Department of Planning, Housing and Infrastructure

Appendices to the Performance Ratios Discussion Paper

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Appendix A – Previous NSW Ratio Framework

Category	Ratio Name	Formula	Benchmark
Operating Performance	Operating Performance Ratio	Total continuing operating revenue excluding capital grants and contributions less operating expenses / Total continuing operating revenue excluding capital grants and contributions	>0.0%
	Own source operating revenue ratio	Total continuing operating revenue less all grants and contributions / Total continuing operating revenue inclusive of capital grants and contributions	>60.0%
Liquidity	Unrestricted current ratio	Current Assets less all external restrictions / Current liabilities less specific purpose liabilities	>1.5x
	Rates and annual charges outstanding percentage	Rates & Annual Charges Outstanding / Rates & Annual Charges Collectible	<5% for city and coastal councils; <10% for regional and rural areas.
	Cash expense cover ratio	Current year's cash and cash equivalents including term deposits / Payments from Statement of Cash flow of operating and financing activities	> 3.0 months
Leverage	Debt service cover ratio	Operating results before capital excluding interest and depreciation/impairment/amortisation (**EBITDA**) / Principal repayments (from Statement of Cash flow) and borrowing interest costs (from Income Statement)	>2.0x
Infrastructure Asset Performance	Buildings and infrastructure renewals ratio	Asset Renewals / Depreciation, Amortisation and Impairment	>0.0%
	Infrastructure backlog ratio	Estimated cost to bring assets to a satisfactory standard / Net carrying amount of infrastructure assets	<2.0%
	Asset maintenance ratio	Actual asset maintenance / Required asset maintenance	<100.0%

	Cost to bring assets to agreed service level	$\frac{\text{Cost to bring assets to agreed level of service set by council}}{\text{Gross replacement cost}}$	N/A

Appendix B – History of Performance Ratios in NSW Local Government

1990s – early 2000s

Financial ratios were used by councils and the (then) Department of Local Government primarily for comparative reporting and internal management purposes. Ratio use varied across councils, with inconsistent definitions and no common benchmarks, limiting their effectiveness for sector-wide performance assessment.

2006

The *Are Councils Sustainable*? independent inquiry identified widespread operating deficits and significant infrastructure backlogs across NSW local government. It strongly recommended the use of consistent financial sustainability indicators, reinforcing the need for standardised performance ratios to assess underlying financial health, such as operating performance, asset management and debt service capacity.

2009–2010

The Integrated Planning and Reporting (IP&R) framework was introduced, strengthening the link between long-term financial planning and strategic decision-making, with an increased focus on financial sustainability.

2012–2013

NSW Treasury Corporation (TCorp) undertook a statewide financial sustainability assessment of all councils, calculating and applying a standardised set of financial and infrastructure asset ratios using council financial and asset data for the first time across the sector.

2014–2015

The NSW Government's *Fit for the Future* reforms were implemented, administered by the OLG. These reforms formalised and benchmarked a defined subset of financial performance and infrastructure asset ratios to assess council sustainability. Performance ratios became central to sector oversight and public reporting.

2015 onwards

Performance ratios were embedded in councils' annual financial statements, long-term financial planning and asset management practices. Results were publicly reported, including through the Your Council website, supporting transparency and comparability across the sector.

2024–25

As part of updates to the Code, the six financial performance ratios were removed from the Code while under review. Infrastructure asset performance ratios continued to be reported through special schedules.

2025–present

In response to Recommendation 17 of the Inquiry and stakeholder feedback, OLG commenced a comprehensive review of the performance ratio framework to ensure it remained clear, relevant and fit for purpose.

