Data Sheet 90 (DS 090)
Debt Service Ratio

What are we monitoring?

The Debt Service Ratio (DSR) measures the level of Council debt and our capacity to service the cost of Council loan borrowings on an annual basis from Operating Revenue.

The calculation of the DSR is total annual loan interest and principal repayment costs divided by annual Operating Revenue excluding capital income.

To meet the NSW Office of Local Government's (OLG) benchmark the Council must ensure it achieves a less than 10% DSR to be financially sustainable.

The Council has set DSR targets through its Long Term Financial Plan (LTFP) so that by 2019–2020 the Council continues to maintain the less than 10% benchmark level. The graph and table below show the Council's progress with actual results compared to the predicted results set in the Council's LTFP and Delivery Program. The prediction for 2012–2013 came from the 2010–2013 Delivery Program and the predicted results thereafter were informed by the LTFP 2013–2023.

What is the trend?

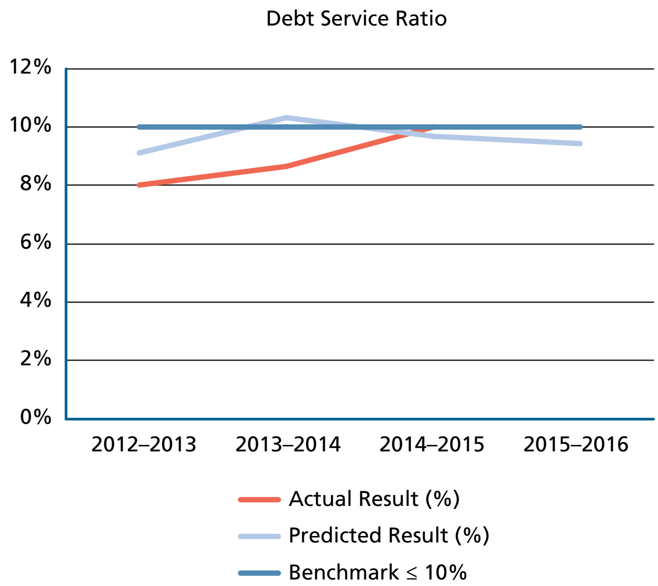
The Council's commitment to implementing its long term financial strategy has successfully positioned the Council to be better than the 10% OLG benchmark level. Debt did rise in earlier years to fund major infrastructure critical to the ongoing community health, environmental protection, cultural and economic vitality and overall sustainability of the City. Such infrastructure included the Waste and Resource Recovery facilities at Katoomba and Blaxland, Katoomba Library and Cultural Centre, Lawson Town Centre relocation, Blue Mountains Theatre and Community Hub in Springwood as well as funding the City's road renewal program. Borrowing for major infrastructure projects is considered appropriate and prudent as it provides for intergenerational equity in sharing the funding cost.

The longer-term trend in the Debt Service Ratio is a favourable decline below the NSW Government benchmark, as the Council's Six Strategies for Financial Sustainability are implemented including Strategy 3: Manage Borrowings Responsibly. The Council's loan balance has already favourably reduced well ahead of target and is projected to reduce even further over the coming years as the Council strengthens its financial sustainability.

Why is monitoring this trend important?

Maintaining the Debt Service Ratio favourably below benchmark is a NSW Government Fit for the Future target. The measure provides an indication that principal and interest repayments do not have an excessive impact on the Council's revenue.

The level of loan borrowings as a source of funding will continue to be reviewed annually and it may well be appropriate in the medium to longer term, when the Council's debt levels have been reduced and the Council's financial sustainability strengthened, to again increase borrowings if required by the City. Importantly, borrowing for major essential infrastructure projects is considered entirely appropriate and prudent as it provides for intergenerational equity in sharing the funding cost.



Blue Mountains City Council Debt Service Ratio

Year	2012/13	2013/14	2014/15	2015/16
Actual Result	8.00%	8.64%	10.00%	N/A
Predicted Result	9.11%	10.32%	9.70%	9.45%
Benchmark ≤ 10%	10%	10%	10%	10%

Source: BMCC Resourcing Strategy 2013–2023 and 2010–2013 Delivery Program for Predicted Results, BMCC Annual Reports 2012–2013, 2013–2014 and 2014–2015 for Actual Results, noting that the 2015–2016 Actual Results will be available in November 2016 after they are audited and adopted by the Council