188	686,188	686,188	686,188	686,188	686,188	686,188	686,188
Capital works in progress	22,766,550	47,192,860	85,273,694	211,178,243	-	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573	69,136,573
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-current assets	2,155,363,949	2,336,333,138	2,544,754,691	2,813,832,595	2,892,989,029	3,006,702,963	3,157,874,396	3,314,932,133	3,433,035,888	3,527,686,770	3,609,588,505	3,667,405,842	3,710,310,775	3,748,345,354	3,775,699,748	3,819,279,897
Total assets	**2,282,067,657**	**2,481,047,998**	**2,744,436,329**	**2,986,238,427**	**3,071,706,378**	**3,175,559,791**	**3,274,636,203**	**3,439,167,462**	**3,574,329,077**	**3,676,713,056**	**3,761,461,964**	**3,849,780,042**	**3,917,565,989**	**3,996,032,019**	**4,075,492,759**	**4,155,197,074**
Current liabilities																
Overdraft	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables	18,593,584	19,204,648	27,784,750	38,311,600	42,491,638	38,738,030	29,981,851	32,620,789	33,796,295	34,714,339	35,980,923	39,744,399	41,564,699	43,780,980	46,193,861	48,349,173
Borrowings	17,532,984	19,963,383	17,745,390	10,264,468	4,939,187	4,285,175	3,596,563	4,471,365	5,358,100	5,732,022	6,347,102	6,773,343	7,747,159	8,285,280	8,857,105	7,915,850
Employee payables/provisions	7,633,135	7,469,913	841,568	772,218	917,152	985,089	972,400	1,011,296	1,051,748	1,093,818	1,137,571	1,183,074	1,230,397	1,279,613	1,330,798	1,384,010
Other provisions	-	-	-	11,869,542	10,224,882	25,704,046	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Other	752,657	758,856	2,471,747	5,785,198	607,751	501,419	2,080,000	2,163,200	2,249,728	2,339,717	2,433,306	2,530,638	2,631,864	2,737,139	2,846,625	2,960,487
Total current liabilities	44,512,360	47,396,800	48,843,455	67,003,026	59,180,610	70,213,759	39,130,814	42,766,650	44,955,871	46,379,896	48,398,902	52,731,454	55,674,119	58,583,012	61,728,389	63,109,520
Non-current liabilities																
Trade and other payables	-	-	2,766,631	2,810,337	2,916,034	3,275,803	3,120,000	3,120,000	3,120,000	3,120,000	3,120,000	3,120,000	3,120,000	3,120,000	3,120,000	3,120,000
Loans	58,819,325	46,077,245	42,631,893	91,650,715	96,628,981	92,337,752	88,245,855	107,465,244	123,458,144	118,126,122	109,008,020	102,314,677	86,627,518	78,892,238	70,535,133	63,039,283
Interest free loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance leases	-	-	-	14,026	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	58,819,325	46,077,245	42,631,893	91,664,741	96,628,981	92,337,752	88,245,855	107,465,244	123,458,144	118,126,122	109,008,020	102,314,677	86,627,518	78,892,238	70,535,133	63,039,283
Employee payables/provisions	11,001,724	11,286,013	8,613,902	10,504,258	11,530,756	12,687,738	12,272,000	12,762,880	13,273,395	13,804,331	14,356,504	14,930,764	15,527,995	16,149,115	16,795,080	17,466,877
Other provisions	-	-	-	14,145,656	19,430,654	1,692,796	3,692,796	3,692,796	3,692,796	3,692,796	3,692,796	3,692,796	3,692,796	3,692,796	3,692,796	3,692,796
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-current liabilities	69,821,049	57,363,258	54,012,426	119,124,992	130,506,425	109,994,089	107,330,651	127,040,920	143,544,335	138,743,249	130,177,320	124,058,237	108,968,309	101,854,149	94,143,009	87,318,956
Total liabilities	**114,333,409**	**104,760,058**	**102,855,881**	**186,128,018**	**189,687,035**	**180,207,848**	**146,461,465**	**169,807,570**	**188,500,206**	**185,123,145**	**178,576,222**	**176,789,691**	**164,642,428**	**160,437,161**	**155,871,398**	**150,428,476**
