

**LOCAL GOVERNMENT FINANCES
IN SOUTH AUSTRALIA**

**DRAFT
TECHNICAL REPORT**

BY
ACCESS ECONOMICS PTY LTD

FOR THE
FINANCIAL SUSTAINABILITY REVIEW BOARD

MAY 2005





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FOREWORD

In January 2005, Access Economics was engaged to advise the Financial Sustainability Review Board in undertaking a six-month inquiry into the financial sustainability of local government in South Australia.

In this role, the Review Board has sought our advice on a range of matters related to the meaning and measurement of the state of local government finances.

As the Review Board did not wish to load up its *Interim Report* with some of these technical matters, and given that it has itself not come to a firm position on some of the options involved, we undertook to collate the advice offered so far into a stand-alone report form, to be issued at the same time as the Review Board published its *Interim Report*. This technical report is intended to assist in the further development of the Review Board's position on the matters which are outstanding or which have not yet been addressed.

The Review Board has requested that Access Economics provides this technical report in draft form, with the report not to be finalised until after a round of consultations to be conducted with councils and key stakeholders during June 2005.

This technical report does not purport to provide an exploration of all the issues associated with the measurement of the finances of local government in South Australia. Instead, it puts on the record certain matters and choices that underpin the figures that the Review Board has drawn upon in its *Interim Report*. Its purpose is as much to document what has been done as to provide a discussion of alternatives.

From Access Economics' point of view, this technical report is very much a work in progress. This is due, in large measure, to key data being received by us later than initially expected. In part, this is associated with the desire to rely on information from the 2003-04 year, which was only available from the ABS and the SA Local Government Grants Commission a week or two ahead of the close-off date for the *Interim Report*. This has not yet allowed us the time needed to explore all the issues arising with the data.

Access Economics
31 May 2005



1. DATA SOURCES

In the analysis of the state of local government finances in South Australia, we have been able to access necessary historical financial (and related) information from a number of sources.

Our data sources for projections or forecasts are indicated in chapter 7.

1.1 SA LOCAL GOVERNMENT GRANTS COMMISSION

The South Australian Local Government Grants Commission (SALGGC) provided us with access to its Database Reports for the financial years 1998-99 to 2003-04 on certain conditions. This provided a range of financial data at the individual council level, particularly the financial items set out in Table 1-1.

TABLE 1-1: SALGGC FINANCIAL ITEMS

annual income items	annual expense items	annual capital transactions	asset items	liabilities items
Financial assistance grants (FAGs)	Labour & materials	Capital expenditure	Cash, investments & loans to community groups	Creditors
Operating SPPs	Levies paid to other governments	Assets donated	Receivables	Borrowings
Rates revenue	Grants & donations	Other capital contributions & donations	Inventories	Employees provisions
User charges	Depreciation expense	Capital SPPs	Land	Other liabilities
Statutory charges	Interest expense	Proceeds from asset sales	Buildings	
Reimbursement income		Losses on disposal of non-financial assets	Infrastructure	
Commercial revenue			Plant, property, furniture and fittings	
Interest income			Other assets	
Other revenue				

This information was sourced by the SALGGC from the council-submitted *Supplementary Return to the Annual Financial Statements*. The coverage of these items is indicated at Appendix B.

The SALGGC noted that the Database Reports may contain differences from council's Financial Statements so as to enhance data consistency and comparability.

In addition, the SALGGC also provided us with a specific report for 2003-04 assigning operating expenses, operating revenue and capital expenditure to its purpose classification, which is reproduced at Appendix C.

As the financial information contained in these reports is exclusively for each council's internal use only, this Technical Report (and the *Interim Report*) does not disclose any financial information relating to individual councils.

Also, certain non-financial statistics at the individual council level were also sourced from the SALGGC, notably:

- ❑ estimated resident population, based upon ABS information;
- ❑ council employees (FTE), as per councils' *General Information Returns*;
- ❑ total roads (km), as per councils' *General Information Returns*/Road Audit; and
- ❑ total rateable properties (as per the Office of the Valuer-General).



1.2 AUSTRALIAN BUREAU OF STATISTICS

We also used data compiled by the Australian Bureau of Statistics (ABS).

This ABS-sourced data included information published annually on the finances both of the local sector in other States and Territories and of the State general government sector (in ABS cat nos. 5512.0 and 5506.0)

We also had access to unpublished data from the ABS on:

- ❑ *Local Govt Finance Statistics: Balance Sheet Items*, for individual SA councils, 1993-94 to 2001-02;
- ❑ *Local Govt Finance Data: Operating and Capital Expenditures and Revenues by Purpose*, for individual SA councils, 1993-94 to 2001-02; and
- ❑ *General Government Revenue by Purpose*, Commonwealth, State (by State), and Local (by State), 1961-62 to 1997-98.

In addition, we have sourced from the ABS some key historical economic and population statistics, for both South Australia and for Australia as a whole, namely:

- ❑ nominal gross State product (GSP);
- ❑ average weekly earnings (AWE);
- ❑ consumer price index (CPI); and
- ❑ resident population - year average.

As noted briefly in chapter 5, there are some differences between the ABS and SALGGC data for items and years where there is overlap.

2. DATA ADJUSTMENTS

For analytical purposes, we have found it necessary to subject – or consider subjecting – some of the financial data available to us to adjustment, to ensure a greater degree of comparability between years.

This chapter briefly documents the adjustments we have undertaken to date. These adjustments are subject to change prior to publication of the Review Board's *Final Report*.

2.1 ANNUAL DEPRECIATION EXPENSE

Annual depreciation expense is a function of both the value or cost of an asset and the length of the asset's life.

The average lives of a council's non-financial assets can be calculated where information on the council's asset values prior to deducting accumulated depreciation is available (by dividing such a value by annual depreciation expense). We have this information for SA councils from the ABS for the period 1993-94 to 2001-02.

As Table 2-1 shows, recorded depreciation during these earlier years was based upon average asset lives that were out of kilter with the average asset lives underlying more recent depreciation expense figures.

TABLE 2-1: AVERAGE ASSET LIVES, SA COUNCILS

year	Metropolitan councils	Country councils	All SA councils
1993-94	79	36	64
1994-95	92	35	73
1995-96	54	35	49
1996-97	47	26	39
1997-98	47	22	36
1998-99	44	21	34
1999-00	45	21	34
2000-01	47	22	35
2001-02	45	22	34

The asset lives figures have settled down from 1996-97.

We therefore have doubts about the comparability of the published estimates of depreciation figures for earlier years (prior to 1998-99).

We considered using each council's 1997-98 asset lives as the basis for re-calculating previous years' depreciation expenses. But this overlooks the role perhaps played by changing asset valuation bases over the same period. Instead, for the time being, we have opted to apply the 1998-99 ratio between capital expenditure and annual depreciation expense to all previous years.

Table 2-2 shows the capital expenditure to depreciation ratio based upon recorded depreciation both in the years to which the adjustment has been made (1993-94 to 1997-98) and the subsequent years where the recorded depreciation has been used without adjustment.

TABLE 2-2: CAPITAL EXPENDITURE AS A % OF ANNUAL DEPRECIATION EXPENSE, SA COUNCILS

	Metropolitan councils	Country councils	All SA councils
1993-94	n.a.	n.a.	n.a.
1994-95	258%	374%	297%
1995-96	148%	282%	188%
1996-97	123%	129%	125%
1997-98	109%	99%	104%
1998-99	90%	100%	94%
1999-00	105%	104%	104%
2000-01	100%	99%	100%
2001-02	128%	118%	124%
2002-03	132%	110%	122%
2003-04	131%	119%	125%

2.2 INTEREST INCOME

The SALGGC data provides information on “investment income” rather than interest income.

Besides interest received, the SALGGC glossary indicates that investment income also includes “investment income: dividends & other”.

At this stage, we have not adjusted the investment income item to remove the “dividend and other” component to other revenue. On the basis that the latter type of income is unlikely to be significant for councils, we have treated all of investment income as interest earnings. We will consider this matter further after the *Interim Report* is published.

2.3 OTHER INTEREST-BEARING ASSETS

However, when annual interest received is expressed as an effective interest rate on interest-bearing assets (cash, investments and loans to community groups), the result for some councils indicates that there may be income-earning assets in the “other assets” item.

For this reason, using the typical differential between the rate of interest received by councils (in basis points) and the Commonwealth long-bond rate, we have estimated how much of this “other asset” item could also be interest-bearing, and transferred this portion of those assets to an “other interest-bearing assets” item, to be added to the cash, investments and loans to community groups item when calculating the value of financial assets.

The resultant effective rates of interest received by councils are shown in Table 2-3.



TABLE 2-3: EFFECTIVE INTEREST RATE EARNED, SA COUNCILS

	Metropolitan councils	Country councils	All SA councils	10 yr Cwth bond rate
1994-95	8.7%	8.0%	8.5%	10.0%
1995-96	9.8%	8.6%	9.3%	8.7%
1996-97	5.8%	6.5%	6.1%	8.0%
1997-98	5.1%	4.8%	5.0%	6.2%
1998-99	5.4%	4.9%	5.2%	5.3%
1999-00	5.2%	4.9%	5.1%	6.5%
2000-01	6.4%	6.2%	6.3%	5.8%
2001-02	3.2%	3.9%	3.5%	6.0%
2002-03	5.7%	4.9%	5.3%	5.5%
2003-04	5.2%	5.2%	5.2%	5.4%

Our classification in this way of a portion of the other assets item as financial assets (as opposed to non-financial assets) may be a reason why our estimates of council's net financial liabilities for 2002-03 and 2003-04 do not line up with those published recently in the 2005-06 State Budget Papers.

This issue is also bound up with the possibility that dividend income for some councils is not insignificant, with investment income possibly needing to be disaggregated into 'interest income' and 'dividend (and other) investment income' components.

We will return to these issues after publication of the *Interim Report*.



3. KEY FINANCIAL MEASURES

For analytical purposes, at all levels of government – Commonwealth, State and local – we prefer to re-present information provided in a government’s annual operating statement and balance sheet, by effectively combining key elements of the operating and cash flow statements so that the balance sheet impact of annual financial activities is clearly shown.

Our summary presentation is evident in the tables provided in Appendix A.

For this purpose, we use some summary terms that do not appear in either Australian Accounting Standard (AAS) 27, *Financial Reporting by Local Governments* (“AAS27” or “accounting standards”) or the ABS Government Finance Statistics (“GFS”) standard. These additional terms are defined in the Tables throughout this chapter.

3.1 MEASURES OF A COUNCIL’S FINANCIAL POSITION

A council’s *financial position* involves the state of its balance sheet, and so the relative level – and composition – of its assets and liabilities.

The key analytical measures of a council’s financial position at the end of a particular financial year derived from its balance sheet are shown in Table 3-1.