Appendix C – Financial Performance Ratios Across Australian Jurisdictions

	Jurisdiction	NSW	QLD	VIC	SA	WA	TAS
Operating Performance	**Operating Performance Ratio**	= Net Operating Results (Excl. Grants And Contributions) / Operating Revenue (Excl. Grants And Contributions)	= Operating Result / Total Operating Revenue	= Adjusted Underlying Surplus (Or Deficit) / Adjusted Underlying Revenue	= Operating Surplus (Deficit) / Operating Revenue	= Operating Revenue MINUS Operating Expense / Own Source Operating Revenue	= Operating Income (Excluding Amounts Received Specifically For New Or Upgraded Assets And Physical Resources Received Free Of Charge) Less Operating Expenses For The Reporting Period / General And Other Rate Income And Operating Grants.
	Own Source Operating Revenue Ratio / Council Controlled Revenue Ratio	= Total Continuing Operating Revenue (Excl All Grants And Contributions) / Total Continuing Operating Revenue	= Net Rates, Levies And Charges Add Fees And Charges / Total Operating Revenue	= Rate Revenue / Adjusted Underlying Revenue			
	Own Source Coverage Ratio					= Own Source Operating Revenue / Operating Expense	
	Operating Cash Ratio		= Operating Result Add Depreciation And Amortisation Add Finance Costs / Total Operating Revenue				
	Population Growth Ratio		= (Prior Year Estimated Population / Previous Year Estimated Population) - 1				
Liquidity	**Unrestricted Current Ratio**	= Current Assets Less All External Restrictions / Current Liabilities Less Specific Purpose Liabilities		= Unrestricted Cash / Current Liabilities		= Current Assets MINUS Restricted Assets / Current Liabilities MINUS Liabilities Associated With Restricted Assets	

	Cash Expense Cover Ratio	= Current Year's Cash And Cash Equivalents Plus All Term Deposits / Monthly Payments From Cash Flow Of Operating And Financing Activities	= [(Total Cash And Equivalents Add Current Investments Add Available Ongoing QTC Working Capital Facility Limit Less Externally Restricted Cash) / (Total Operating Expenditure Less Depreciation And Amortisation Less Finance Costs)] *12				
	Rates And Annual Charges Outstanding Percentage	= Rates And Annual Charges Outstanding / Rates And Annual Charges Collectable					
Leverage	**Debt Service Cover Ratio**	= Operating Result Before Capital Excluding Interest And Depreciation, Impairment And Amortisation / Principal Repayments Plus Borrowing Costs				= Annual Operating Surplus BEFORE Interest And Depreciation / Principal And Interest	
	Leverage Ratio		= Book Value Of Debt / Operating Results Add Depreciation And Amortisation And Finance Costs				
	Net Financial Liabilities Ratio				= Total Liabilities Less Financial Assets (Current Cash And Cash Equivalents Plus Current Trade & Other Receivables Plus Current And Non-Current Financial Assets) / Total Operating Income		= Total Liabilities Less Financial Assets (Cash And Cash Equivalents Plus Trade And Other Receivables Plus Other Financial Assets) / Operating Income
	Loans Vs Rates / Repayments Vs Rates (VIC)			**Loans Vs Rates** = Interest Bearing Loans And Borrowings / Rate Revenue			

				Repayments Vs Rates = Interest And Principal Repayments On Interest Bearing Loans And Borrowings / Rate Revenue			
	Non-Current Liabilities As A Percentage Of Own Source Revenue (VIC)			= Non-Current Liabilities / Own Source Revenue			
Infrastructure Asset Performance	**Buildings And Infrastructure Renewals Ratio / Asset Sustainability Ratio (QLD, WA And TAS) / Asset Renewal And Upgrade Expense Compared To Depreciation (VIC)**	= Asset Renewals / Depreciation, Amortisation And Impairment	= Capital Expenditure On Replacement Of Infrastructure Assets (Renewals) / Depreciation Expenditure On Infrastructure Assets	= Asset Renewal And Asset Upgrade Expenditure / Asset Depreciation		= Capital Renewal And Replacement Expenditure / Depreciation Expense	= Capital Expenditure On Replacement (Renewal Of Existing Plant And Equipment And Infrastructure Assets) / Annual Depreciation Expense
	Infrastructure Backlog Ratio	= Estimated Cost To Bring Assets To A Satisfactory Standard / Net Carrying Amount Of Infrastructure Assets					
	Asset Consumption Ratio		= Written Down Replacement Cost Of Depreciable Infrastructure Assets / Current Replacement Cost Of Depreciable Infrastructure Assets			= Depreciated Replacement Cost Of Depreciable Assets / Current Replacement Cost Of Depreciable Assets	= Depreciated Replacement Cost Of Plant, Equipment And Infrastructure Assets / Current Replacement Cost Of Depreciable Assets
	Asset Maintenance Ratio	= Actual Asset Maintenance / Required Asset Maintenance					
	Asset Renewal Funding Ratio		= Total Of Planned Capital Expenditure On Infrastructure Asset Renewals Over 10 Years /		= Expenditure On Renewal (Replacement Of Assets) / Optimal Level Of Such	= NPV Of Planned Capital Renewals Over 10 Years / NPV Of Required Capital	= NPV Of Projected Ten-Year Capital Renewal Funding Outlays In A Long-Term Financial Plan