Net community assets	**2,167,734,248**	**2,376,287,940**	**2,641,580,448**	**2,800,110,409**	**2,882,019,343**	**2,995,351,943**	**3,128,174,738**	**3,269,359,892**	**3,385,828,871**	**3,491,589,911**	**3,582,885,742**	**3,672,990,351**	**3,752,923,561**	**3,835,594,858**	**3,919,621,361**	**4,004,768,598**
Community equity																
Asset revaluation reserve	783,727,086	930,756,697	1,104,050,010	51,191,939	116,282,682	238,050,394	296,270,707	356,109,146	417,318,454	479,589,009	542,269,430	604,859,693	667,069,164	728,809,814	789,881,420	850,615,252
Other reserves	64,480,898	74,238,619	90,557,161	86,938,381	85,085,550	132,916,933	123,970,415	114,529,702	117,162,774	115,353,385	123,185,262	131,784,170	140,572,743	149,493,528	157,849,169	167,002,363
Retained surplus (deficiency)	1,319,526,264	1,371,292,624	1,446,973,277	2,661,980,089	2,680,651,111	2,624,384,616	2,707,933,616	2,798,721,044	2,851,347,643	2,896,647,517	2,917,431,050	2,936,346,488	2,945,281,654	2,957,291,516	2,971,890,772	2,987,150,983
Total community equity	**2,167,734,248**	**2,376,287,940**	**2,641,580,448**	**2,800,110,409**	**2,882,019,343**	**2,995,351,943**	**3,128,174,738**	**3,269,359,892**	**3,385,828,871**	**3,491,589,911**	**3,582,885,742**	**3,672,990,351**	**3,752,923,561**	**3,835,594,858**	**3,919,621,361**	**4,004,768,598**

APPENDIX B: HISTORICAL AND FINANCIAL FORECASTS: (III) CASHFLOW STATEMENT

	Actual						Budget	Forecast								
Year ended	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
Cash flows from operating activities:																
Receipts from customers	215,454,130	240,261,371	206,948,541	284,931,157	247,620,550	275,597,995	289,562,184	296,278,936	312,734,241	330,702,411	350,276,358	371,617,454	390,670,320	410,254,107	430,897,863	452,699,591
Payment to suppliers and employees	(157,726,374)	(172,798,365)	(127,251,352)	(226,917,660)	(186,732,522)	(209,036,926)	(206,734,902)	(210,362,592)	(221,452,716)	(230,795,801)	(239,885,130)	(256,662,245)	(272,162,905)	(284,410,396)	(300,244,065)	(316,043,419)
Payments for land held as inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of land held as inventory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest received	5,879,529	8,325,176	7,021,209	11,165,778	7,384,083	10,015,102	8,818,621	9,554,844	9,381,231	9,465,612	9,284,185	9,091,696	8,895,737	9,021,255	9,153,677	9,293,384
Interest on loans	(6,201,838)	(5,265,501)	(3,096,914)	(4,412,225)	(6,203,637)	(6,485,595)	(6,139,452)	(5,865,564)	(7,163,609)	(8,252,144)	(7,920,763)	(7,358,350)	(6,940,617)	(5,973,182)	(5,493,555)	(4,974,906)
Interest on overdraft	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest on finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance costs	(6,201,838)	(5,265,501)	(3,096,914)	(4,412,225)	(6,203,637)	(6,485,595)	(6,139,452)	(5,865,564)	(7,163,609)	(8,252,144)	(7,920,763)	(7,358,350)	(6,940,617)	(5,973,182)	(5,493,555)	(4,974,906)
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution from joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	(24,814,755)	(107,640)	(111,945)	(116,423)	(121,080)	(125,923)	(130,960)	(136,198)	(141,646)	(147,312)
Net cash inflow (outflow) from operating activities	**57,405,447**	**70,522,681**	**83,621,484**	**64,767,050**	**62,068,474**	**70,090,576**	**60,691,696**	**89,497,984**	**93,387,202**	**101,003,655**	**111,633,570**	**116,562,632**	**120,331,575**	**128,755,586**	**134,172,274**	**140,827,338**
Cash flows from investing activities:																
