

# HOW WE MEASURE FINANCIAL SUSTAINABILITY

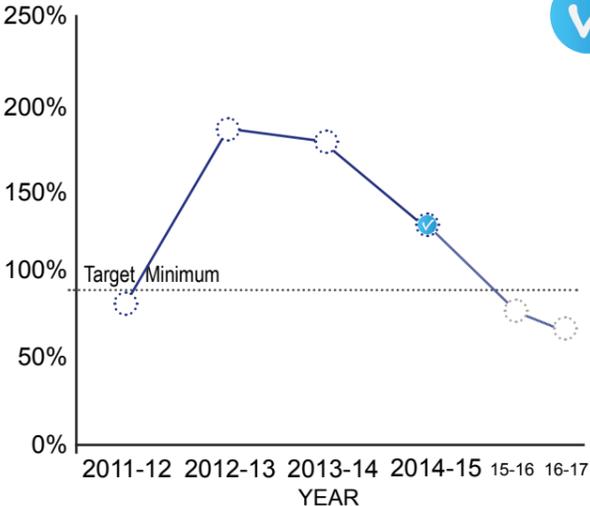
Council's snapshot of financial ratios have two primary areas of focus to measure financial sustainability. One area looks at the sustainability of our infrastructure capital and the other, our financial capital.

Each ratio has a target that is determined in line with best practice for local government and all are reported to the Executive Leadership Team and Councillors monthly to provide Council's decision makers with an ongoing and current snapshot of Council's financial sustainability.

To view Council's complete financial performance report, turn to the Community Financial Report on page 138.

## INFRASTRUCTURE CAPITAL SUSTAINABILITY

### ASSET SUSTAINABILITY RATIO



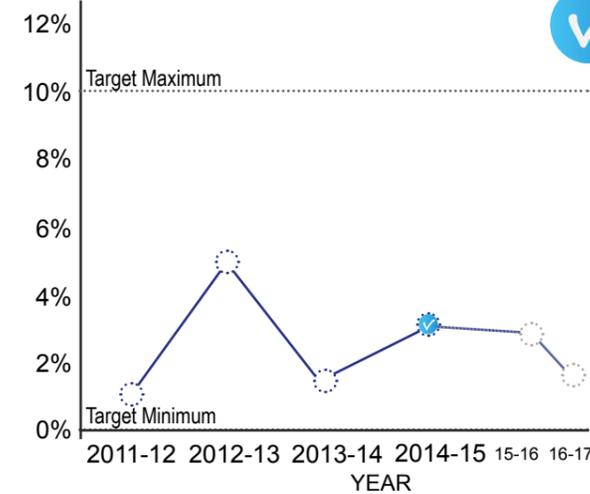
Movement on prior year	+126%	-4%	-29%
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The asset sustainability ratio is an approximation of the extent to which the infrastructure assets managed by Council are being replaced as they come to the end of their useful lives. This ratio indicates whether Council is renewing or replacing existing non-financial assets at the same rate that the overall stock of assets is wearing out.

**CFO COMMENTARY**  
The expenditure on asset replacement is anticipated to normalise over the next two years, with the cessation of Flood Damage repairs resulting in a decrease in this ratio over 2015-16 and 2016-17. The long term average for this indicator is above the target established by Queensland Treasury Corporation. As Council's infrastructure assets have a useful life of up to 100 years for some assets, it is important to view this ratio from a long term perspective.

### INTEREST COVERAGE RATIO



Movement on prior year	+400%	-68%	+38%
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The interest coverage ratio measures Council's ability to meet our interest payments. It indicates the extent to which Council's operating revenues are committed to net interest costs, and looks at the percentage of operating revenue utilised to meet interest costs associated with Council's borrowing.

**CFO COMMENTARY**  
Council is currently well within the target range of up to 10 per cent, with \$2.75 of every \$100 in Council's consolidated income utilised to pay net interest costs associated with the borrowings utilised for long term assets such as sewerage treatment plants, trunk water infrastructure and airport infrastructure. This is anticipated to decrease over the short term due to no increase in borrowings and a resulting reduction in interest expense during the forecast period.

