
The LGA has assembled an updated report providing the latest values, history and comparisons of key financial indicators for the local government sector as a whole. The assistance of the SA Local Government Grants Commission, in providing data to help compile the following report, is appreciated.

Chart 1 below provides aggregate data from 2000-01 until 2014-15 covering the sector’s operating surplus/(deficit). This measures the difference between day-to-day operating income and expenses for a financial year and is considered to be the most critical measure of local government financial performance. The data in Chart 1 has been adjusted to remove the distortion otherwise caused by the five quarterly instalments of Commonwealth financial assistance grants received in the years 2008-09 and 2011-12, the two quarterly instalments received in 2013-14 and the six quarterly instalments received in 2014-15. The aggregate level of local government’s annual operating deficit reduced steadily from 2000-01 until 2007-08, when it was eliminated. Subsequently, an approximate ‘break-even’ operating result was recorded for five years up until 2012-13, with modest operating surpluses recorded for each of the past two years.

Chart 2 below provides aggregate data from 2000-01 until 2014-15 covering the two key financial indicators endorsed by the sector in 2006. Again, the data in Chart 2 has been adjusted for the distortion otherwise caused by the timing of Commonwealth financial assistance grants received in 2008-09, 2011-12, 2013-14 and 2014-15. Data on an asset management performance indicator is included in Chart 6 at the end of this report.

**Chart 2: Local Government Sector - Financial Indicators**

Operating Surplus Ratio
The operating surplus ratio shown in Chart 2 above is calculated as the percentage by which the annual operating surplus or deficit varies from total operating income.

The operating surplus ratio in 2014-15 was 1.6 per cent. This result compares with an operating surplus ratio of negative 8.3 per cent in 2000-01.

Chart 3 on the next page shows the differences in the operating surplus ratios between categories of councils recorded in 2014-15.
Net Financial Liabilities Ratio

Net financial liabilities represent the amount of money owed by councils to others less money held, invested or owed to councils. It is the most comprehensive measure of the indebtedness of a council as it includes items such as employee long service leave entitlements and other amounts payable as well as taking account of the level of a council's cash and investments. After adjusting for the timing of financial assistance grants in 2014-15, the level of net financial liabilities at 30 June 2015 was $702 million which is very low when put in the context of local government infrastructure and other physical assets valued at $22.4 billion at 30 June 2015.
The net financial liabilities ratio is a measure of the significance of the net amount owed at the end of a financial year compared with operating revenue for the year. The net financial liabilities ratio for the local government sector in 2014-15 was 34 per cent which compares with a figure of 36 per cent in 2000-01. Chart 4 above shows the differences in the net financial liabilities ratios between categories of councils recorded in 2014-15.

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 cash and investments, which is equivalent to borrowing) to finance capital expenditure, including for renewal or replacement of existing assets where a council's Infrastructure and Asset Management Plan suggests that it is optimal to do so. Where a council is not achieving an underlying operating surplus or trending towards doing so in the medium term, then generally any capital expenditure on upgrading or expanding infrastructure needs to be modest and targeted, because it normally will lead to additional maintenance and depreciation costs.

Capital Investment Expenditure
One of the findings of the LGA’s 2005 Financial Sustainability Inquiry was 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 2014-15 was a record high $643 million.

Chart 5 below shows the level of capital expenditure over the past ten years on renewal/replacement of existing assets on one hand and expenditure on new/upgraded assets on the other. Despite increased expenditure on renewing and replacing existing assets in most years, there continues a worrying trend in the level of capital expenditure on new/upgraded assets by some councils which currently are recording operating deficits.

![Chart 5: Local Government sector - Capital expenditure & depreciation](image-url)
Asset Sustainability Ratio
Data on an asset management performance indicator is available for 48 councils in 2014-15. Subject to the reliability of a council’s infrastructure and asset management plan, the asset sustainability ratio represents the level of capital expenditure on renewal and replacement of assets relative to the level of such expenditure identified as warranted in a council’s infrastructure and asset management plan.

The indicator is a measure of whether a council is accommodating asset renewal and replacement in an optimal and cost effective way from a timing perspective relative to the risk it is prepared to accept and the service levels it wishes to maintain. There may be operational and other reasons why the asset sustainability ratio result may vary between years. This may not necessarily detract from asset management performance if a council’s target is achieved over the medium term (e.g. over a rolling 3 or 5 year average). Chart 6 below provides summary information for the ratio covering 48 Councils in 2014-15.

Chart 6: Asset Sustainability Ratio (%):
Summary results of the 48 Councils that calculated the Ratio in 2014-15

Differing Financial Performance of councils
While this report demonstrates significant improvement over the past 14 years 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 existing revenue and expenditure policy settings.

In addition, in the absence at this stage of reliable data covering asset management performance in many, mainly rural, 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 to provide desired and affordable service levels. The Financial Sustainability Inquiry asserted that the shortfalls in some councils had been large and persistent and would need to be addressed to avoid excessive rate increases and/or drastic reductions in services in the future.