



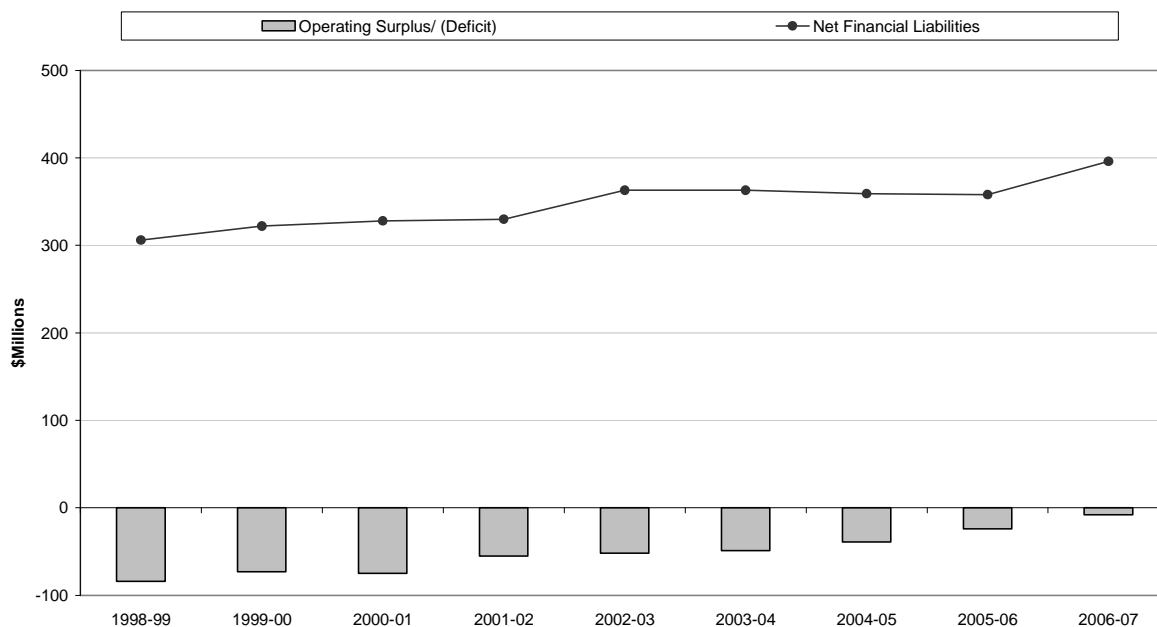
Financial Sustainability Program

SA Local Government Sector Financial Indicators Report 2008

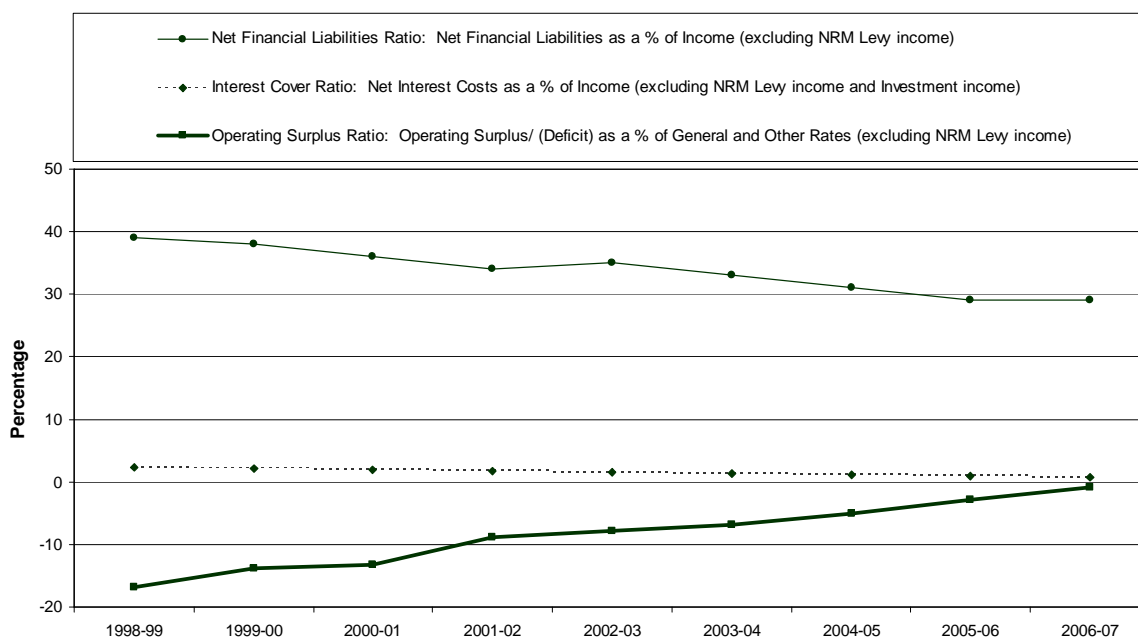
The LGA's *Financial Sustainability Information Paper 9 'Local Government Financial Indicators'* describes a set of seven standard indicators of the financial sustainability of a Council's performance and position. The indicators were developed by the SA Local Government Financial Management Group consistent with a recommendation of the Financial Sustainability Inquiry. The indicators were endorsed by the Financial Sustainability Advisory Committee and adopted by the sector at the April 2007 LGA General Meeting.