TABLE 3-1: KEY MEASURES OF A COUNCIL’S FINANCIAL POSITION

Measure	Definition
Net financial liabilities	Total liabilities <i>less</i> total financial assets ^(a)
Net debt	Gross debt ^(b) <i>less</i> total financial assets
(a)	total financial assets comprise: cash, investments and loans to community groups <i>plus</i> other interest-bearing assets
(b)	current and non current loans; public sector – Commonwealth, State & LGFA; financial institutions & private sector – banks & other financial institutions & private sector; finance leases; and deposits held/trust funds; bank overdraft ; bank overdraft/cash advance facility

We consider the net financial liabilities measure to be the most comprehensive measure – for analytical purposes – of a council’s financial position. The net financial liabilities of a council are its net financial obligations to other sectors of the economy, in the form not only of debt but of other liabilities.

3.2 MEASURES OF A COUNCIL’S ANNUAL FINANCIAL PERFORMANCE

A council’s annual *financial performance* involves the state of a council’s annual operating statement, and especially the surplus or deficit between its annual spending and revenue.

The key analytical measures of annual financial performance derived from a council’s operating statement are shown in Table 3-2.

TABLE 3-2: KEY MEASURES OF A COUNCIL'S ANNUAL FINANCIAL PERFORMANCE

Measure	Definition ^(a)
Operating surplus/(deficit)	operating revenue <i>less</i> operating expenses <i>less</i> net interest expense <i>less</i> depreciation expense
Capital deficit/(surplus)	net increase/(decrease) in non-financial assets <i>less</i> capital SPPs <i>less</i> capital contributions <i>less</i> asset donations
Net borrowing/(lending) ^(a)	capital deficit <i>less</i> operating surplus

(a) component terms not previously defined are defined in Table 3-3 and Table 3-4 below

(b) this presentation reverses the sign as used in the States' Uniform Presentation Framework (UPF) tables and in the ABS's GFS publications

3.2.1 OPERATING SURPLUS/(DEFICIT)

The operating surplus/(deficit) is a measure of the operating (or current) annual budgetary balance. Only the operating surplus measure of a council's annual financial performance distinguishes between current and capital spending, and between the financing of current spending through rates (the 'tax price' paid by current ratepayers) and capital spending through debt (to be serviced by tax prices paid by future ratepayers).

Operating expenses (including a fair measure of annual depreciation) involves spending on outputs the consumption of which give rise to benefits derived wholly in the current period. Capital spending results in benefits beyond the current period.

Extraordinary items aside, the operating statement presentation required of councils under accounting standards reports two operating surplus-related indicators:

operating revenue
plus interest income
less operating expenses
less interest expense
less depreciation expense
***equals* operating surplus/(deficit) before capital revenues**
plus capital revenues
comprising:
capital grants, subsidies and monetary contributions
physical resources received free of charge
***equals* net surplus/(deficit) resulting from operations**

For inter-generational equity purposes, it is the operating surplus/(deficit) *before capital revenues* that is the basis for the most appropriate indicator.

Of interest also is that the accounting standards include:

- ❑ in operating revenue, any gains (proceeds) on disposal of non-financial assets; and
- ❑ in operating expenses, any losses on disposal of non-financial assets.

Consistent with the treatment by the ABS (and the IMF), we prefer to treat the transactions associated with the disposal of non-financial assets as capital items given the focus on inter-generational equity. Thus:

operating surplus/(deficit) before capital revenues (from AAS27)
less gains (proceeds) on disposal of non-financial assets
plus any losses on disposal of non-financial assets
***equals* operating surplus**

An operating deficit involves a situation where a council's total annual expenses exceed its total annual income, so that this portion of costs incurred in the year in question is being transferred to tomorrow's ratepayers and is not being met – as ideally it should – by today's ratepayers.

An operating surplus involves the situation where a council's total annual income exceeds its total annual expenses, so that costs incurred in the year in question are at least being met by today's ratepayers and not being transferred to tomorrow's ratepayers.

3.2.2 CAPITAL DEFICIT/(SURPLUS)

The capital deficit/(surplus) is a measure of the annual budgetary balance of capital transactions, between the annual net increase/(decrease) in non-financial assets on the payments side and capital revenues and asset donations on the receipts side.

A capital deficit involves a situation where the annual net increase in a council's non-financial assets exceeds funding available from its capital revenues or asset donations, so that this portion of the net increase in non-financial assets must be financed by borrowings, the cost of servicing of which is to be met by tomorrow's ratepayers.

A capital surplus involves a situation where the funding available from a council's capital revenues or asset donations exceeds its annual net increase in non-financial assets, with this portion of capital funding also being available either to reduce a council's net financial obligations to other sectors of the economy or – not ideally – to fund an operating deficit.

3.2.3 NET BORROWING/(LENDING)

Net borrowing/(lending) is a measure of the overall annual budgetary balance between both operating and capital transactions. It shows the change in net financial liabilities due to annual (capital as well as operating) transactions.

When net borrowing is positive, it indicates that a council has to incur liabilities and/or liquidate financial assets in order to finance asset acquisition and current operations. When net borrowing is negative (i.e., when net lending occurs), it indicates that the council has to purchase financial assets or repay liabilities in order to use surplus funds.

Net borrowing involves the situation where a council's annual capital deficit exceeds its annual operating surplus, and so results in an increase in the council's net financial liabilities.

Net lending involves the situation where a council's annual capital deficit falls short of its annual operating surplus, and so results in a decrease in the council's net financial liabilities; this is equivalent to *negative* net borrowing.

3.2.4 RELATIONSHIP BETWEEN ANNUAL FINANCIAL PERFORMANCE AND FINANCIAL POSITION

It is noteworthy that the measures of annual financial performance are 'flow' measures, while the various measures of financial position are 'stock' measures.



The relationship between net financial liabilities (a stock concept) and its associated flows is as follows:

(opening) net financial liabilities	(stock at beginning of period)
<i>plus</i> net borrowing/(lending)	(flow during period)
<i>plus</i> impact of revaluations effects upon net financial liabilities	(flow during period)
<i>equals</i> (closing) net financial liabilities	(stock at end of period).

Likewise, the relationship between non-financial assets (a stock concept) and its associated flows is as follows:

(opening) non-financial assets	(stock at beginning of period)
<i>plus</i> net increase/(decrease) in non-financial assets	(flow during period)
<i>plus</i> impact of revaluations effects upon non-financial assets	(flow during period)
<i>equals</i> (closing) non-financial assets	(stock at end of period).

3.3 ROWS IN FINANCIAL SUMMARY TABLES

The rows on our Financial Summary Tables at Appendix A are based on the relationship between the various measures as set out above.

The top (capital deficit) panel of the Financial Summary Table is shown in Table 3-3.

This shows the derivation of a council's capital deficit. The indenting in the row headings is used to distinguish between different layers of calculation.

TABLE 3-3: COMPONENTS OF CAPITAL DEFICIT

row	item	calculation
1	Capital deficit/(surplus)	= (row) 2 – 8 – 9
2	Net increase/(decrease) in non-financial assets	= 3 – 6 – 7
3	Additions to non-financial assets	= 4 + 5
4	Capital expenditure	
5	<i>plus</i> Assets donated	
6	<i>less</i> Disposals of non-financial assets (book value)	
7	<i>less</i> Depreciation expense	
8	<i>less</i> Assets donated	
9	<i>less</i> Capital revenue	= 10 + 11 + 14
10	Capital SPPs	
11	<i>plus</i> Net gain on disposal of non-financial assets	= 12 – 13
12	Gains on disposal of non-financial assets	
13	<i>less</i> Losses on disposal of non-financial assets	
14	<i>plus</i> Other capital contributions & donations	

The second (operating surplus) panel of the Financial Summary Table is shown in Table 3-4.

TABLE 3-4: COMPONENTS OF OPERATING SURPLUS

row	item	calculation
1	Operating surplus/(deficit)	= (row) 2 – 18
2	Funds flow from operations	= 3 – 15
3	Pre-interest funds flow from operations	= 4 – 11
4	Operating revenue	= 5 + 6 + 7 + 8 + 9 + 10
5	Rates revenue	
6	plus FAGs	
7	plus User charges	
8	plus Statutory charges	
9	plus Operating SPPs	
10	plus All other operating revenue	
11	less Operating expenses	= 12 + 13 + 14
12	Labour & materials	
13	plus Levies paid to other governments	
14	plus Grants & donations	
15	less Net interest expense	= 16 – 17
16	Interest expense	
17	less Interest income	
18	less Depreciation expense	

Net borrowing is determined by the difference between the annual capital deficit and the annual operating surplus, as shown in Table 3-5.

TABLE 3-5: COMPONENTS OF NET BORROWING

row	item	calculation
1	Capital deficit/(surplus)	[from 1 st panel]
2	less Operating surplus/(deficit)	[from 2 nd panel]
3	equals Net borrowing/(lending)	= (row) 1 – 2

The third (net financial liabilities) panel of the Financial Summary Table is shown in Table 3-6. The derivation of a council's (year end, or closing) net financial liabilities is shown by reference to the opening values and the flow effects of both annual transactions and revaluations.

TABLE 3-6: COMPONENTS OF (CLOSING) NET FINANCIAL LIABILITIES

row	calculation
1	Net borrowing/(lending)
2	plus opening Net financial liabilities
3	plus Net impact of revaluation effects ^(a)
4	equals (closing) Net financial liabilities/(worth) ^(b)
	= 1 + 2 + 3

(a) revaluation changes affecting the opening value of net financial liabilities; calculated by taking the published (closing) net financial liabilities value and subtracting the published value for both opening net financial liabilities and annual net borrowing

(b) a negative value implies a net financial worth position

The fourth (memo item) panel of the Financial Summary Table is shown in Table 3-7.



TABLE 3-7: COMPONENTS OF (CLOSING) NON-FINANCIAL ASSETS

row		calculation
1	(opening) Non-financial assets ^(a)	
2	<i>plus</i> Net increase/(decrease) in non-financial assets	
3	<i>less</i> Losses expensed on revaluation of non-financial assets	
4	<i>plus</i> Net impact of other revaluation effects ^(b)	
5	<i>equals</i> (closing) Non-financial assets	= 1 + 2 - 3 + 4

(a) non-financial assets are a council's inventories, land, buildings, infrastructure, equipment, furniture and fittings

(b) revaluation changes affecting the opening value of non-financial assets in addition to losses expenses; calculated by taking the published (closing) non-financial asset value and subtracting the published for both opening non-financial assets value and the annual net increase/(decrease) in non-financial assets and adding the published value for losses expensed on revaluation of non-financial assets

This panel shows the derivation of a council's (year end or closing) non-financial assets, again by reference to the opening values and the flow effects of both annual transactions and revaluations.