			Total Of Required Capital Expenditure On Infrastructure Asset Renewals Over 10 Years		Expenditure Per Infrastructure & Asset Management Plan(S)	Expenditure Over 10 Years	/ NPV Of Projected Ten-Year Capital Renewal Expenditures In An Asset Management Plan In Current Values

Note:

1. Northern Territory is excluded from this table because councils are required to prepare audited financial statements and report performance against objectives in their adopted plans, but there is no mandated, standardised set of financial performance indicators or ratios under their Guideline.
2. Excludes indicators that are not expressed as financial ratios (e.g. staff turnover, socio-economic measures).

Appendix D – Performance Ratio Assessment Template

Template element	How	Principles Applied
Objective	Defines the purpose of the ratio, including the key financial risk or issue it is intended to identify.	Relevance to oversight & financial risk
Recommendation	Sets out a clear recommended approach, including whether the ratio should be retained, replaced, removed or newly introduced, with supporting rationale.	All principles applied (overall judgement), particularly relevance, proportionality, and data quality
Key Difference (where applicable)	Identifies key differences between options where multiple approaches are considered.	Comparability & interpretability
Formula	Specifies how the ratio is calculated.	Data quality & reliability
Benchmark	Assesses whether benchmarks should differ across council groups and identifies the proposed benchmark and the rationale for why it is appropriate.	Comparability & interpretability; Timeliness & usability

Appendix E – Detailed Evaluation Outcomes - Proposed Framework

Category: Operating Performance

Section 1 - Operating Performance Ratio

a. Option 1: Preferred - Retain Previous NSW Ratio

Status	Previous NSW
Objective	Measures a council's ability to contain operating expenditure within operating income. The ratio is intended to identify structural operating deficits and assess the long-term sustainability of day-to-day service delivery.
Formula	$$\frac{\text{Total continuing operating revenue}^{1} \text{ excluding capital grants and contributions less operating expenses}}{\text{Total continuing operating revenue excluding capital grants and contributions}}$$
Assessment	**Strengths** • Captures the full cost of service delivery, including asset consumption • Strong indicator of long-term financial sustainability • Aligns with asset management and renewal planning objectives • Provides a consistent and established measure across NSW councils • Supports early identification of structural operating deficits **Limitations** • Includes non-cash depreciation, reducing clarity of underlying operating capacity • Results may be influenced by asset revaluations and depreciation methodologies • May be less intuitive for assessing underlying operating performance
Benchmark	Previous single benchmark of >0.0% is retained and applied consistently across all council classification using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis. **Rationale for benchmark** A benchmark of >0.0% indicates that operating income is sufficient to cover operating costs over time, supporting sustainable service delivery. Councils are encouraged to budget for operating surpluses and consider asset condition and maintenance needs when assessing performance against this benchmark.

[1] Excludes fair value adjustments, net gain/loss on sale of assets, net share/loss on joint ventures

	Use of a rolling five-year average smooths year-to-year volatility arising from grant timing and accrual adjustments, providing a more stable and representative view of underlying operating performance.
Quarterly suitability	Quarterly reporting is possible using the QBRS return, but the ratio is best assessed using projected year-end results.

b. Option 2: Alternative – Replace with Proposed Ratio - Operating Performance Ratio (Excl Depreciation)