The following two graphs provide aggregate data for the sector from 1998-99 until 2006-07 covering five of these indicators. The assistance of the SA Local Government Grants Commission in providing data to help compile these graphs is appreciated. Data on the two indicators covering asset management is not included at this stage. Until Councils finalise their Infrastructure and Asset Management Plans, reliable data for the sector is unavailable.

SA LOCAL GOVERNMENT SECTOR -
FINANCIAL INDICATORS



SA LOCAL GOVERNMENT SECTOR - FINANCIAL INDICATORS



Operating Surplus / (Deficit)

The operating surplus / (deficit) indicator in the first graph measures the difference between day-to-day income and expenses for a financial year and is considered to be the most critical indicator of Local Government financial performance. The level of annual operating deficits in aggregate continues to reduce steadily (from \$84 million in 1998-99 to \$8 million in 2006-07) as many Councils have sought to raise more revenue for an increasing level of asset renewal / replacement works. 34 Councils recorded operating deficits in 2006-07 compared with 53 Councils in 1998-99.

As shown in the second graph (i.e. operating surplus ratio), the overall operating deficit for the sector of \$8 million in 2006-07 represents 0.9 per cent of rate revenue. The operating deficit in 1998-99 was \$84 million which represented 16.8 per cent of rate revenue.

Net Financial Liabilities

The net financial liabilities indicator in the first graph measures the amount of money owed by Councils to others less money held, invested or owed to Councils. The level of net financial liabilities at 30 June 2007 was \$396 million which is very low when put in the context of Local Government physical assets valued at approximately \$12.6 billion.

As shown in the second graph (i.e. net financial liabilities ratio), the \$396 million of net financial liabilities is equivalent to 29 per cent of income in 2006-07. At 30 June 1999 net financial liabilities were \$306 million, equivalent to 39 per cent of income in 1998-99.

Net Interest Costs

The Financial Sustainability Inquiry suggested that a Council's financial position is sustainable if its net financial liabilities are at levels at which associated net interest costs can be met comfortably from a Council's income (without the prospect of either rate increases which ratepayers would find unacceptable or service cuts which would be disruptive). As shown in the second graph (i.e. interest cover ratio), for the sector as a whole, net interest

costs represented only 0.8 per cent of income in 2006-07. In 1998-99 the figure was 2.4 per cent.

Provided operating deficits are avoided, there appears to be considerable scope for many Councils to increase their level of borrowings (or liquidate some of their large stock of financial assets, which is equivalent to borrowing) to finance capital expenditure, including for any infrastructure renewal backlog purposes. Of course, where a Council is not achieving an operating surplus, any capital expenditure on upgrading or expanding infrastructure needs to be modest and targeted as it normally will lead to additional maintenance and depreciation costs.

Capital Investment Expenditure

Although reliable information on asset management indicators is not sufficiently developed in many Councils at this stage, a significant matter emerges from an analysis of the overall available data.

Capital investment expenditure in 2006-07 was \$444 million, an increase of \$69 million on the previous year. This increase far exceeds any increase previously recorded. Approximately \$225 million of the \$444 million was spent in 2006-07 on renewing and replacing existing assets. This compares with a figure of \$55 million calculated about seven years ago by consultants to the Local Government Metropolitan CEO's Group (as part of the 'Wealth of Opportunities' report).

Differing Financial Performance of Councils

While the above report demonstrates significant improvement over the last eight years in the financial performance and position of the sector as a whole, it needs to be emphasised that the financial capacity of individual Councils varies substantially. The overall sound and improving financial performance and position of the sector disguises the financially unsustainable performance of some Councils under their current revenue and expenditure policy settings. In addition, in the absence at this stage of reliable data covering asset management in many Councils, it is not possible for those Councils to quantify the extent of any annual shortfalls against the optimal level of capital expenditure on renewal and replacement of existing assets. The Financial Sustainability Inquiry asserted that the shortfalls in some Councils have been large and persistent and will need to be addressed to avoid excessive rate increases and/or drastic reductions in services in the future.