Annual transactions affecting the stock of non-financial assets altogether determine the net increase in non-financial assets.

The fifth and final panel of the Financial Summary Table provides key financial ratios derived from the various measures of a council's financial position and annual financial performance. These ratios are addressed in the next chapter.

4. CHOOSING INDICATORS AND RATIOS

For the purposes of comparisons between years, and comparisons among different councils, it is necessary to express the various dollar-value measures of a council's financial position and annual financial performance in an appropriate *ratio form*. This involves the choice of suitable denominators as a basis for such ratios.

4.1 GEARING RATIO

From a ratepayer perspective, of particular interest is the extent to which a council's balance sheet is:

- too highly geared, in which case pressure for rate increases (and/or spending cuts) may be evident; or
- too lowly geared, in which case rates may be too high (and the use of debt financing too low).

As gearing is usually measured in the corporate world as the proportion of total capital employed that is in the form of debt capital, we are interested in a similar indicator.

Given the nature of government balance sheets, capital employed can be regarded as the total current value of all government-owned assets. Total assets are therefore an appropriate starting point for the denominator to a net financial liabilities indicator. As net financial liabilities net off all financial assets, financial assets need to be netted off the denominator as well.

This reasoning implies that the total current depreciated value of non-financial assets is the appropriate denominator for a net financial liabilities-based indicator of the "gearing" of council balance sheets.

A council's *gearing ratio* is therefore calculated by expressing its net financial liabilities position at a particular point in time as a percentage of its non-financial assets at that time.

4.2 OPERATING SURPLUS RATIO

The traditional denominator for the net operating surplus measure is operating revenue (or income), with capital revenue and any annual revaluation amounts being excluded. Alternatively, total expenses have an advantage as a denominator in that the resultant ratio is the equivalent of a cost recovery ratio.

We prefer to use annual depreciation expense itself, given the resultant ratio is to be used as an indicator of inter-generational (tax) equity, and such inter-generational equity is all about the extent to which the annual consumption of capital (i.e., depreciation) – as well as tax-funded operating expenses – is being fully funded from annual tax collections.

A council's *operating surplus ratio* is therefore calculated by expressing its annual operating surplus/(deficit) as a percentage of its annual depreciation expense.

4.3 CAPITAL DEFICIT RATIO

To enable a direct comparison with the operating surplus ratio, we have also opted to use annual depreciation expense as the denominator in the capital deficit ratio.

A council's *capital deficit ratio* is therefore calculated by expressing its annual capital deficit/(surplus) as a percentage of its annual depreciation expense.

4.4 NET BORROWING RATIO

As our interest in annual net borrowing stems from the resultant increase in net financial liabilities, with (opening) net financial liabilities therefore being an obvious choice for denominator. The resultant ratio would indicate the percentage change in net financial liabilities associated with the observed annual net borrowing/lending amount.

However, whether a particular increase in net financial liabilities implies an increase or a decrease in a council's gearing depends upon whether or not the increase matches the associated net increase in non-financial assets.

On this basis, the preferred denominator for the net borrowing/lending indicator is the annual net increase in non-financial assets, with the resultant ratio being akin to an external financing ratio.

A council's *net borrowing ratio* is therefore calculated by expressing its annual net borrowing/(lending) as a percentage of the net increase in its non-financial assets.

4.5 OTHER KEY FINANCIAL RATIOS

4.5.1 CAPEX RATIO

A council's capex ratio (short for capital expenditure ratio) is calculated by expressing its annual capital expenditure as a percentage of its annual depreciation expense.

A ratio greater than 100% indicates that a council's capital expenditure has more than matched the running down of existing non-financial assets. Where the capex ratio is less than 100%, a council's non-financial assets are depreciating at a rate greater than spending on the renewal and replacement of those assets.

4.5.2 NET INTEREST COVER

A council's net interest cover is calculated by expressing its annual pre-interest funds flow from operations as a multiple of its annual net interest expenses. As Table 3-3 shows, a council's pre-interest funds flow from operations is measured by its operating revenue (which excludes interest income) *less* its operating expenses (which excludes both its interest expense and depreciation expense). Net interest expenses are measured by interest expense *less* interest income. The net interest cover multiple is traditionally referred to as the number of *times* net interest is covered.

The larger a council's net interest cover ratio, the more comfortable is its debt servicing task. In the corporate world, net interest covers of five times or more qualify for high investment grade credit ratings.

4.5.3 NET DEBT PAYBACK PERIOD

A council's net debt payback period focuses on its net debt position, and so just its obligations to debt markets. The net debt payback period is calculated by expressing net debt at the end of a year as a multiple (in years) of the year's funds flow from operations. Funds flow from operations is measured by operating revenue *less* operating expenses *less* net interest expenses.

The longer a council's net debt payback period, the larger is its reliance on net debt and the greater is its debt servicing burden.



5. INTERSTATE AND INTER-GOVERNMENT FINANCIAL COMPARISONS

5.1 FINANCIAL PERFORMANCE AND POSITION COMPARISONS

The key financial ratios of the SA local sector can be compared with the equivalent ratios for both:

- the State government's general government sector; and
- the local sector in other States.

We have used published ABS data for the 2003-04 year for this purpose.

Table 5-1 presents the interstate and inter-government financials in a format similar to that which we have developed for our analysis of the SA local sector.

We prefer to exclude Queensland from the local government comparisons because of the wider functions of that State's local sector.

However, not all data available to us for the SA local sector is available from published ABS sources. In addition, some differences in data are evident where there is overlap between the ABS and SALGGC sources. These issues are evident in Table 5-2.



TABLE 5-1: FINANCIAL POSITION AND PERFORMANCE, 2003-04
INTERSTATE LOCAL SECTOR, AND THE SA GENERAL GOVERNMENT SECTOR, \$ MILLIONS

	Interstate local sector other excl Qld	State gen govt sector SA
Capital deficit/(surplus)	1,495	-186
Net increase/(decrease) in non-financial assets	1,532	-38
Capital expenditure	4,923	521
less Disposals of non-financial assets	637	124
less Depreciation expense	2,754	435
less Capital SPPs	37	148
less Operating surplus/(deficit)	1,153	240
Funds flow from operations	3,907	675
Pre-interest funds flow from operations	3,698	756
Operating revenue	14,411	9,636
Rates/tax revenue	6,148	2,806
plus Grants from other governments	1,958	4,906
plus User charges	3,982	1,165
plus Other operating revenue	2,323	759
less Operating expenses	10,713	8,880
less Net interest expense	-209	81
Interest expense	192	253
less Interest income	401	172
less Depreciation expense	2,754	435
equals Net borrowing/(lending)	342	-426
plus opening Net financial liabilities	-1,941	-3,519
plus Net impact of other revaluation effects	-447	70
equals (closing) Net financial liabilities/(worth)	-2,046	-3,875
Memo item:		
(opening) Non-financial assets	122,367	11,787
plus Net increase/(decrease) in non-financial assets	1,532	-38
plus Net impact of other revaluation effects	9,126	169
equals (closing) Non-financial assets	133,025	11,918
Key financial ratios:		
Gearing ratio	-1.5%	-32.5%
Operating surplus ratio	41.9%	55.2%
Capital deficit ratio	54.3%	-42.8%
Net borrowing ratio	22%	1121%
Capex ratio	179%	120%



**TABLE 5.2: FINANCIAL POSITION AND PERFORMANCE, ALL SA COUNCILS, 2003-04
COMPARING THE SALGGC BASIS AND THE ABS BASIS, \$ MILLIONS**

	LGGC basis	ABS basis
	\$M	\$M
Capital deficit/(surplus)	-52	-4
Net increase/(decrease) in non-financial assets	51	45
Additions to non-financial assets	374	380
Capital expenditure	336	380
plus Assets donated	38	n.p.
less Disposals of non-financial assets (book value)	55	62
less Depreciation expense	268	273
less Assets donated	38	n.p.
less Capital revenue	65	49
Capital SPPs	44	49
plus Net gain on disposal of non-financial assets	11	n.p.
plus Other capital contributions & donations	9	e.i.
less Operating surplus/(deficit)	-49	-36
Funds flow from operations	219	237
Pre-interest funds flow from operations	234	244
Operating revenue	1,088	1,089
Rates revenue	716	680
plus FAGs	101	101
plus User charges	108	206
plus Statutory charges	32	e.i.
plus Operating SPPs	67	63
plus Other operating revenue	64	39
less Operating expenses	854	845
Labour & materials	835	822
plus Levies paid to other governments	10	10
plus Grants & donations	9	13
less Net interest expense	15	7
Interest expenses	27	27
less Interest income	12	20
less Depreciation expense	268	273
equals Net borrowing/(lending)	-3	32
plus opening Net financial liabilities	333	282
plus net impact of other revaluation effects	-13	519
equals (closing) Net financial liabilities/(worth)	316	833
Memo item:		
(opening) Non-financial assets	8,820	8,726
plus Net increase/(decrease) in non-financial assets	51	45
less Losses expensed on revaluation	7	n.p.
plus Net impact of other revaluation effects	624	727
equals (closing) Non-financial assets	9,487	9,498
Key financial ratios:		
Gearing ratio	3.3%	8.8%
Operating surplus ratio	-18%	-13%
Capital deficit ratio	-19%	-1%
Net borrowing ratio	-6%	71%
Capex ratio	125%	139%

n.p. = not published; e.i. = elsewhere included

5.2 TAX-TAKE COMPARISONS

The SA local sector's share of the total tax take in South Australia can be compared with the tax take in the State of the other two levels of government.

We have apportioned Commonwealth tax collections among the States on the same basis as the distribution of the collection of all State taxes among the States. Based on unpublished ABS data, in 2003-04, this sees 6.9% of total Commonwealth tax collections Australia-wide being attributed to collections in South Australia. The compares with the State's population share of 7.6%. This implies that the SA tax base on a per capita basis is some 10% below the national average.

**TABLE 5-3: CALCULATION OF THE TAX TAKE IN SOUTH AUSTRALIA
AND THE SA LOCAL SECTOR'S SHARE**

	1992-93 \$M	2003-04 \$M	avg ann growth
Commonwealth	6,395	14,532	8.9%
State government	1,656	2,806	3.6%
Local sector	387	716	5.0%
Total tax take in SA	8,438	18,054	7.1%
Local sector as % of total tax take	4.59%	3.97%	

An alternative would be to use standardised tax collections (from Commonwealth Grants Commission sources), to eliminate the effect of differences in tax efforts among the States. Or GSP could be used to eliminate interstate differences in the Commonwealth tax base, although this would involve the assumption that relative incomes are broadly equal between the States.

We do not expect, however, that the choice of allocator effects greatly the comparisons in Table 5-3 of the relative tax take between 1992-93 and 2003-04.

