

## Financial performance and position

Table A below shows summary financial performance data for the local government sector as a whole for the financial years 2014-15 through to 2018-19. For interested readers, an explanation of terms used in the table is shown in this link: [Uniform Presentation of Finances](#).

**Table A: Local Government operating statement (\$ million)**

|   | 2014-15      | 2015-16      | 2016-17      | 2017-18      | 2018-19      |
|---|--------------|--------------|--------------|--------------|--------------|
| Income <sup>(a)</sup>   | 2 066        | 2 181        | 2 264        | 2 342        | 2 379        |
| Operating Expenses <sup>(b)</sup>                                 | (2 034)      | (2 092)      | (2 179)      | (2 244)      | (2 331)      |
| <b>Operating surplus / (deficit)</b>                              | <b>32</b>    | <b>89</b>    | <b>85</b>    | <b>98</b>    | <b>48</b>    |
| <b>Net outlays on existing assets</b>                             |              |              |              |              |              |
| Capital expenditure on renewal and replacement of existing assets | (344)        | (330)        | (358)        | (435)        | (450)        |
| Add back: Depreciation  | 449          | 471          | 496          | 512          | 520          |
| Proceeds from sale of replaced assets                             | 11           | 22           | 23           | 20           | 19           |
| <b>Net outlays on existing assets</b>                             | <b>116</b>   | <b>163</b>   | <b>161</b>   | <b>97</b>    | <b>89</b>    |
| <b>Net outlays on new and upgraded assets</b>                     |              |              |              |              |              |
| Capital expenditure on new and upgraded assets                    | (299)        | (315)        | (334)        | (390)        | (436)        |
| Amounts received specifically for new and upgraded assets         | 78           | 90           | 123          | 119          | 109          |
| Proceeds from sale of surplus assets                              | 33           | 32           | 22           | 25           | 26           |
| <b>Net outlays on new/upgraded assets</b>                         | <b>(188)</b> | <b>(193)</b> | <b>(189)</b> | <b>(246)</b> | <b>(301)</b> |
| <b>Net lending / (borrowing)</b>                                  | <b>(40)</b>  | <b>(59)</b>  | <b>57</b>    | <b>(51)</b>  | <b>(164)</b> |

(a) Income excludes book gains on sale of assets and amounts received specifically for new/upgraded assets. Income figures have been adjusted to remove the material distortion otherwise caused by the irregular timing of receipt of Federal Financial Assistance grants in recent years as well as removing \$34 million of Supplementary Local Roads grants for 2019-20 and 2020-21 which were received and recorded as income in June 2019.

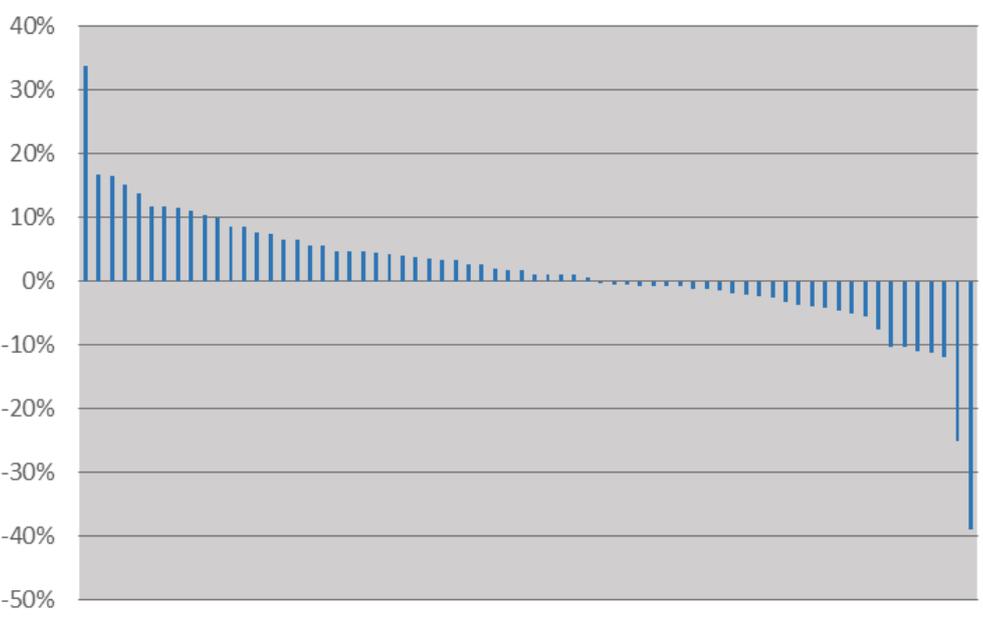
(b) Operating expenses include depreciation but exclude book losses on the sale or revaluation of assets.