Status	**Proposed Ratio: Operating Performance Ratio (Excl Depreciation)** *Only if Previous NSW Operating Performance Ratio needs to be replaced*
Objective	Evaluate a council's ability to fund continuing operations from recurring revenues, focusing on operating results before non-cash depreciation, amortisation and impairment.
Formula	$$\frac{\text{Total continuing operating revenue excluding capital grants and contributions less (operating expenses plus depreciation, amortisation and impairment expense)}}{\text{Total continuing operating revenue excluding capital grants and contributions}}$$
Assessment	**Strengths** • Provides a clearer view of short-term, cash-based operating capacity • Focuses on ability to fund operations from recurring revenue • Reduces volatility from asset valuation changes and accounting treatments • More intuitive for operational and financial decision-making **Limitations** • Removes visibility of asset consumption and renewal pressures • May overstate financial performance if assessed in isolation • Weaker indicator of long-term sustainability • Requires separate consideration of asset condition and funding needs • May create disconnect between financial and asset planning frameworks
Benchmark	A single benchmark of >20.0% applied consistently across all council classification using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis. **Rationale for benchmark** A benchmark of >20.0% is proposed, reflecting the capacity of councils to generate operating surpluses from continuing revenue after meeting day-to-day service delivery costs. It aligns with observed depreciation levels (approximately 22% of operating revenue excluding capital grants), ensuring it captures underlying cost pressures while remaining achievable. A single benchmark supports comparability and consistent expectations across councils, and five-year average analysis shows results above this level are achievable, providing a realistic and differentiating target.

Quarterly suitability	Quarterly reporting is possible using the QBRS return, but the ratio is best assessed using projected year-end results.

Section 2 – Own Source Ratio

a. Own Source Ratio (Previous NSW)

<table>
<tr><td>Ratio Status</td><td colspan="2">Previous NSW</td></tr>
<tr><td>Objective</td><td colspan="2">Measures a council's financial flexibility by assessing the extent to which operating revenue is generated from own sources rather than external grants and contributions, highlighting structural reliance on grants as a potential sustainability risk.</td></tr>
<tr><td>Formula</td><td colspan="2">$$\frac{\text{Total continuing operating revenue excluding all grants and contributions}}{\text{Total continuing operating revenue}}$$</td></tr>
<tr><td>Assessment</td><td colspan="2">Strengths
Provides a clear measure of financial flexibility and revenue structure
Highlights structural reliance on grants and contributions as a sustainability risk
Differentiates effectively across council classifications, supporting proportionate analysis
Long-standing definition, reducing risk of inconsistent application using audited data
Widely used and understood, with most users reporting the ratio as helpful for assessing revenue structure.
Limitations
Does not measure operating performance or sustainability directly
Can be influenced by classification of revenue streams (includes interest revenue), reducing comparability in some cases
Requires contextual interpretation alongside other indicators to assess risk</td></tr>
<tr><td rowspan="2">Benchmark</td><td colspan="2">The proposed benchmarks under each option are to be applied consistently using:
Annual results, and
Rolling five-year average results
The ratio is to be reported for each fund and on a consolidated basis.</td></tr>
<tr><td>Option 1: Recalibrated benchmarks
Metro: >70.0%
Metro Fringe: >60.0%
Regional Towns/Cities: >60.0%
Large Rural: >50.0%
Rural: >40.0%
County: No prescribed benchmark
Rationale for benchmark
Rolling five-year analysis shows Metro councils consistently and comfortably exceed the former 60% benchmark, supporting an increase to 70% to preserve the ratio's signalling value.

Only 12% of Large Rural and 7% of Rural councils met the benchmark on a rolling five-</td><td>Option 2: Retain previous Metro benchmark
Metro: >60.0%
Metro Fringe: >60.0%
Regional Towns/Cities: >60.0%
Large Rural: >50.0%
Rural: >40.0%
County: No prescribed benchmark
Rationale for benchmark
Option 2 retains the previous Metro benchmark to preserve continuity with historical settings, while applying recalibrated thresholds to only structurally grant-dependent cohorts.</td></tr>
</table>

	year basis, indicating it is no longer effective for these cohorts. The revised benchmarks set realistic expectations aligned with structural capacity, with County councils excluded from targets as council contributions dominate their revenue base; reporting is retained for transparency.	
Quarterly suitability	Quarterly reporting is possible using the QBRS return, but the ratio is best assessed using projected year-end results.	