6. DISAGGREGATING SECTOR-WIDE RESULTS

The Discussion Paper stated that the Review Board expected to distinguish between the situations facing different types of councils (small versus medium versus large, and urban versus rural), based on the Australian Classification of Local Governments (ACLG).

The ACLG classifies the 68 SA councils into 12 sub-groups (which were provided at Appendix D of the Review Board's earlier *Discussion Paper*).

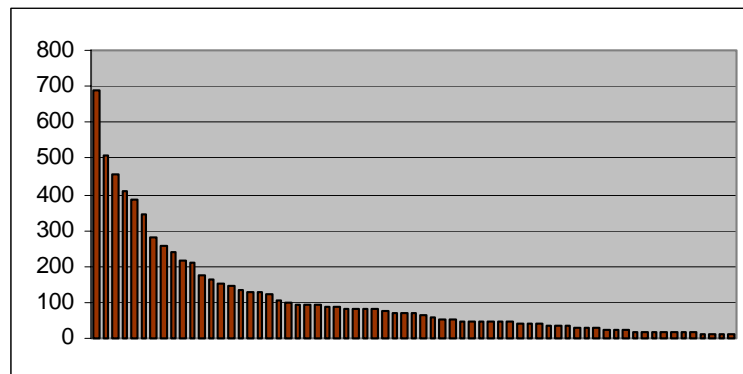
6.1 DIVERSITY AMONG COUNCILS

The diversity among the 68 SA councils is considerable, with significant differences in size and population, road length and infrastructure, and their resources and skills base.

One indicator of the diversity among councils is the size of council operations. The number of employees on a full-time equivalent (FTE) basis is a useful indicator of a council's operational size, as well as being directly related to a key driver of operationally-related expenditure (wages & salaries expenditure).

The differences among councils based on this *size indicator* is shown in Table 6-1, using information sourced from the SALGGC.

CHART 6-1: SIZE OF COUNCILS, SA COUNCILS, 2003-04
NUMBERS OF COUNCIL EMPLOYEES (FTE BASIS)

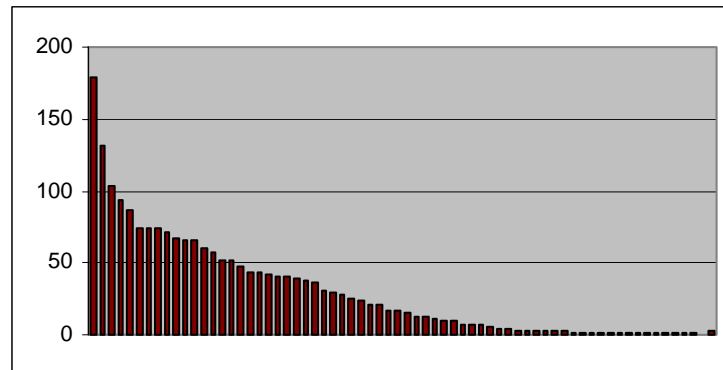


Another indicator of the diversity among councils is population density, which distinguishes the circumstances facing urban and rural councils, and councils in settled and in fringe areas.

Rather than using population density directly, we have chosen instead to use a less conventional measure: the length of roads per council employee. Length of roads is a function of the geographical area served, as well as being directly related to a driver of geographically-related expenditure (roads expenditure). As we prefer to use the number of employees (rather than population served) as an indicator of a council's operational size, we have opted to use the number of employees measured on a full-time equivalent (FTE) basis as the denominator.

The differences among councils based on this *density indicator* are shown in Table 6-2, using information also sourced from the SALGGC.

CHART 6-2: DENSITY OF COUNCIL OPERATIONS: SA COUNCILS, 2003-04
LENGTH OF ROADS PER COUNCIL EMPLOYEE, KILOMETRES

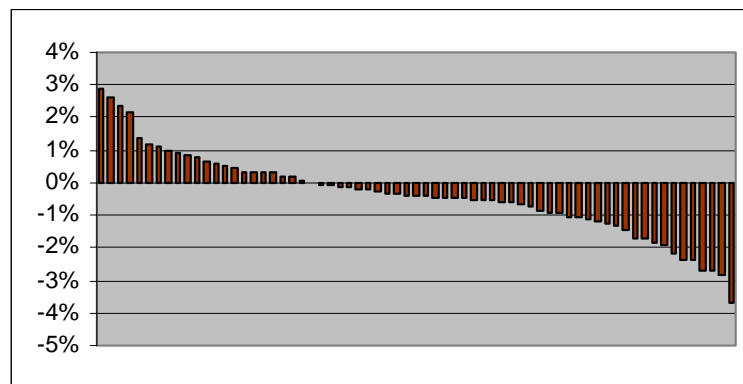


Essentially, the ACLG classifies councils on these two types of bases, size and density.

We consider differences among councils in their relative growth rates to be also important. Rather than focusing on the rate of growth in the most recent year (which can be influenced by one-off factors), we prefer to use the average annual rate of population growth evident over the last five years.

Chart 6-3, again using data sourced from the SALGGC, shows that there are significant differences among councils in the average annual rates of growth of their resident populations, which can have significant implications in any assessment of council finances.

CHART 6-3: RELATIVE GROWTH OF COUNCIL, SA COUNCILS
ANNUAL POPULATION GROWTH RATE RELATIVE TO THE STATE AVERAGE,
1999-00 TO 2003-04, PERCENTAGE POINTS



6.2 CATEGORISING COUNCILS

We find use of the metropolitan/country split to be more prevalent in South Australia than the ACLG distinction between urban and rural councils. Broadly, metropolitan councils and regional centre councils are the councils with a shorter length of road per staff member.

For the purpose of our analysis, we have opted to use a finer classification based on the three-fold distinction between:

- the size of councils (distinguishing between three sub-groupings of 'large', 'medium' and 'small' councils);
- the density of a council's area/jurisdiction (distinguishing between three sub-groupings of 'dense', 'fringe' and 'sparse' councils); and

- ❑ the relative growth rate of resident population (distinguishing between three sub-groups of 'fast', 'average' and 'slow' growing councils).

For each diversity indicator, we started by endeavouring to divide SA councils into three broadly equal groups, and then adjusted the classification at the margin to tie into a convenient threshold.¹

For the size indicator, this sees:

- ❑ the 'largest' sized councils being identified as those with greater than 100 FTEs in 2003-04 (21 in total);
- ❑ the 'smallest' sized councils as being those with less than 40 FTEs in 2003-04 (20 in total); and
- ❑ the 'medium' sized councils being those in between.

Table 6-1 and 6-2 show the councils classified as the 'largest' and the 'smallest' councils.

**TABLE 6.1: LARGEST SIZED COUNCILS, 2003-04
GREATER THAN 100 FTEs**

Council	FTEs
Adelaide	690
Onkaparinga	508
Port Adelaide Enfield	457
Charles Sturt	411
Salisbury	387
Tea Tree Gully	346
Playford	280
Marion	256
West Torrens	239
Holdfast Bay	217
Mitcham	210
Port Augusta	178
Unley	161
Adelaide Hills	152
Burnside	144
Norwood, Payneham and St. Peters	133
Murray Bridge	131
Whyalla	130
Alexandrina	122
Mount Barker	103
Campbelltown	102

¹ We have opted not to include Roxby Downs council in the classifications set out in the remainder of this chapter because of this council's unique characteristics.

**TABLE 6-2: SMALLEST SIZED COUNCILS, 2003-04
LESS THAN 40 FTEs**

Council	FTEs
Orroroo/Carrieton	9
Karoonda East Murray	12
Kimba	13
Franklin Harbour	14
Elliston	15
Tumby Bay	17
Kingston	17
Barunga West	18
Flinders Ranges	18
Lehunte	19
Streaky Bay	20
Cleve	21
Peterborough	22
Walkerville	26
Lower Eyre Pen	26
Robe	27
Mount Remarkable	28
Yankalilla	33
Renmark Paringa	33
Southern Mallee	34

For the density indicator, this sees:

- ❑ the 'densest' councils being identified as those with less than 3km of roads per employee in 2003-04 (21 in total);
- ❑ the 'sparsest' councils as being those with greater than 25 km of roads per employee in 2003-04 (29 in total); and
- ❑ the 'fringe' density councils being those in between.

Table 6-3 and 6-4 show the councils classified as the 'densest' and the 'sparsest' councils.

**TABLE 6-3: DENSEST COUNCILS, 2003-04
LESS THAN 3KM OF ROADS PER FTE**

Council	Km/FTE
Adelaide	0.2
Holdfast Bay	0.8
Unley	1.1
West Torrens	1.2
Norwood, Payneham and St. Peters	1.3
Prospect	1.3
Charles Sturt	1.4
Walkerville	1.4
Port Adelaide Enfield	1.4
Burnside	1.7
Tea Tree Gully	1.7
Marion	1.8
Mitcham	1.9
Salisbury	1.9
Mount Gambier	2.0
Gawler	2.1
Port Augusta	2.3
Campbelltown	2.5
Whyalla	2.6
Playford	2.6
Onkaparinga	2.8

**TABLE 6-4: SPARSEST COUNCILS, 2003-04
GREATER THAN 25KM OF ROADS PER FTE**

Council	Km/FTE
Orroroo/Carrieton	179
Kimba	132
Karoonda East Murray	104
Lehunte	94
Streaky Bay	87
Mount Remarkable	75
Elliston	74
Goyder	74
Flinders Ranges	71
Cleve	67
Franklin Harbour	66
Tumby Bay	65
Barunga West	60
Peterborough	57
Lower Eyre Pen	52
Wakefield Regional	51
Northern Areas	48
Kingston	43
Mid Murray	43
Ceduna	42
Tatiara	41



Yorke Peninsula	41
Southern Mallee	39
Clare And Gilbert Valleys	37
Coorong	37
Light Regional	31
Loxton Waikerie	29
Wattle Range	28
Grant	25

For the growth indicator, this sees:

- ❑ the 'fastest' growing councils being identified as those with growth rates which are 0.25 percentage points or more faster than the State-wide average in the five years to 2003-04 (19 in total);
- ❑ the 'slowest' growing councils as being those with growth rates which are 1 percentage point or more slower than the State-wide average in the five years to 2003-04 (18 in total); and
- ❑ the 'average' growing councils being those in between.

Table 6-5 and 6-6 show the councils classified as the 'fastest' and the 'slowest' councils.