Payments for property, plant and equipment	(59,014,779)	(59,640,406)	(63,366,850)	(194,736,662)	(120,871,054)	(96,888,715)	(171,075,813)	(177,737,662)	(142,512,043)	(128,562,156)	(115,947,689)	(103,302,139)	(91,345,486)	(82,175,992)	(87,755,764)	(110,033,114)
Subsidies, donations and contributions for new capital expenditure	23,868,341	15,412,055	15,573,309	79,814,509	50,234,038	20,065,516	59,620,724	67,857,000	40,843,400	23,527,400	6,602,000	6,090,000	1,405,000	1,580,000	3,730,000	3,730,000
Proceeds from sale of property, plant and equipment	5,534,701	1,367,598	8,230,045	940,530	893,851	832,929	1,850,000	-	-	8,000,000	-	8,000,000	-	-	-	-
Payments for intangible assets	-	(379,008)	(134,815)	(276,985)	(417,964)	(796,221)	(18,409)	-	-	-	-	-	-	-	-	-
Net transfer (to) from cash investments	-	-	-	(17,000,000)	2,000,000	15,000,000	-	-	-	-	-	-	-	-	-	-
Net movement in loans and advances	69,373	6,460	4,230	669	1,831	1,250	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	4,806,821	6,004,960	6,183,530	6,306,529	6,432,005	6,560,007	6,690,588	6,823,800	6,959,697	7,098,329
Net cash inflow (outflow) from investing activities	**(29,542,364)**	**(43,233,301)**	**(39,694,081)**	**(131,257,939)**	**(68,159,298)**	**(61,785,241)**	**(104,816,677)**	**(103,875,702)**	**(95,485,113)**	**(90,728,227)**	**(102,913,684)**	**(82,652,132)**	**(83,249,898)**	**(83,772,192)**	**(77,066,067)**	**(99,204,785)**
Cash flows from financing activities																
Proceeds from borrowings	10,200,000	7,306,000	8,885,000	66,083,786	9,754,336	-	-	23,690,754	21,351,000	400,000	570,000	80,000	60,000	550,000	500,000	420,000
Repayment of borrowings	(16,856,097)	(17,658,524)	(14,664,152)	(24,462,000)	(10,059,273)	(4,945,241)	(4,780,509)	(3,596,563)	(4,471,365)	(5,358,100)	(9,073,022)	(6,347,102)	(14,773,343)	(7,747,159)	(8,285,280)	(8,857,105)
Repayments made on finance leases	-	-	(24,159)	(69,860)	(42,078)	(14,026)	-	-	-	-	-	-	-	-	-	-
Net cash inflow (outflow) from financing activities	**(6,656,097)**	**(10,352,524)**	**(5,803,311)**	**41,551,926**	**(347,015)**	**(4,959,267)**	**(4,780,509)**	**20,094,191**	**16,879,635**	**(4,958,100)**	**(8,503,022)**	**(6,267,102)**	**(14,713,343)**	**(7,197,159)**	**(7,785,280)**	**(8,437,105)**
Net increase (decrease) in cash held	**21,206,986**	**16,936,856**	**38,124,092**	**(24,938,963)**	**(6,437,839)**	**3,346,068**	**(48,905,490)**	**5,716,473**	**14,781,724**	**5,317,328**	**216,864**	**27,643,398**	**22,368,334**	**37,786,235**	**49,320,927**	**33,185,448**
Cash at beginning of reporting period	78,043,848	99,250,834	116,187,690	154,311,782	129,372,819	122,934,980	126,281,048	77,375,558	83,092,031	97,873,755	103,191,083	103,407,947	131,051,345	153,419,679	191,205,914	240,526,841
Cash at end of reporting period	**99,250,834**	**116,187,690**	**154,311,782**	**129,372,819**	**122,934,980**	**126,281,048**	**77,375,558**	**83,092,031**	**97,873,755**	**103,191,083**	**103,407,947**	**131,051,345**	**153,419,679**	**191,205,914**	**240,526,841**	**273,712,289**
Restricted and unrestricted components:																
Restricted component of cash	41,315,954	38,671,586	95,214,619	86,938,381	58,604,441	69,000,000	61,366,896	51,926,183	54,559,255	52,749,866	60,581,743	69,180,651	77,969,224	86,890,009	97,456,371	110,217,867
Unrestricted component	57,934,880	77,516,104	59,097,163	42,434,438	64,330,539	57,281,048	16,008,662	31,165,848	43,314,500	50,441,217	42,826,204	61,870,694	75,450,455	104,315,905	143,070,470	163,494,422