b. Council Controlled Revenue Ratio (QLD equivalent) – Alternative Considered

Ratio Status	QLD Ratio – Alternative Considered *A council-controlled revenue ratio (as used in Queensland) was considered as an alternative design option.*
Objective	Measures the proportion of revenue directly controlled by councils, focusing on rates and user charges rather than all own-source revenue. The ratio is intended to sharpen focus on councils' pricing and revenue-setting capacity.
Formula	$\frac{\text{Net rates, levies and charges add fees and charges}}{\text{Total continuing operating revenue}}$
Assessment	Strengths • Focuses on revenue directly controlled by councils, providing insight into pricing and charging capacity • Offers a more targeted measure of councils' ability to influence revenue outcomes • Uses a clear and simple formulation, closely aligned with existing revenue classifications • Maintains high reliability, with minimal variation from established definitions Limitations • Focus on controllable revenue may overemphasise pricing capacity relative to overall financial structure • Does not measure operating performance or sustainability directly • Requires contextual interpretation alongside other indicators to assess risk This option was considered but is not progressed.

Category - Liquidity

Section 3 – Unrestricted Current Ratio

a. Unrestricted Current Ratio (Previous NSW)

Ratio Status	Previous NSW
Objective	Assesses whether a council has sufficient unrestricted working capital to meet short-term obligations and provides an early-warning indicator where available liquidity buffers may be insufficient.
Formula	$\dfrac{\text{Current assets less all external restrictions}}{\text{Current liabilities less specific purpose liabilities}}$
Assessment	**Strengths** • Provides a clear measure of short-term liquidity and available working capital buffers • Acts as a strong early-warning indicator of emerging cash-flow stress • Widely used and understood, supporting timely governance and management response • Simple and intuitive to interpret, enabling effective oversight • Demonstrates high reliability, with consistent calculation across councils **Limitations** • Reflects a point-in-time position, which may be influenced by timing of cash flows (e.g. grants) • Does not capture drivers of liquidity and requires contextual analysis to distinguish temporary fluctuations from underlying risk • Cannot be readily calculated from published financial statements, as it relies on specific components (e.g. specific purpose liabilities) that are not separately disclosed
Benchmark	Previous single benchmark of >1.5x is retained and applied consistently across all council classification using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis. **Rationale for benchmark** A benchmark of >1.5x indicates that councils have sufficient unrestricted working capital to meet short-term obligations. It functions as a minimum safeguard of liquidity, signalling potential cash-flow stress rather than encouraging performance optimisation. Applying a single benchmark across all council classifications supports comparability and consistent expectations. Rolling five-year analysis shows the benchmark remains broadly achievable, with higher performance by some cohorts not warranting differentiated thresholds given the ratio's role as a common minimum safeguard.

Quarterly suitability	Quarterly reporting is conceptually suitable. However, the ratio cannot be calculated from the current QBRS return, as required data are not captured. Quarterly reporting would require changes to the QBRS template or additional council reporting.

b. Current Ratio – Alternative Considered

Ratio Status	**Current Ratio – Alternative Considered** *A current ratio was considered as an alternative design option.*
Objective	Assess whether a council's total current assets are sufficient to meet its short-term liabilities, providing a high-level snapshot of liquidity without distinguishing between restricted and unrestricted reserves.
Formula	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Assessment	**Strengths** • Simple and transparent measure of overall liquidity using broadly available balance sheet data • Provides a high-level snapshot of ability to meet short-term liabilities • Easily calculated from published financial statements • Straightforward and widely understood formulation • Supports basic comparison across councils using a standard liquidity metric **Limitations** • Does not distinguish between restricted and unrestricted cash, overstating available liquidity • Provides a weak signal of financial health, with no link to operating sustainability • Reflects a point-in-time position, requiring contextual interpretation • Presents a risk of misinterpretation of usable liquidity without adjustment for restrictions This option was considered but is not progressed.

Section 4 – Rates and Annual Charged Outstanding Ratio

a. Rates and Annual Charged Outstanding Ratio (Previous NSW)

Ratio Status	Previous NSW
Objective	Measures the proportion of statutory rates and annual charges that remain unpaid. The ratio is intended to assess the impact of arrears on council liquidity and the effectiveness of rates collection, recovery and debt-management practices.
Formula	$\frac{\text{Rates and annual charges outstanding}}{\text{Rates and annual charges collectable}}$
Assessment	**Strengths** • Provides a clear measure of collection performance and arrears impacts on liquidity • Acts as an early signal of emerging cash-flow pressure where arrears increase • Widely used by councils to assess collection and recovery effectiveness, including informing hardship and rates-relief policy settings • Demonstrates high reliability due to clear statutory definitions and consistent reporting **Limitations** • Provides a partial early-warning signal, with movements influenced by timing and recovery practices • Does not include user charges and fees or other own source revenue streams, limiting its coverage of total revenue collection performance • May not reflect underlying financial position, particularly where arrears fluctuate seasonally • Less informative for councils with diverse revenue structures
Benchmark	The proposed benchmarks are to be applied consistently using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis.