**TABLE 6-5: FASTEST GROWING COUNCILS, FIVE YEARS TO 2003-04
0.25 PERCENTAGE POINTS OR GREATER ABOVE STATE AVERAGE**

Council	% per annum
Victor Harbor	2.9%
Light Regional	2.6%
Alexandrina	2.4%
Mount Barker	2.1%
Port Lincoln	1.4%
Adelaide	1.2%
Barossa	1.1%
Gawler	1.0%
Copper Coast	0.9%
Franklin Harbour	0.8%
Mallala	0.8%
Salisbury	0.7%
Playford	0.6%
Barunga West	0.5%
Lower Eyre Pen	0.4%
Murray Bridge	0.3%
Onkaparinga	0.3%
Burnside	0.3%
Streaky Bay	0.3%

**TABLE 6-6: SLOWEST GROWING COUNCILS, FIVE YEARS TO 2003-04
1 PERCENTAGE POINT OR GREATER BELOW STATE AVERAGE**

Council	% per annum
Cooper Pedy	-3.7%
Karoonda East Murray	-2.8%
Peterborough	-2.7%
Orroroo/Carrieton	-2.7%
Whyalla	-2.4%
Lehunte	-2.4%
Elliston	-2.2%
Flinders Ranges	-1.9%
Goyder	-1.9%
Mount Remarkable	-1.7%
Kingston	-1.7%
Kimba	-1.5%
Coorong	-1.3%
Northern Areas	-1.2%
Wattle Range	-1.2%
Port Pirie	-1.2%
Southern Mallee	-1.1%
Tumby Bay	-1.1%

Table 6-7 classifies all SA councils on the above bases.

Using this classification directly to present financial data suffers from several categories containing only one council.

We have chosen to avoid disclosing individual council figures in our financial tables by combining the following single-category councils with the next closest multi-council category:

- ❑ Whyalla, with the largest sized, densest and average growth councils;
- ❑ Gawler and Walkerville, with the medium sized, densest and average growth councils;
- ❑ Adelaide Hills, with the largest sized, fringe, and fastest growth councils;
- ❑ Light Regional, with the medium sized, sparsest and average growth councils; and
- ❑ Cleve, with the smallest sized, sparsest and slowest growth councils.

We have also chosen to combine the slow and average growing councils in the two small medium size and fringe density groups. As a result, we report financial information using the following 11 groupings:

- Group 1. Large, dense, fast councils (5 councils in total);
- Group 2. Large, dense, average councils (12 councils in total);
- Group 3. Medium, dense, average councils (4 councils in total);
- Group 4. Large, fringe, fast councils (4 councils in total);
- Group 5. Medium, fringe, fast councils (5 councils in total);
- Group 6. Medium, fringe, slow-average councils (5 councils in total);
- Group 7. Small, fringe, average councils (3 councils in total);
- Group 8. Medium, sparse, average councils (9 councils in total);
- Group 9. Medium, sparse, slow councils (4 councils in total);
- Group 10. Small, sparse, fast councils (5 councils in total); and
- Group 11. Small, sparse, slow councils (11 councils in total).



TABLE 6-7: CLASSIFICATION OF INDIVIDUAL COUNCILS, SOUTH AUSTRALIA, 2003-04

Group	Council	Location	Size	Density	Growth
Group 1	7 Adelaide	metro			
	13 Burnside	metro			
	48 Onkaparinga	metro	large	dense	fast
	51 Playford	metro			
	60 Salisbury	metro			
Group 2	14 Campbelltown	metro			
	16 Charles Sturt	metro			
	28 Holdfast Bay	metro			
	38 Marion	metro			
	40 Mitcham	metro			
	47 Norwood, Payneham and St. Peters	metro	large	dense	average
	52 Port Adelaide Enfield	metro			
	53 Port Augusta	country			
	64 Tea Tree Gully	metro			
	66 Unley	metro			
	71 West Torrens	metro			
	72 Whyalla	country	large	dense	slow
Group 3	25 Gawler	metro	medium	dense	fast
	42 Mount Gambier	country	medium	dense	average
	56 Prospect	metro			
	69 Walkerville	metro	small	dense	average
Group 4	9 Alexandrina	country			
	41 Mount Barker	country	large	fringe	fast
	44 Murray Bridge	country			
	8 Adelaide Hills	country	large	fringe	average
Group 5	10 Barossa	country			
	21 Copper Coast	country			
	37 Mallala	country	medium	fringe	fast
	54 Port Lincoln	country			
	67 Victor Harbor	country			
Group 6	12 Berri Barmera	country			
	29 Kangaroo Island	country	medium	fringe	average
	45 Naracoorte Lucindale	country			
	19 Coober Pedy	country			
	55 Port Pirie	country	medium	fringe	slow
Group 7	57 Renmark Paringa	country			
	58 Robe	country	small	fringe	average
	73 Yankalilla	country			
Group 8	30 Light Regional	country	medium	sparse	fast
	15 Ceduna	country			
	17 Clare and Gilbert Valleys	country			
	27 Grant	country			
	36 Loxton Waikerie	country	medium	sparse	average
	39 Mid Murray	country			
	63 Tatiara	country			
	68 Wakefield Regional	country			
74 Yorke Peninsula	country				
Group 9	20 Coorong	country			
	26 Goyder	country	medium	sparse	slow
	46 Northern Areas	country			
	70 Wattle Range	country			
Group 10	11 Barunga West	country			
	24 Franklin Harbour	country	small	sparse	fast
	35 Lower Eyre Pen	country			
	62 Streaky Bay	country			
	18 Cleve	country	small	sparse	average
Group 11	22 Elliston	country			
	23 Flinders Ranges	country			
	31 Karoonda East Murray	country			
	32 Kimba	country			
	33 Kingston	country			
	34 Lehunte	country	small	sparse	slow
	43 Mount Remarkable	country			
	49 Ororoo/Carrieton	country			
	50 Peterborough	country			
	61 Southern Mallee	country			
65 Tumby Bay	country				
n.a.	59 Roxby Downs	country		not classified	

7. FORECASTING METHOD AND ASSUMPTIONS

The work reported in this chapter is preliminary only. The methodology and results documented here are subject to revision as more time is available for analysis, and so should be regarded as illustrative only at this stage.

7.1 NATURE OF PROJECTIONS

We have prepared some initial projections of the local sector's financial performance and position over the next 20 years.

Used cautiously, such projections can be a useful tool for examining medium- to long-term financial pressures on councils.

The modelling was undertaken at the individual council level, with the results for the sector as a whole and for groupings of councils aggregated from the individual council projections.

These projections are not intended to be estimates of the state of council finances in future, but are designed to indicate the potential financial pressure facing councils on a 'no policy change' basis. In particular, the 'baseline' scenario focussed on here assumes that there are no changes in current council policies and practices and that – unless otherwise noted – current patterns of demand for council-funded services do not change over time. It is also based on our latest national and State economic forecasts.

The projections represent the possible outcome *if a particular set of conditions prevails*. Rather than being predictions of actual future outcomes, they show possible future outcomes that could be expected should a particular set of assumptions prevail.

7.2 MODELLING APPROACH

For projection purposes, our modelling focuses on making projections of annual transaction-type variables, which can then be used to generate projections of stock-type variables. Only a few, relatively minor stock-type variables are directly projected.

Very generally, our modelling approach to transaction-type variables can be summarised as follows:

year 1 value ("base")

multiplied by external escalation factor ("driver"), typically in the form: yr 2 value divided by yr 1 value

multiplied by an historically-based elasticity factor ("past-based"), typically showing the relationship based on past patterns between a % change in the transaction variable and the % change in the driver variable

multiplied by an additional future elasticity factor ("add'l future"), typically showing the relationship between the expected future elasticity and the past-based elasticity

equals year 2 value.

That is, the year 2 value is typically derived as follows:

$$\text{year 1 value} * (\text{driver year 2} / \text{driver year 1}) * (1 + \text{past-based elasticity factor}) * (1 + \text{additional future elasticity factor})$$

7.3 KEY ASSUMPTIONS

7.3.1 PROJECTING FINANCIAL POSITION

A council's (closing) net financial liabilities value (NFL) can be projected once a projected value is available for the two annual transaction drivers, namely:

- ❑ net borrowing/(lending) (symbol = NB); and
- ❑ the net impact of revaluation effects on net financial liabilities (ValNFL).

The (closing) net financial liabilities value can then be projected on the basis that:

$$\text{NFL} = \text{prev yr's NFL} + \text{NB} + \text{ValNFL}.$$

We have projected the net impact of revaluation effects on net financial liabilities (ValNFL) on the basis of the historical 5 year average of the annual observed revaluation effect as a percentage of the commencing net financial liabilities value.

Projecting annual net borrowing involves separately projecting each of its component parts. Our basis for doing so is set out in the following sub-sections.

7.3.2 ECONOMIC, POPULATION AND COUNCIL-SPECIFIC DRIVERS

The initial 'baseline' scenario we have developed starts with the following key economic and demographic drivers.

driver	symbol
annual percentage change in SA CPI	SA_CPI_chg
annual percentage change in SA AWE	SA_AWE_chg
annual percentage change in SA nominal gross State product	SA_income_chg
annual percentage change in SA resident population	SA_pop_chg
long-term Commonwealth bond rate	ltbond_rate

In summary, our forecasts of these key economic and demographic variables involve, over the next 20 years:

- ❑ the annual rate of increase in the CPI settling around 2½% per annum, with the annual rate of growth of average weekly earnings (AWE) being around one percentage point higher;
- ❑ the annual increase in nominal gross State product (GSP), a proxy for State income, increasing on average by about 4½% per annum;
- ❑ State population growth staying around the ½% per annum mark, which is below the projected national average rate of 1% per annum;
- ❑ the Commonwealth government's 10 year bond rate settling at around the 5¾% level.

In addition, for each council, the following council-specific drivers were projected over time:

driver	symbol
a council's percentage point differential in the annual growth of its resident population relative to the State-wide average	pop_diff
a council's number of rateable properties	NumPrp
a council's number of council employees	FTE
a council's length of road network	RoadKM

In particular, we have assumed that, for each council over the next 20 years:

- ❑ its annual rate of growth of residential population relative to the State-wide average remains unchanged on the average differential observed over the last five years;
- ❑ the number of rateable properties, both residential and non-residential, increases slightly faster than the annual growth in resident population;
- ❑ the number of council employees is assumed to remain broadly unchanged in proportion to the council's resident population; and
- ❑ the length of road network is assumed to remain unchanged, except for those councils that have experienced increases over the last five years where the proportionate increase in the length of the council's road network relative to population growth is assumed to continue.

7.3.3 DEPRECIATION EXPENSE ASSUMPTIONS

A key element of the projections involves those relating to annual depreciation expense.

The initial 'baseline' scenario we have developed relies importantly on projections of each council's average asset lives ("asset_lives"), for use in a straight-line depreciation calculation. We have assumed that:

- ❑ for councils with current average asset lives of 50 years and above, average asset lives remain at current levels over the next 20 years; and
- ❑ for councils where average asset lives currently are below 50 years, average asset lives are gradually increased so that with 25% of the gap between current lives and 50 years is eliminated over the next 20 years.

