



# Financial Sustainability Program

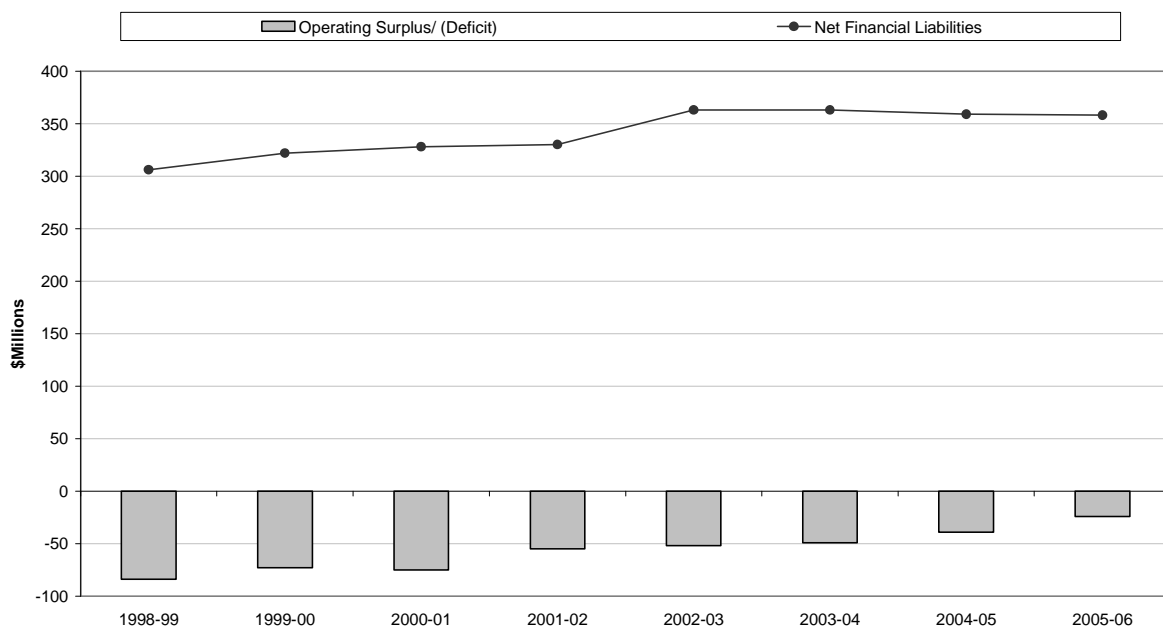
## SA Local Government Sector Financial Indicators Report 2007

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.

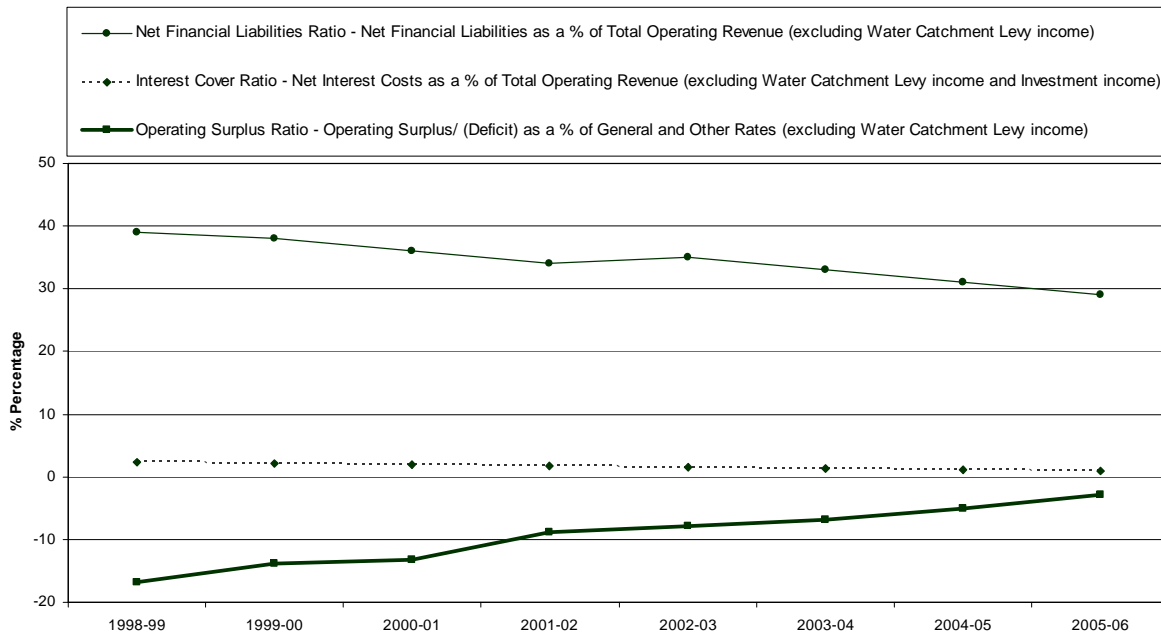
The following two graphs provide aggregate data for the sector from 1998-99 until 2005-06 covering five of these indicators. Data on two indicators covering asset management is not available at this stage. The assistance of the SA Local Government Grants commission in providing data to help compile these graphs is appreciated.

A further report is planned to be tabled at the LGA's October 2007 AGM summarising the results of a survey currently underway to collect actual data for 2006-07 and budgeted data for 2007-08 covering the five indicators included in this report. Reports to subsequent AGMs will include the two indicators covering asset management.

SA LOCAL GOVERNMENT SECTOR -  
KEY FINANCIAL INDICATORS



### SA LOCAL GOVERNMENT SECTOR - KEY 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 \$24 million in 2005-06) as many Councils have sought to raise more revenue for an increasing level of asset renewal / replacement works. 42 Councils recorded operating deficits in 2005-06 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 \$24 million in 2005-06 represents 2.9 per cent of rate revenue. The operating deficit in 1998-99 was \$84 million which represented 16.8 per cent of rate revenue. In comparison, the State Government's operating surplus in 2005/06 was \$202 million which represented 6.8 per cent of its taxation 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 2006 was \$358 million which is very low when put in the context of Local Government physical assets valued at approximately \$11.5 billion.

As shown in the second graph (i.e. net financial liabilities ratio), the \$358 million of net financial liabilities is equivalent to 29 per cent of total operating revenue in 2005-06. At 30 June 1999 net financial liabilities were \$306 million, equivalent to 39 per cent of total operating revenue in 1998-99. In comparison, the State Government's

level of net financial liabilities at 30 June 2006 was \$8.2 billion which represents 73 per cent of its revenue in 2005-06.

### 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 operating revenue (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 1.0 per cent of total operating revenue in 2005-06. 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 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.

### Differing Financial Performance of Councils

While the above report demonstrates significant improvement over the last seven 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 financial indicator data covering asset management, it is not possible 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.