	Option 1: Revise benchmarks for Metro Fringe and County Councils	Option 2: Retain existing Metro Fringe benchmark
	Option 1: Revise benchmarks for Metro Fringe and County Councils • Metro: <5.0% • Metro Fringe: <7.0% (previously <5%) • Regional Towns/Cities: <10.0% • Large Rural: <10.0% • Rural: <10.0% • County: No prescribed benchmark (previously <10%) **Rationale for benchmark** Benchmarks are retained for most classifications as effective early-warning indicators of collection risk. Metro Fringe benchmark increased to better reflect the weighted average performance of councils within this classification and recognise the diverse operating, growth and ratepayer characteristics of Metro Fringe councils. County councils do not have a prescribed target due to structurally different funding arrangements; reporting is retained, with performance assessed contextually.	**Option 2: Retain existing Metro Fringe benchmark** • Metro: <5.0% • Metro Fringe: <5.0% • Regional Towns/Cities: <10.0% • Large Rural: <10.0% • Rural: <10.0% • County: No prescribed benchmark (previously <10%) **Rationale for benchmark** Retains the existing Metro Fringe benchmark to maintain consistent expectations regarding rates collection performance across metro all council classifications. Supports comparability and consistent expectations across Metro and Metro Fringe councils, while encouraging effective rates collection and debt-management practices. No benchmark is proposed for County Councils due to their different funding arrangements and limited reliance on rates revenue.
Quarterly suitability	Quarterly reporting is conceptually suitable. However, the ratio cannot be calculated from the current QBRS return. Many councils already produce this information as part of routine operational reporting and could provide quarterly results outside the statutory QBRS process. Otherwise, quarterly reporting would require changes to the QBRS template.	

b. Total Receivable Outstanding Ratio – Alternative Considered

Ratio Status	**Total Receivable Outstanding Ratio – Alternative Considered** *A total receivable outstanding ratio was considered as an alternative design option.*
Objective	Measures the proportion of total receivables outstanding across all revenue streams, providing a broad view of councils' exposure to delayed or non-payment. It supports assessment of liquidity risk arising from uncollected income by focusing on aggregate receivables across statutory charges, fees, grants and other items.
Formula	$\frac{\text{Current receivables}}{\text{Total continuing operating revenue}}$

Assessment	**Strengths** • Provides a comprehensive view of receivables exposure across all revenue streams • Captures a broad range of receivables, including fees, grants and other income • Can highlight collection and timing risks, particularly in grant-reliant councils • Uses a simple, high-level formulation to assess outstanding receivables **Limitations** • Aggregates diverse receivables, limiting insight into individual revenue streams and identifying specific areas of collection risk • Provides a weak signal of financial performance or sustainability • Results are highly sensitive to timing and accounting effects, reducing reliability as an early-warning indicator This option was considered but is not progressed.

Section 5 – Cash Expense Cover Ratio

a. Cash Expense Cover Ratio (Previous NSW)

Ratio Status	Previous NSW
Objective	Measures a council's short-term liquidity by estimating how many months current cash and term deposits can sustain operating and financing cash outflows in the absence of additional inflows. The ratio serves as a conservative, worst-case indicator of short-term cash coverage.
Formula	$$\left(\frac{\text{Current year's cash and cash equivalents plus all term deposits}}{\text{Monthly payments from cash flow of operating and financing activities}}\right) \times 12$$
Assessment	**Strengths** • Provides a simple measure of short-term liquidity coverage using cash and deposit balances • Easy to calculate and consistently applied across councils • Offers a conservative worst-case view of cash sufficiency • Uses a well understood formulation, supporting basic comparability **Limitations** • Includes externally restricted cash, overstating funds available for operational use • Results can be artificially high, reflecting total cash balances rather than usable liquidity • Provides a weak and often late signal of liquidity risk • Poorly aligned with its intent, as it does not reflect available cash for day-to-day operations • Sensitive to funding structure and restricted balances, reducing comparability This ratio is suggested to be replaced.