As noted above, figure-work in Table A has been adjusted to remove the material distortion otherwise caused by the irregular timing of receipt of Federal grants in recent years. By way of background, the aggregate level of local government's annual operating deficit (i.e. the excess of operating expenses over income) reduced steadily from 2000-01 when it was \$75 million. The operating deficit was eliminated for the first time on record in 2007-08. Subsequently, an approximate 'break-even' operating result was recorded for five years up until 2012-13, with operating surpluses recorded in each of the last six years.

The large and consistent shortfall in the level of capital expenditure on renewal and replacement of existing assets compared with depreciation may indicate that existing assets are deteriorating at a greater rate than the optimal level of expenditure on their renewal and replacement or that recorded useful lives of assets are understated. This underlines the importance of each council developing a rigorous Infrastructure and Asset Management Plan and, separately, carefully examining the accounting treatment of its assets (i.e. remaining useful lives, residual values, componentisation and valuations).

While the financial performance of the sector as a whole, as measured by the overall annual operating result, has improved very significantly since 2000-01, it is emphasised that the current financial performance of individual councils varies substantially. Chart 1 below shows the wide range of results covering the operating surplus ratio of councils in 2018-19. The 'Financial Indicators' section shown later in this document includes trend data on individual councils. The operating surplus ratio is calculated by expressing a council's operating surplus as a percentage of income. A total of 39 councils recorded a positive operating surplus ratio in 2018-19 compared with only 16 councils in 2000-01.

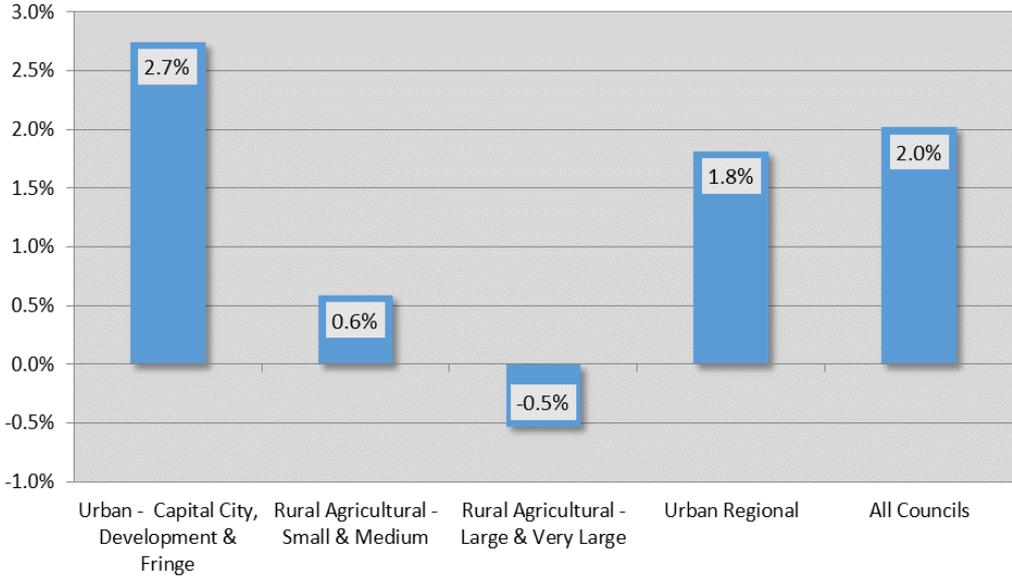
**Chart 1: Operating Surplus Ratio (%): Size Distribution among Councils 2018-19**



Source: South Australian Local Government Grants Commission

Chart 2 below shows the differences between categories of councils in their operating surplus ratios in 2018-19.