Once average asset lives are projected, annual depreciation expense can be projected as follows:

variable	symbol	basis for projections
(opening) value of non-financial assets before deducting accumulated depreciation	BegGNFA	previous year's opening value + prev yr's capital expenditure + prev yr's asset donated – prev yr's disposal of assets
depreciation expense	DEPN	BegGNFA/asset_lives

The requisite projections of capital expenditure, asset donations and asset disposals are dealt with in the next sub-section.

7.3.4 CAPITAL TRANSACTIONS ASSUMPTIONS

The next component of our modelling involves capital transaction items.

The key variable here is the annual percentage increase in a council's non-financial assets (incNFA_rate). We have assumed that, for each council, this annual growth rate trends towards 1% in per capita terms over the next 20 years.

The basis for the projections of this variable, and other relevant capital transaction variables, is shown in the following table:

variable	symbol	basis for projections		elasticity	
		base	driver	past-based	add'l future
annual % increase in non-financial assets	incNFA_rate	previous yr's value	population	0%	1%
non-financial assets donated	AssDon	previous 5 yr average	AWE	0%	--
capital SPPs	CapSPP	previous yr's value	CPI, population	0%	--
proceeds from asset sales	ProSal	previous 5 yr average	NFA	0%	--
net gain on disposal of non-financial assets	NetGai	previous 5 yr average	AWE	0%	--
other capital contributions & donations	CapCon	previous 5 yr average	AWE	0%	--

The basis for projecting related transactions is as follows:

variable	symbol	basis for projections
net increase/(decrease) in non-financial assets	IncNFA	BegNFA * incNFA_rate
capital expenditure	Capex	IncNFA – AssDon + DisNFA + DEPN
net impact of other revaluation effects on NFA	ValNFA	previous 5 year average annual percentage change

Additions to non-financial assets (AddNFA), disposals of non-financial assets (DisNFA), capital revenue (CapRev) and (closing) non-financial assets (NFA) are all then calculated as per the definitions provided in chapter 3.

7.3.5 REVENUE ASSUMPTIONS

The next component of our modelling involves the range of operating revenue items.

The key variable here is the real-terms per-property percentage increase in rates revenue. In summary, for each council, we have assumed the same rate on average as over the last five years, except for those councils that displayed real-terms reductions in their per-property rates collections over the past five years in which case they are assumed to maintain their per-property rates in line with the CPI over the projection period.

On the remaining operating revenue items, we have assumed that, for each council over the next 20 years:

- ❑ FAGs continue to be escalated on the basis of the current arrangements (CPI and population);
- ❑ operating SPPs from both the State and Commonwealth governments grow at the same rate as FAGs;
- ❑ revenue from user charges recover the same proportion of labour and materials operating expense as in 2003-04; and
- ❑ other own-source revenues grow in line with State income (commercial income) or population and AWE (statutory charges and other operating revenue).



The basis for the projections of each variable is shown in the following table:

variable	symbol	basis for projections		elasticity	
		base	driver	past-based	add'l future
rates revenue	RatRev	previous yr's value	CPI, property numbers	3 year average	--
user charges	UseChg	previous yr's value	labour and materials opex	0%	--
FAGs	FAGs	previous yr's value	population, CPI	0%	--
operating SPPs	OpSPPs	previous yr's value	population, CPI	0%	--
statutory charges	StaChg	previous yr's value	population, CPI	0%	--
reimbursement income	Reilnc	previous yr's value	population, AWE	0%	--
commercial revenue	ComRev	previous yr's value	GSP	0%	--
other revenue	OthRev	previous yr's value	population, CPI	0%	--

All other operating revenue (OtherR) and total operating revenue (OpRev) are then calculated as per the definitions provided in chapter 3.

7.3.6 OPERATING EXPENSES ASSUMPTIONS

The next component involves the operating expense items.

The basis for the projections of each operating expense (opex) variable is shown in the following table:



variable	symbol	basis for projections		elasticity	
		base	driver	past-based	add'l future
administration opex (excluding depreciation)	ADMexD	previous yr's value	FTE, AWE	0%	--
rubbish & sanitation opex (excluding depreciation)	RUBexD	previous yr's value	population, AWE	0%	1%
roads & bridges opex (excluding depreciation)	RDSexD	previous yr's value	RoadKM, AWE	0%	1%
recreation and community facilities opex (excluding depreciation)	RESexD	previous yr's value	population, AWE	0%	1%
aged, family, health & welfare opex (excluding depreciation)	HUMexD	previous yr's value	GSP	0%	--
electricity & water supply opex (excluding depreciation)	UTLexD	previous yr's value	GSP	0%	--
other opex (excluding depreciation)	OthLaM	previous yr's value	population, CPI	0%	--
levies paid to other governments	LevOth	previous yr's value	population, CPI	0%	--
grants & donations	GraDon	previous yr's value	income	0%	1%
losses expensed on revaluation of non-financial assets	LosRev	set at zero		n.a.	n.a.

In summary, this broadly means that, for each council, over the next 20 years it is assumed that:

- ❑ per capita operating expenses ("opex", which excludes depreciation) on waste and recycling, per capita opex on recreational and cultural services and per km opex on roads and bridges all grow by 1% relative to AWE;
- ❑ per FTE administrative opex grows in line with AWE;
- ❑ opex on grants and donations grow by 1% relative to State income (GSP);

- ❑ per capita opex on community services and per capita opex on commercial operations both grow in line with State income; and
- ❑ per capita opex on other labour and materials grows in line with CPI.

Labour and materials opex (LabMat) is calculated as the sum of administration opex, rubbish & sanitation opex, roads & bridges opex, recreation and community facilities opex, aged, family, health & welfare opex, electricity & water supply opex and other opex.

Total operating expenses (OpEx) is then calculated as per the definition provided in chapter 3.

7.3.7 NET INTEREST ASSUMPTIONS

Finally, it is necessary to make projections of both interest income and interest expense.

As to interest income, we assume that the rate of interest received by a council (*int_rec*) on its stock of cash and other interest-bearing financial assets is the difference between the forecast long-term bond rate (*ltbond_rate*) and the council's margin on interest received under the Commonwealth 10 year bond rate (which is assumed to unchanged on the average margin over the last three years).

Based upon historical observations of both cash assets and other interest-bearing financial assets as a multiple of average monthly total operating expenses and interest expense (liquidity ratio), we assume that all councils will move to a three month liquidity ratio by the end of 20 years. We assume that the other interest-bearing assets item (*OthLiq*) is maintained in real terms (i.e., escalated over time in line with the CPI).

A council's interest income is then projected by applying the council's projected rate of interest received to each year's projected opening value of cash plus other interest-bearing financial assets.

As to interest expense, we assume that the rate of interest paid by a council (*int_paid*) on its stock of borrowings is the sum of the forecast long-term bond rate (*ltbond_rate*) and the council's current interest payments differential over the Commonwealth 10 year bond rate (which is assumed to unchanged on the average differential over the last three years).

Based upon the projections of net financial liabilities, it is possible to derive projections of the stock of borrowings (*Borrow*). The methods used to project the underlying additional balance sheet items are shown in the following table:

variable	symbol	basis for projections	
		base	driver
non-debt financial liabilities	nonDFL	2003-04 value	sum of: Capex, OpEx and IntExp
non-cash assets	nonCFA	2003-04 value	sum of: OpRev, IntInc, CapSPP and CapCon

We calculate projections of borrowings (*Borrow*) on the following basis:

$$\text{Borrow} = \text{NFL} - \text{NonDFL} + \text{NonCFA} - \text{IncNDF} + \text{Cash} + \text{OthLiq}$$

where the net increase in non-debt financial liabilities (*IncNDF*) is calculated as:

$$\text{IncNDF} = (\text{NonDFL} - \text{prev yr's NonDFL}) - (\text{NonCFA} - \text{prev yr's NonCFA}).$$

A council's interest expense is then projected by applying the council's projected rate of interest paid to each year's projected opening value of its stock of borrowings.

7.3.8 PROJECTING ANNUAL FINANCIAL PERFORMANCE

Once the above projections are available, the following key measures of a council's annual financial performance can be calculated as per the definitions provided in chapter 3:

- net interest expense;
- pre-interest funds flow from operations;
- funds flow from operations;
- operating surplus/(deficit)
- capital deficit/(surplus); and
- net borrowing/ (lending).

7.4 PROJECTIONS

Our first-run (or initial) projections are shown in the final two columns in the Financial Summary Tables in Appendix A.

At the individual council level, the projections contain some anomalies, which largely result from the use of so far of State-wide assumptions that fail to capture individual council circumstances. We will be addressing these particular issues in the next round of projections.

7.5 SENSITIVITY OF PROJECTIONS

The projections outlined above are sensitive to all key assumptions made about the rate of growth in revenue and expenditure under no-policy-change conditions.

A key assumption regards the no-policy-change rate of increase in per-property rates revenue relative to CPI growth.

The baseline scenario assumes that:

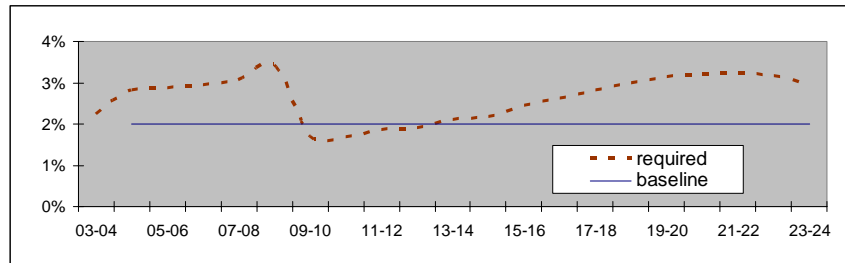
- councils that displayed real-terms reductions (measured in terms of CPI movements) in their per-property rates collections over the past five years in future maintain their per-property rates in line with the CPI over the projection period; and
- councils that over the same period displayed real-terms increases maintain the same real-terms increases in rates over the projection period.

This implies that, under the baseline scenario, per-property rates increase relative to the CPI on average by around 2½% per annum, which is slightly up on the 2.2% average real-terms increase recorded in 2003-04.

Chart 7-1 shows the pattern of annual real-terms increases in per-property rates collections for the SA local sector as a whole if:

- councils currently with operating deficits were to phase-in an operating balance in five years (by 2008-09) and to maintain such a balance over the remainder of the projection period; and
- councils projected to achieve operating surpluses under the baseline per-property rates collection assumption do not vary their rating effort from the baseline assumption.

