



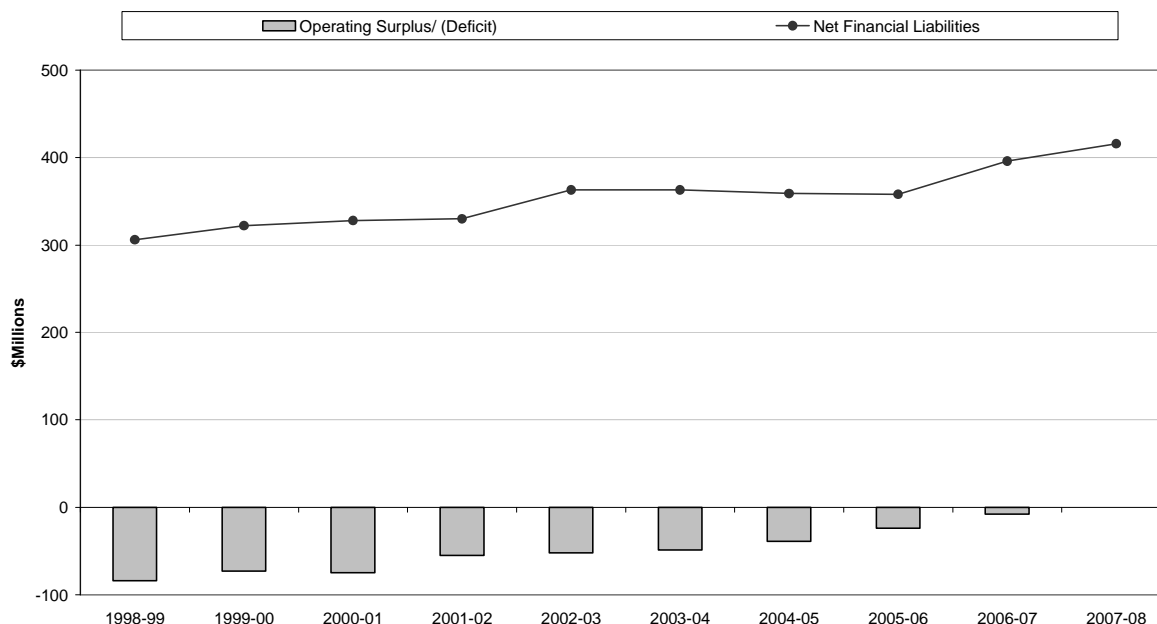
Financial Sustainability Program

SA Local Government Sector Financial Indicators Report 2009

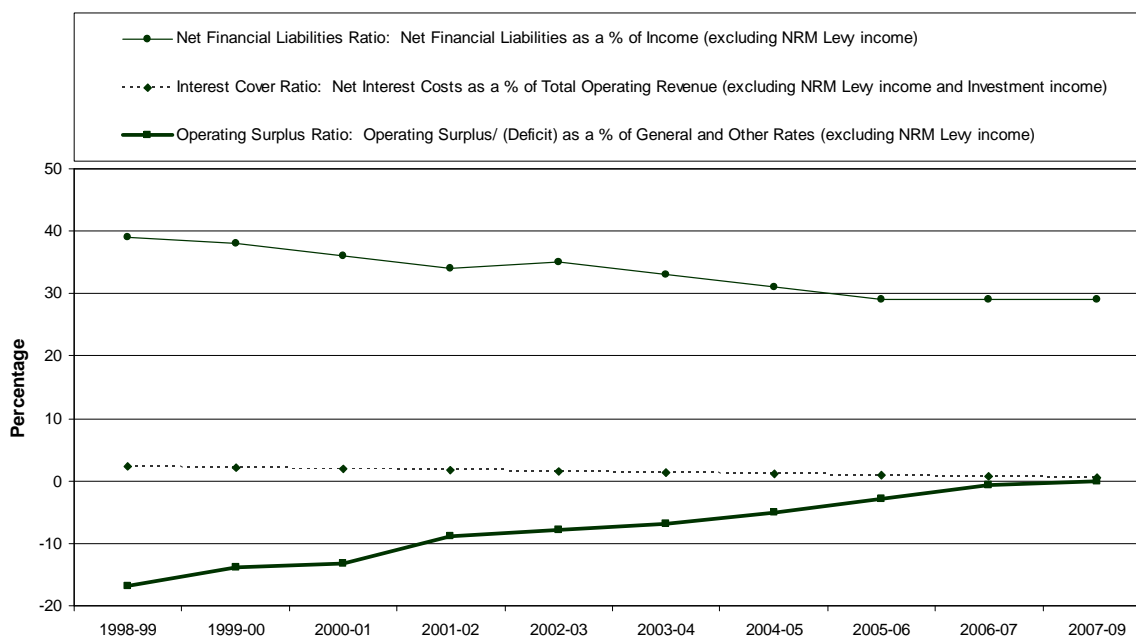
The LGA's *Financial Sustainability Information Paper 9 'Local Government Financial Indicators'* describes a set of seven standard indicators of the financial sustainability of a Council's performance and position. The indicators were developed by the SA Local Government Financial Management Group consistent 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 2007-08 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 all 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 aggregate level of Local Government's annual operating deficit has reduced steadily since 1998-99 and was eliminated in 2007-08. 32 Councils recorded operating deficits in 2007-08 compared with 53 Councils in 1998-99.

As shown in the first graph, the break-even operating result for the sector in 2007-08 compares with an operating deficit of \$84 million in 1998-99. As shown in the second graph (i.e. operating surplus ratio) the \$84 million deficit represented 16.8 per cent of rate revenue in 1998-99.

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 2008 was \$416 million which is very low when put in the context of Local Government infrastructure and other assets valued at roundly \$14 billion.

As shown in the second graph (i.e. net financial liabilities ratio), the \$416 million of net financial liabilities is equivalent to 29 per cent of income in 2007-08. 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 0.5 per cent of income in 2007-08. 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.

The findings of the Financial Sustainability Inquiry were based on actual data up until 2003-04. The Inquiry highlighted that capital investment expenditure on renewal and replacement of existing assets was significantly less than that needed to minimise whole-of-life-cycle costs of assets. Overall, capital expenditure in 2007-08 was a record \$447 million and represented a 33.0 per cent increase on capital spending in 2003-04. Importantly, a significant component of the increase is explained by additional expenditure on renewing and replacing existing assets (estimated at approximately \$250 million in 2007-08). This compares with an annual figure of \$55 million calculated about eight 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 nine years (and particularly since 2003-04) in the financial performance and position of the sector as a whole, it needs to be emphasised that the current financial condition 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.