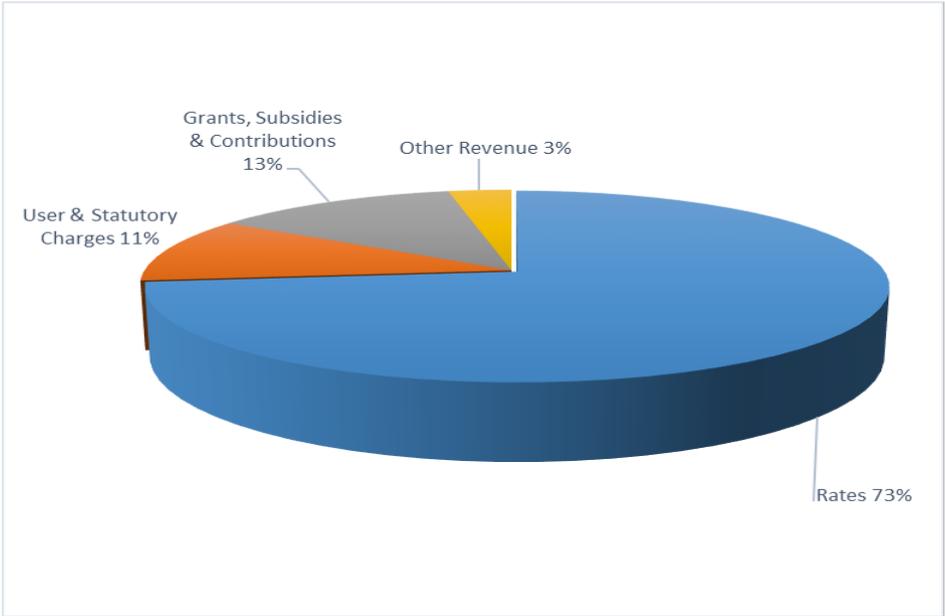
**Chart 2: Operating Surplus Ratio (%): Differences between categories of Councils 2018-9**



Source: South Australian Local Government Grants Commission

The main sources of local government income in 2018-19 are shown in Chart 3 below. In real terms, local government’s income increased by 8.3 per cent over the four-year period from 2014-15 to 2018-19.

**Chart 3: Sources of Income 2018-19**

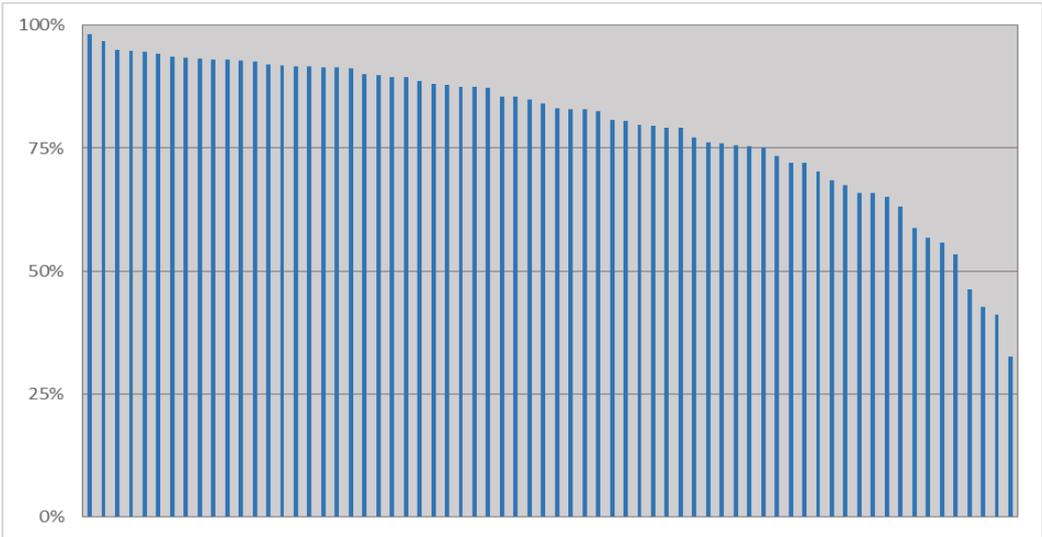


Source: South Australian Local Government Grants Commission

Taxation revenue (from general and other rates on property) was \$1,744 million in 2018-19 and is estimated to be approximately \$1,790 million in 2019-20. Together with other own-source funding (mainly user charges), approximately 87.5 per cent of local government income is from its own sources. In real terms, taxation revenue increased by 10.5 per cent over the four year period from 2014-15 to 2018-19.

Chart 4 below shows the significant differences in the funding self-sufficiency of individual councils. In 2018-19, 21 councils relied on Commonwealth and State Government grants, subsidies and contributions for between 25 per cent and 67 per cent of their income.