## FINANCIAL CAPITAL SUSTAINABILITY

### OPERATING SURPLUS RATIO



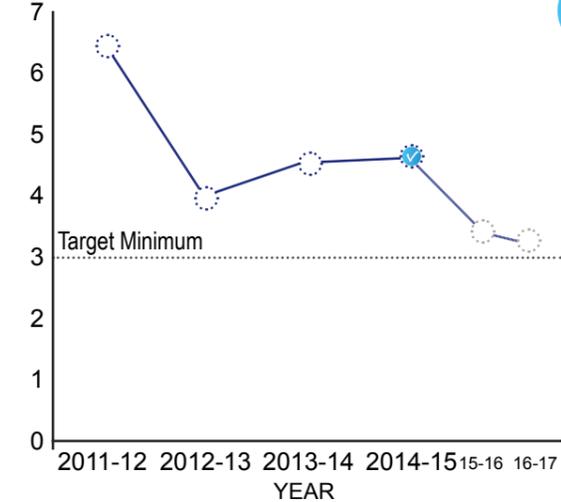
Movement on prior year	-66%	-48%	-5%
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The operating surplus ratio measures the percentage by which Council's major income source and operating grants varies from our day-to-day expenses.

**CFO COMMENTARY**  
Council made an operating gain during 2014-15, of \$4.019 million. This result is an increase over the previous year of \$0.12m, which is due to constrained expenditure and an increase in revenue, with falls in fees and charges being offset by increased rating revenue and grants and subsidies income. It is recognised that the long term operating surplus is projected to return to between 2 and 4.3 per cent through to 2016-17. As such, Council remains in a solid trading position.

### WORKING CAPITAL RATIO



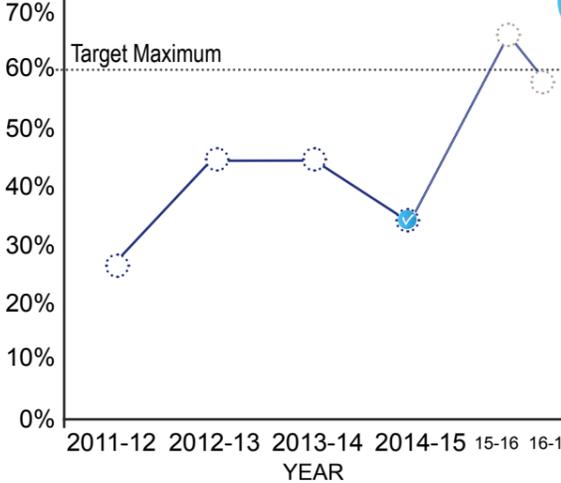
Movement on prior year	-38%	+6%	+8%
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The working capital ratio, also commonly known as the liquidity ratio, measures Council's ability to pay off our current liabilities with current assets.

**CFO COMMENTARY**  
Council is well positioned to continue to fund its current obligations at 4.54 times over. This position is expected to remain well above target over the next two years, with current assets exceeding current liabilities by a minimum of 3.12 times in 2016-17.

### NET FINANCIAL LIABILITIES RATIO



Movement on prior year	+67%	0%	-27%
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The net financial liabilities ratio indicates the extent to which net financial liabilities could be met by Council's operational income.

**CFO COMMENTARY**  
A positive value of less than 60 per cent indicates that Council has the capacity to fund liabilities and appears to have the capacity to increase its loan borrowings. A positive value greater than 60 per cent indicates that Council has limited capacity to increase its loan borrowings. The 2014-15 position of 33 per cent is within target levels and reflects an ability to service further debt, if necessary. This indicator remains between 33-65 per cent over the next two years.

Target met	Target not met
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Overall, Gladstone Regional Council's financial performance remains solid, and is currently trending positively in all of our key financial sustainability indicators. This places Council in a sound position to deal with any significant financial impacts that may arise.