CHART 7-1: REAL-TERMS PER-PROPERTY RATING INCREASES, ALL SA COUNCILS
AS NECESSARY TO ACHIEVE AN OPERATING BALANCE BY 2008-09 AND MAINTAIN AN OPERATING BALANCE THEREAFTER
(ALL OTHER BASELINE PROJECTION ASSUMPTIONS UNCHANGED)



7.6 A QUALIFICATION

Much more work will be done on these projections once the *Interim Report* is published. The projections possible in the short space of time available to us so far should be regarded as illustrative at this stage, and they are subject to change.





APPENDIX A: FINANCIAL SUMMARY TABLES

TABLE A-1: FINANCIAL POSITION AND PERFORMANCE, \$000s
2001-02 TO 2003-04 ACTUALS, & 2008-09 AND 2023-24 'BASELINE' PROJECTIONS
ALL SA COUNCILS (68 COUNCILS IN TOTAL)

Total	2000-01	2001-02	2002-03	2003-04	2008-09	2023-24
	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s	\$ 000s
	actual	actual	actual	actual	projection	projection
Capital deficit/(surplus)	-61,975	-49,829	-32,999	-51,963	-42,283	133,383
Net increase/(decrease) in non-financial assets	-9,657	29,006	67,064	50,721	57,500	271,112
Additions to non-financial assets	248,569	321,294	367,095	373,774	401,958	824,190
Capital expenditure	226,818	305,356	313,217	335,973	362,831	782,008
<i>plus</i> Assets donated	21,751	15,938	53,877	37,801	39,127	42,182
<i>less</i> Disposals of non-financial assets (book value)	30,677	45,256	42,297	55,278	53,391	86,557
<i>less</i> Depreciation expense	227,548	247,031	257,733	267,775	291,068	466,522
<i>less</i> Assets donated	21,751	15,938	53,877	37,801	39,127	42,182
<i>less</i> Capital revenue	30,567	62,897	46,186	64,884	60,656	95,547
Capital SPPs	25,239	52,933	36,212	43,948	51,979	86,991
<i>plus</i> Net gain on disposal of non-financial assets	2,237	-34	3,256	11,487	4,135	4,035
<i>plus</i> Other capital contributions & donations	3,090	9,997	6,718	9,449	4,542	4,521
<i>less</i> Operating surplus/(deficit)	-65,975	-51,864	-52,193	-49,161	-26,292	-31,219
Funds flow from operations	161,573	195,167	205,541	218,614	264,776	435,302
Pre-interest funds flow from operations	174,914	210,825	220,806	233,895	278,528	610,527
Operating revenue	888,821	957,423	1,028,923	1,087,723	1,339,305	2,668,825
Rates revenue	571,246	616,086	672,278	716,269	897,013	1,896,971
<i>plus</i> FAGs	90,012	82,603	97,744	100,949	115,133	176,498
<i>plus</i> User charges	101,766	104,819	107,327	107,636	135,352	271,802
<i>plus</i> Statutory charges	22,393	26,042	29,878	31,780	37,182	61,442
<i>plus</i> Operating SPPs	40,321	48,266	58,721	66,675	75,821	115,385
<i>plus</i> Other operating revenue	63,084	69,606	62,973	64,414	78,803	146,726
<i>less</i> Operating expenses	713,908	746,598	808,116	853,828	1,060,777	2,058,298
Labour & materials	692,098	726,572	782,586	835,327	1,037,633	2,011,092
<i>plus</i> Levies paid to other governments	13,491	11,390	14,890	9,771	11,320	18,093
<i>plus</i> Grants & donations	8,319	8,635	10,640	8,729	11,824	29,112
<i>less</i> Net interest expense	13,340	15,658	15,266	15,282	13,752	175,225
Interest expense	25,598	24,394	25,468	26,862	30,428	204,176
<i>less</i> Interest income	12,257	8,736	10,203	11,581	16,676	28,952
<i>less</i> Depreciation expense	227,548	247,031	257,733	267,775	291,068	466,522
equals Net borrowing/(lending)	4,000	2,036	19,193	-2,802	-15,991	164,602
<i>plus</i> opening Net financial liabilities	278,594	232,541	315,862	332,607	278,579	2,785,579
<i>plus</i> Net impact of other revaluation effects	-50,053	81,285	-2,448	-13,401	13,848	73,873
equals (closing) Net financial liabilities/(worth)	232,541	315,862	332,607	316,403	276,436	3,024,054
Memo item:						
(opening) Non-financial assets	7,420,508	7,910,990	8,400,051	8,819,914	10,409,410	16,400,418
<i>plus</i> Net increase/(decrease) in non-financial assets	-9,657	29,006	67,064	50,721	57,500	271,112
<i>less</i> Losses expensed on revaluation of Non-financial assets	33,807	2,882	864	7,442	0	0
<i>plus</i> Net impact of other revaluation effects	533,946	462,937	353,662	624,280	208,188	328,008
equals (closing) Non-financial assets	7,910,990	8,400,051	8,819,914	9,487,473	10,675,098	16,999,538
Key financial ratios:						
Gearing ratio	3%	3.8%	3.8%	3.3%	2.6%	17.8%
Operating surplus ratio	-29%	-21%	-20%	-18%	-9%	-7%
Capital deficit ratio	-27%	-20%	-13%	-19%	-15%	29%
Net borrowing ratio	-41%	7%	29%	-6%	-28%	61%
Capex ratio	100%	124%	122%	125%	125%	168%
Net interest cover (times (x))	13.1	13.5	14.5	15.3	20.3	3.5
Net debt payback period (years)	0.7	1.0	1.0	0.9	0.4	6.1

Note: the projections included in the table are preliminary only, and are subject to change as further analysis occurs



TABLE A-2: FINANCIAL POSITION AND PERFORMANCE, \$000s
2001-02 TO 2003-04 ACTUALS, & 2008-09 AND 2023-24 'BASELINE' PROJECTIONS
METROPOLITAN COUNCILS (18 COUNCILS IN TOTAL)

Metropolitan	2000-01 \$ 000s actual	2001-02 \$ 000s actual	2002-03 \$ 000s actual	2003-04 \$ 000s actual	2008-09 \$ 000s projection	2023-24 \$ 000s projection
Capital deficit/(surplus)	-26,713	-13,355	3,465	-12,672	-4,533	120,145
Net increase/(decrease) in non-financial assets	6,115	25,309	66,695	42,161	50,718	190,796
Additions to non-financial assets	143,756	182,888	223,794	212,245	234,243	484,187
Capital expenditure	123,973	170,625	177,692	189,560	203,696	451,231
plus Assets donated	19,783	12,263	46,102	22,685	30,547	32,956
less Disposals of non-financial assets (book value)	14,197	24,692	22,868	25,094	27,323	44,756
less Depreciation expense	123,444	132,887	134,231	144,990	156,202	248,634
less Assets donated	19,783	12,263	46,102	22,685	30,547	32,956
less Capital revenue	13,045	26,402	17,128	32,148	24,704	37,695
Capital SPPs	8,483	17,958	12,147	18,937	19,236	32,212
plus Net gain on disposal of non-financial assets	2,614	1,055	1,826	6,086	2,401	2,430
plus Other capital contributions & donations	1,947	7,388	3,155	7,126	3,067	3,053
less Operating surplus/(deficit)	-26,531	-15,010	-11,264	-15,191	-6,423	-36,224
Funds flow from operations	96,912	117,877	122,966	129,799	149,779	212,410
Pre-interest funds flow from operations	106,808	129,025	134,151	141,301	162,911	284,691
Operating revenue	574,359	610,397	658,095	695,840	857,055	1,654,684
Rates revenue	397,572	425,535	461,140	489,970	607,395	1,196,925
plus FAGs	39,883	40,713	42,989	42,948	49,970	80,725
plus User charges	74,420	76,602	77,040	79,624	101,134	209,007
plus Statutory charges	17,709	19,557	22,510	23,710	27,732	45,627
plus Operating SPPs	21,224	26,914	34,913	38,273	44,162	69,614
plus Other operating revenue	23,551	21,075	19,502	21,315	26,662	52,786
less Operating expenses	467,551	481,372	523,944	554,539	694,144	1,369,993
Labour & materials	448,478	465,048	503,015	541,085	677,459	1,336,938
plus Levies paid to other governments	12,330	9,869	13,089	7,694	8,911	14,205
plus Grants & donations	6,743	6,455	7,839	5,759	7,773	18,850
less Net interest expense	9,896	11,148	11,185	11,502	13,132	72,281
Interest expense	16,681	15,548	16,382	17,329	21,669	87,449
less Interest income	6,785	4,400	5,197	5,827	8,537	15,168
less Depreciation expense	123,444	132,887	134,231	144,990	156,202	248,634
equals Net borrowing/(lending)	-181	1,654	14,729	2,519	1,890	156,369
plus opening Net financial liabilities	216,020	180,672	243,975	256,722	265,416	1,249,372
plus Net impact of other revaluation effects	-35,167	61,648	-1,983	-9,949	9,606	32,739
equals (closing) Net financial liabilities/(worth)	180,672	243,975	256,722	249,291	276,911	1,438,480
Memo item:						
(opening) Non-financial assets	5,345,134	5,686,821	5,940,528	6,152,091	7,344,793	11,668,806
plus Net increase/(decrease) in non-financial assets	6,115	25,309	66,695	42,161	50,718	190,796
less Losses expensed on revaluation of Non-financial assets	26,794	1,348	229	7,048	0	0
plus Net impact of other revaluation effects	362,366	229,746	145,097	459,841	146,896	233,376
equals (closing) Non-financial assets	5,686,821	5,940,528	6,152,091	6,647,045	7,542,407	12,092,978
Key financial ratios:						
Gearing ratio	3%	4.1%	4.2%	3.8%	3.7%	11.9%
Operating surplus ratio	-21%	-11%	-8%	-10%	-4%	-15%
Capital deficit ratio	-22%	-10%	3%	-9%	-3%	48%
Net borrowing ratio	-3%	7%	22%	6%	4%	82%
Capex ratio	100%	128%	132%	131%	130%	181%
Net interest cover (times (x))	10.8	11.6	12.0	12.3	12.4	3.9
Net debt payback period (years)	1.0	1.3	1.2	1.2	1.0	5.5

Note: the projections included in the table are preliminary only, and are subject to change as further analysis occurs



TABLE A-3: FINANCIAL POSITION AND PERFORMANCE, \$000s
2001-02 TO 2003-04 ACTUALS, & 2008-09 AND 2023-24 'BASELINE' PROJECTIONS
COUNTRY COUNCILS (50 COUNCILS IN TOTAL)