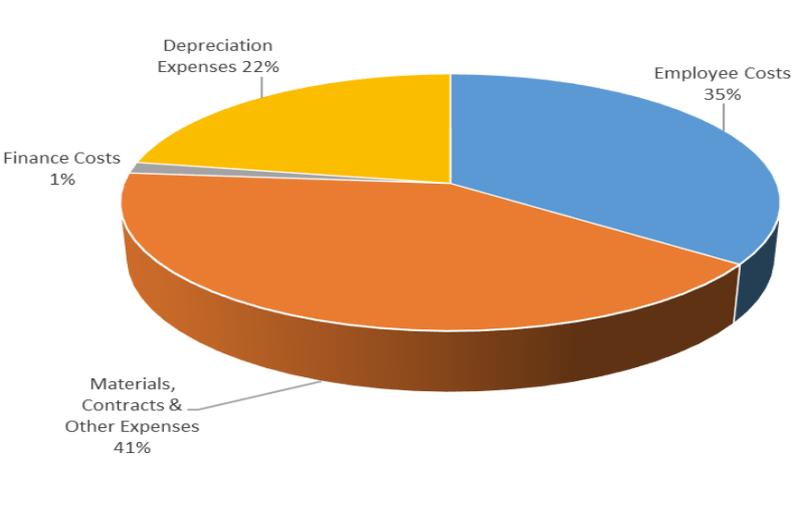
**Chart 4: Own-source Income as a percentage of Total Income (%): Size Distribution among Councils 2018-19**



Source: South Australian Local Government Grants Commission

The main types of operating expenses in 2018-19 are shown in Chart 5 below. Operating expenses increased in real terms by 7.8 per cent over the four-year period from 2014-15 to 2018-19.

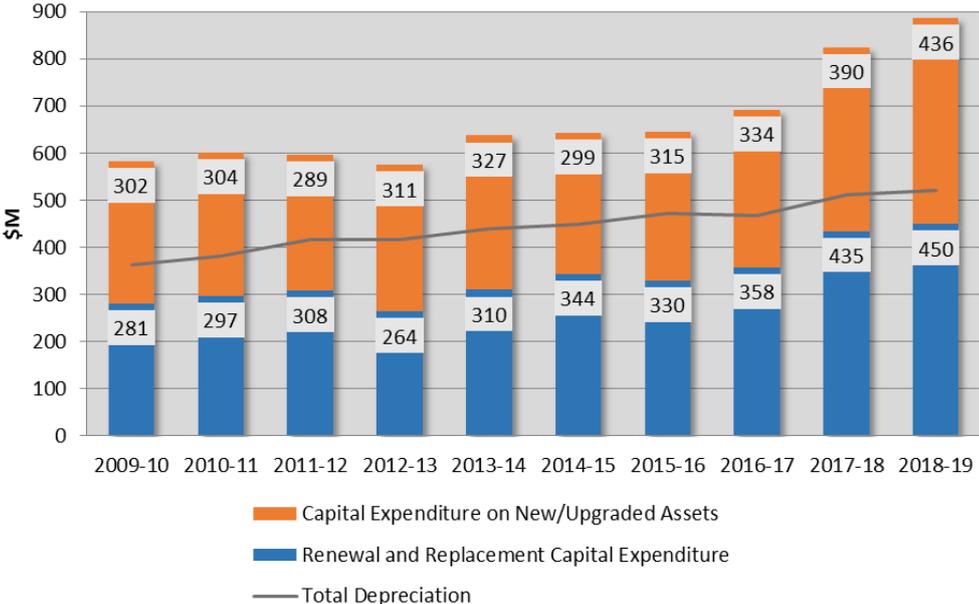
**Chart 5: Operating Expenses by Type 2018-19**



Source: South Australian Local Government Grants Commission

Chart 6 below shows, from 2009-10, the level of capital expenditure on renewal/replacement of existing assets on one hand and capital expenditure on new/upgraded assets on the other. Capital expenditure in 2017-18 and 2018-19 was boosted by the impact of a State-Local Government Infrastructure Partnership, with a record high \$886 million of capital expenditure in 2018-19. There continues a worrying trend in the level of capital expenditure on new/upgraded assets by some councils which currently are recording operating deficits and therefore may not be able to adequately maintain and renew such assets in the future to provide desired and affordable service levels. In addition, in the absence of a rigorous Infrastructure and Asset Management Plan in some, mainly rural, councils, it is not possible for those councils to determine the optimal level of capital expenditure needed for renewing existing assets to minimise their whole-of-life-cycle costs.