b. Replace with Proposed Ratio - Unrestricted Cash Expense Cover Ratio

Ratio Status	Proposed Ratio: Unrestricted Cash Expense Cover Ratio
Objective	Measures underlying liquidity by estimating how many months available cash and investments can sustain core operating expenses. By excluding externally restricted cash and non-cash expenses, the ratio focuses on resources available to support day-to-day service delivery.
Formula	$$\left(\frac{\text{Total cash, cash equivalents and investments less total external restrictions}}{\text{Total operating expenses less depreciation, amortisation and impairment less interest expense}}\right) \times 12$$

Assessment	**Strengths** • Provides a clear measure of underlying liquidity, focusing on cash available for operational use • Excludes externally restricted cash and non-cash expenses, improving alignment with actual cash availability • Acts as a strong early-warning indicator of emerging liquidity pressure • Links available cash to core operating expenses, supporting assessment of ongoing financial resilience • Demonstrates high reliability, with clear economic interpretation and consistent application • Improves sensitivity to genuine liquidity stress, compared to the previous ratio **Limitations** • Requires interpretation alongside other indicators to assess overall financial risk • Sensitive to timing of cash flows and investment balances
Benchmark	A single benchmark of >3.0 months is applied consistently across all council classification using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis. **Rationale for benchmark** The proposed benchmark establishes a minimum cash buffer to support resilience to short-term shocks and reduce the risk of councils operating close to liquidity stress. It is intended to function as an early-warning threshold of vulnerability rather than a performance target or indicator of surplus strength. The threshold is consistent with expectations applied by the NSW Audit Office for local councils.
Quarterly suitability	Quarterly reporting is possible using the QBRS return. However, the ratio is most appropriately assessed using both projected year-end results or annualised year-to-date figures.

Category – Leverage

Section 6 – Debt Service Cover Ratio or Leverage Ratio

a. Option 1: Preferred – Replace with Proposed Ratio – Leverage Ratio

Ratio Status	**Proposed Ratio: Leverage Ratio** *Only if Previous NSW Debt Service Cover Ratio needs to be replaced*
Objective	Measures the scale of a council's total debt relative to its operating earnings capacity, supporting assessment of long-term financial sustainability.
Formula	$$\frac{\text{Total Borrowings}}{\text{Operating result before capital plus depreciation, amortisation and impairment plus interest expense } (\textbf{EBITDA})}$$
Assessment	**Strengths** • Links debt to operating capacity, supporting long-term financial sustainability • Forward-looking view of risk by highlighting when debt grows faster than earnings • Acts as an early warning of structural imbalances before repayment pressure emerges • Connects debt levels to underlying operating performance over time **Limitations** • May be less intuitive for stakeholders focused on whether current operating cash flows can meet debt repayments • Does not directly measure short-term debt servicing capacity or repayment timing • Does not capture refinancing risk or debt maturity profiles • Requires interpretation alongside other indicators to assess overall financial position
Benchmark	The proposed benchmarks are to be applied consistently using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis. **Proposed benchmarks**: • Metro: <4.0x • Metro Fringe: <4.0x • Regional Towns/Cities: <3.0x • Large Rural: <3.0x • Rural: <3.0x • County: <3.0x **Rationale for benchmark** Benchmarks are calibrated to reflect differences in operating capacity, revenue stability and risk tolerance across council classifications. Metro and Metro Fringe councils generally have larger, more diversified revenue bases and stronger, more stable operating surpluses, enabling them to sustain higher levels of leverage. Thresholds of up to four times EBITDA for metropolitan councils

	and three times for other classifications provide capacity for essential infrastructure borrowing, while maintaining a clear signal when debt begins to exceed sustainable operating capacity.
Quarterly suitability	Quarterly reporting is conceptually suitable. However, the ratio cannot be calculated from the current QBRS return, as required data are not captured. Quarterly reporting would require changes to the QBRS template or additional council reporting.