Country	2000-01 \$ 000s	2001-02 \$ 000s	2002-03 \$ 000s	2003-04 \$ 000s	2008-09 \$ 000s	2023-24 \$ 000s
	actual	actual	actual	actual	projection	projection
Capital deficit/(surplus)	-35,262	-36,473	-36,464	-39,292	-37,750	13,238
Net increase/(decrease) in non-financial assets	-15,772	3,697	369	8,560	6,782	80,315
Additions to non-financial assets	104,813	138,406	143,301	161,529	167,715	340,003
Capital expenditure	102,845	134,731	135,525	146,413	159,135	330,778
<i>plus</i> Assets donated	1,968	3,675	7,776	15,116	8,580	9,226
<i>less</i> Disposals of non-financial assets (book value)	16,480	20,565	19,429	30,184	26,068	41,801
<i>less</i> Depreciation expense	104,105	114,145	123,503	122,785	134,865	217,887
<i>less</i> Assets donated	1,968	3,675	7,776	15,116	8,580	9,226
<i>less</i> Capital revenue	17,522	36,495	29,058	32,736	35,952	57,852
Capital SPPs	16,756	34,975	24,065	25,011	32,744	54,779
<i>plus</i> Net gain on disposal of non-financial assets	-377	-1,089	1,430	5,401	1,734	1,605
<i>plus</i> Other capital contributions & donations	1,143	2,609	3,563	2,323	1,475	1,468
less Operating surplus/(deficit)	-39,444	-36,855	-40,928	-33,971	-19,869	5,005
Funds flow from operations	64,661	77,290	82,575	88,815	114,996	222,892
Pre-interest funds flow from operations	68,105	81,800	86,656	92,594	115,616	325,836
Operating revenue	314,462	347,026	370,828	391,883	482,250	1,014,141
Rates revenue	173,674	190,551	211,138	226,299	289,618	700,046
<i>plus</i> FAGs	50,128	51,890	54,755	58,000	65,164	95,773
<i>plus</i> User charges	27,346	28,217	30,287	28,012	34,218	62,795
<i>plus</i> Statutory charges	4,684	6,484	7,368	8,070	9,450	15,815
<i>plus</i> Operating SPPs	19,097	21,351	23,809	28,402	31,659	45,771
<i>plus</i> Other operating revenue	39,533	48,532	43,471	43,100	52,141	93,940
<i>less</i> Operating expenses	246,357	265,226	284,173	299,289	366,634	688,304
Labour & materials	243,619	261,525	279,571	294,242	360,173	674,154
<i>plus</i> Levies paid to other governments	1,161	1,521	1,801	2,077	2,409	3,888
<i>plus</i> Grants & donations	1,576	2,180	2,801	2,970	4,051	10,262
<i>less</i> Net interest expense	3,444	4,510	4,081	3,779	620	102,944
Interest expense	8,917	8,846	9,086	9,533	8,758	116,728
<i>less</i> Interest income	5,472	4,336	5,005	5,754	8,138	13,783
<i>less</i> Depreciation expense	104,105	114,145	123,503	122,785	134,865	217,887
equals Net borrowing/(lending)	4,182	381	4,464	-5,321	-17,881	8,233
<i>plus</i> opening Net financial liabilities	62,574	51,869	71,887	75,885	13,164	1,536,207
<i>plus</i> Net impact of other revaluation effects	-14,887	19,637	-466	-3,452	4,242	41,134
equals (closing) Net financial liabilities/(worth)	51,869	71,887	75,885	67,112	-475	1,585,574
Memo item:						
(opening) Non-financial assets	2,075,374	2,224,169	2,459,523	2,667,823	3,064,617	4,731,612
<i>plus</i> Net increase/(decrease) in non-financial assets	-15,772	3,697	369	8,560	6,782	80,315
<i>less</i> Losses expensed on revaluation of Non-financial assets	7,013	1,534	635	394	0	0
<i>plus</i> Net impact of other revaluation effects	171,580	233,191	208,565	164,440	61,292	94,632
equals (closing) Non-financial assets	2,224,169	2,459,523	2,667,823	2,840,428	3,132,691	4,906,559
Key financial ratios:						
Gearing ratio	2%	2.9%	2.8%	2.4%	0.0%	32.3%
Operating surplus ratio	-38%	-32%	-33%	-28%	-15%	2%
Capital deficit ratio	-34%	-32%	-30%	-32%	-28%	6%
Net borrowing ratio	-27%	10%	1209%	-62%	-264%	10%
Capex ratio	99%	118%	110%	119%	118%	152%
Net interest cover (times (x))	19.8	18.1	21.2	24.5	186.5	3.2
Net debt payback period (years)	0.3	0.5	0.6	0.4	-0.3	6.7

Note: the projections included in the table are preliminary only, and are subject to change as further analysis occurs





APPENDIX B: SALGGC FINANCIAL INFORMATION

Item (Access Economics terminology)	Includes: in Council Financial Statements or Supplementary Returns
Assets donated	physical resources donated
Losses on disposal of non-financial assets	book losses on revaluation of non current assets and/or book losses on disposal of non current assets
Borrowings (liabilities)	current and non current loans/advances from public sector entities: Commonwealth, State & LGFA, loans from financial institutions and private sector: banks and other financial institutions & private sector and finance leases. overdraft/cash advance facility, deposits held/trust funds, overdraft
Buildings (assets)	buildings
Capital expenditure	includes purchase/construction of: land, buildings, other construction & plant and equipment
Capital SPPs	capital grants for new assets – Commonwealth, State, Local government
Cash, investments and loans to community groups (assets)	cash at bank, cash with LGFA, loans to community groups, deposits/investment with - LGFA, banks and other financial institutions, securities with government authorities, shares/stocks and other investments
Commercial revenue	commercial revenue
Creditors (liabilities)	current and non current creditors/accounts payable/accrued expenses
Depreciation expense	depreciation/amortisation expense
Employee provisions (liabilities)	current and non current employee provisions
Financial assistance grants (FAGs)	SA Local Government Grants Commission general purpose grant, and SA Local Government Grants Commission local road grant (includes special local road grants where councils use those grants for renewal or rehabilitation of roads)
Grants & donations (expense)	contributions and donations to public sector: state, local (current), local (capital) & grants to private groups
Infrastructure (assets)	infrastructure
Interest expense	LGFA, Commonwealth, State authorities, other councils, financial institutions, banks, other (private sector), overdraft & finance lease payments
Inventories (asset)	land held for resale, stores and materials, other
Interest income	interest received from public sector: commonwealth, state & other councils; interest received from deposits with: LGFA, other financial institutions, banks & private sector; interest received from loans to community groups; other investment income: dividends & other
Labour & materials (expense)	salaries and wages, contractual services expenses, materials expense, other finance charges – bank fees etc & other expenses (balance of expenses not in other expense categories)
Land (asset)	land



Item (Access Economics terminology)	Includes: in Council Financial Statements or Supplementary Returns
Levies paid to State government bodies (expense)	Central Dog Committee, Environment Protection Agency/Waste Management Commission & Catchment Water Management Board
Other assets	prepayments, library books, equity in joint ventures and other non current assets
Operating SPPs	includes Commonwealth roads to recovery grants where councils have discretion on the use of those grants. excludes LGGC general purpose and road grants
Other capital contributions & donations	capital contributions
Other liabilities	current and non current other provisions, interest payable, accounts payable on purchase of fixed assets, amounts received in advance, deposits held / trust funds
Plant, equipment, furniture and fittings (assets)	plant, equipment, furniture and fittings
Proceeds from assets sales	proceeds from the sale of non current assets
Receivables (assets)	rates debtors, interest receivable, receivables related to sale of non current assets, other debtors / receivables / accrued income
Reimbursement revenue	reimbursement revenue
Rates revenue	net general rates, and separate & special, CED, water supply, garbage, stormwater levy and electricity supply
Statutory charges	development act fees, town planning fees, rate searches, cemetery/crematoria fees, animal registration fees, septic tank/CED licence/inspection fees, parking fines/expiation fees, health regulation fines, environmental control fines, litter control fines, library fines, road moieties & other licences/fees/fines
User charges	user charges



APPENDIX C: SALGGC PURPOSE CLASSIFICATION

BUSINESS UNDERTAKINGS

Abattoirs
Caravan Parks
Electricity Supply
Gravel Pits/Quarries
Development of Land for Resale
Marinas / Boat Havens
Markets / Saleyards
Off-street Carparks - fee-paying
Private Works
Property Portfolio
Sewerage / STEDS
Water Supply - Domestic
Town Bus Service

COMMUNITY SERVICES

Public Order and Safety
 Crime Prevention
 Emergency Services
 Other Fire Protection
 Other Public Order and Safety

Health Services
 Pest Control - Health
 Immunization
 Nursing Homes
 Preventive Health Services
 Other Health Services

Community Support
 Elderly Citizens Facilities
 Home Assistance Scheme
 Other Services for the Aged and Disabled
 Child Care Centres
 Children and Youth Services
 Community Assistance
 Community Transport
 Family and Neighbourhood Support
 Other Community Support

Community Amenities
 Bus Shelters
 Cemeteries / Crematoria
 Public Conveniences
 Car Parking - non-fee-paying
 Telecommunications Networks
 Other Community Amenities



CULTURE

Library Services
 Mobile Libraries and Housebound Services
 Static Libraries
 Other Library Services

Cultural Services
 Cultural Venues
 Heritage
 Museums and Art Galleries
 Other Cultural Services

ECONOMIC DEVELOPMENT

Employment Creation Programs
Regional Development
Support to Local Businesses
Tourism
Other Economic Development

ENVIRONMENT

Agricultural Services
 Agricultural water
 Animal/Plant Boards
 Landcare
 Other Agricultural Services

Waste Management
 Domestic Waste
 Green Waste
 Recycling
 Transfer Stations
 Waste Disposal Facility
 Other Waste Management

Other Environment
 Coastal Protection
 Stormwater and Drainage
 Street Cleaning
 Street Lighting
 Streetscaping
 Other Environment

RECREATION

Jetties
Other Marine Facilities
Parks and Gardens
Sports Facilities - Indoor
Sports Facilities - Outdoor
Swimming Centres - Indoor



Swimming Centres - Outdoor
Other Recreation

REGULATORY SERVICES

Dog and Cat Control
Building Control
Town Planning
Clean Air/ Pollution Control
Litter Control
Health Inspection
Parking Control
Other Regulatory Services

TRANSPORT

Aerodrome
Bridges
Bus Service
Footpaths and kerbing
Roads - sealed
Roads - Formed
Roads - natural formed
Roads -unformed
Traffic Management
Other Transport

Plant Hire & Depot
Unclassified Activities

COUNCIL ADMINISTRATION

Governance
Administration n.e.c.
Elected Members
Organisational

Support Services
Accounting/Finance
Payroll
Housing for Council Employees
Human Resources
Information Technology
Communication
Rates Administration
Records
Occupancy
Contract Management
Customer Service
Other Support Services