b. Option 2: Alternative – Retain Previous NSW Ratio

Ratio Status	**Previous NSW**
Objective	Assesses whether a council's current operating earnings are sufficient to meet scheduled debt servicing obligations in the period. The ratio indicates whether operating cash flows can cover interest and principal repayments in the short term.
Formula	Operating result before capital less depreciation, amortisation and impairment less interest expense (**EBITDA**) / Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)
Assessment	**Strengths** • Provides a direct measure of current capacity to meet debt servicing obligations • Clearly links operating earnings to interest and principal repayments • Useful for identifying near-term repayment stress • Widely understood and embedded in previous reporting and oversight frameworks • Can highlight rapid deterioration in operating performance leading to immediate servicing pressure **Limitations** • Measures current repayment capacity only, not overall debt sustainability • Can mask risk where repayments are low or deferred (e.g. interest-only periods or longer maturity) • May show strong results despite high underlying debt levels • Provides a late signal of risk, with pressure only emerging as repayments increase • Limited effectiveness as an early-warning indicator of longer-term financial stress
Benchmark	A single benchmark of >2.0x applied consistently across all council classification if using: • Annual results, and • Rolling five-year average results The ratio is to be reported for each fund and on a consolidated basis. **Rationale for benchmark** Historic data show consistently high pass rates across most council classifications, indicating the ratio is best suited as a minimum threshold to identify emerging debt-servicing stress rather than a calibrated performance benchmark. Retaining a single benchmark supports simplicity and comparability, with results below the threshold signalling potential short-term repayment risk.

Quarterly suitability	Quarterly reporting is conceptually suitable. However, the ratio cannot be calculated from the current QBRS return, as required data are not captured. Quarterly reporting would require changes to the QBRS template or additional council reporting.

Category – Developer Contribution Ratio

Section 7 - Contributions Expenditure Performance Ratio

a. Proposed Ratio – Contributions Expenditure Performance Ratio

Ratio Status	**Proposed Ratio: Contributions Expenditure Performance Ratio**
Objective	Measures how effectively councils convert developer contributions into infrastructure delivery over time. The ratio supports assessment of whether contributions collected from development are expended in a timely and planned manner, and whether unspent balances are accumulating unreasonably.
Formula	$\dfrac{\text{Total contributions expenditure}}{\text{Opening contributions balance plus total contributions revenue plus interest and investment income earned during the period}}$
Assessment	**Strengths** • Addresses a key gap in the framework by providing a standardised measure of contributions performance • Links expenditure to available funding, improving visibility of how contributions are used • Highlights accumulation of unspent balances and delays in infrastructure delivery • Encourages alignment between contributions inflows and infrastructure timing. reducing prolonged accumulation of funds where projects are deferred • Improves transparency, comparability and accountability across councils **Limitations** • May not fully reflect performance where projects are staged or deferred • Less meaningful for councils with low contributions activity • Requires contextual interpretation to assess underlying delivery performance
Benchmark	A single benchmark of ≥20% applied consistently to Metro, Metro Fringe and Regional Towns/Cities[2], using: • Annual results, and • Rolling five-year average results The ratio applies only to Division 7.1 Development Contributions collected by councils under the *Environmental Planning and Assessment Act 1979* (**EP&A Act),** including Planning Agreements and Sections 7.11 and 7.12. Section 64 and other contribution types are excluded. **Rationale for benchmark** The formula and benchmark of at least 20% over a five-year rolling period is designed to balance the inherently lumpy and multi-year nature of infrastructure delivery with the need to demonstrate ongoing expenditure activity. This threshold allows councils to accumulate funds for large, high-cost infrastructure projects, including land acquisition, while still establishing a minimum expectation of expenditure over time

[2] Ratio is not applicable for Large Rural, Rural and County Councils as they have low or irregular contributions revenue

	to reduce prolonged accumulation of unspent balances. It also supports transparent comparison across councils with active development contributions. Use of a rolling five-year average aligns with long infrastructure delivery cycles and supports sustainable, upfront funding of major projects.
Quarterly suitability	Not suitable for quarterly reporting. Quarterly reporting would be misleading due to timing mismatches between revenue and expenditure, payment-driven volatility, and multi-year infrastructure delivery cycles.