**Chart 6: Local Government sector – Capital expenditure and depreciation**



Source: South Australian Local Government Grants Commission

Table B below shows an abridged balance sheet for the local government sector for five years through to 2018-19. Figure-work in Table B has been adjusted to remove the material distortion otherwise caused by the irregular timing of receipt of Federal Financial Assistance grants in recent years as well as removing \$34 million of Supplementary Local Roads grants for 2019-20 and 2020-21 which were received and recorded as income in June 2019.

**Table B: Local Government balance sheet (\$ million)**

|  | 2014-15       | 2015-16       | 2016-17       | 2017-18       | 2018-19       |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Assets</b>  |               |               |               |               |               |
| Financial assets   |               |               |               |               |               |
| Cash and cash equivalents  | 287           | 307           | 339           | 362           | 275           |
| Trade and other receivables  | 155           | 164           | 210           | 203           | 224           |
| Equity accounted investments in Council businesses                               | 67            | 71            | 108           | 107           | 117           |
| Other financial assets   | 8             | 9             | 18            | 30            | 38            |
| Non-financial assets   |               |               |               |               |               |
| Assets held for sale and inventories   | 45            | 34            | 36            | 37            | 39            |
| Land, buildings, infrastructure, plant, equipment and other non-financial assets | 22 356        | 22 861        | 23 026        | 24 250        | 25 406        |
| <b>Total assets</b>  | <b>22 918</b> | <b>23 466</b> | <b>23 737</b> | <b>24 989</b> | <b>26 099</b> |
| <b>Liabilities</b>   |               |               |               |               |               |
| Trade and other payables   | 310           | 309           | 324           | 363           | 388           |
| Borrowings and finance leases  | 646           | 618           | 622           | 669           | 754           |
| Employee entitlements and other provisions                                       | 196           | 189           | 196           | 194           | 201           |
| <b>Total liabilities</b>   | <b>1 152</b>  | <b>1 116</b>  | <b>1 142</b>  | <b>1 226</b>  | <b>1 343</b>  |
| <b>Net worth</b>   | <b>21 766</b> | <b>22 230</b> | <b>22 590</b> | <b>23 763</b> | <b>24 756</b> |
| <b>Net financial liabilities<sup>(a)</sup></b>                                   | <b>702</b>    | <b>636</b>    | <b>575</b>    | <b>630</b>    | <b>806</b>    |

(a) Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in council businesses).

As shown in Table B above, the depreciated replacement cost of local government non-financial assets at 30 June 2019 was \$25.4 billion. The Office of Local Government estimates that in excess of 50 per cent of this amount is attributable to the value of local roads, associated stormwater drainage, bridges, culverts, kerbs, footpaths and other ancillary road assets. Nearly 40 per cent is attributable to the value of land and buildings.

### Council Indebtedness

Consistent with guidance material provided to councils under the Local Government Association's (LGA's) Financial Sustainability Program, most councils have adopted a contemporary approach to measuring, monitoring and reporting council indebtedness. The approach focuses on a measure entitled "net financial liabilities".

Net financial liabilities represent what is owed to others less money held, invested or owed to a council. Net financial liabilities 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. It is calculated as total liabilities of a council less its cash, cash equivalents and financial investments (excluding equity accounted investments in council businesses).

Past practice was to focus on the level of outstanding council borrowings or the level of net debt. Table C below (with figure-work adjusted to remove the material distortion otherwise caused by the irregular timing of Federal grants received in recent years) provides actual data for the local government sector's net financial liabilities over the three years to 30 June 2019, and may provide interested readers with a better understanding:

**Table C: Net Financial Liabilities at 30 June**

|   | <b>2017</b><br>\$ million | <b>2018</b><br>\$ million | <b>2019</b><br>\$ million |
|---|---------------------------|---------------------------|---------------------------|
| Gross borrowings                                | 622                       | 668                       | 754                       |
| Less: Cash, cash equivalents etc.               | 357                       | 392                       | 313                       |
| <b>Equals: Net Debt</b>                         | <b>265</b>                | <b>276</b>                | <b>441</b>                |
| Add: Trade and other payables                   | 324                       | 363                       | 388                       |
| Add: Employee entitlements and other provisions | 196                       | 194                       | 201                       |
| Less: Trade and other receivables               | 210                       | 203                       | 224                       |
| <b>Equals: Net Financial Liabilities</b>        | <b>575</b>                | <b>630</b>                | <b>806</b>                |

As shown in Table C above, the level of net financial liabilities at 30 June 2019 was \$806 million.

In the context of local government's infrastructure and other physical assets valued at \$25.4 billion at 30 June 2019, the level of net financial liabilities is extremely low. Perhaps surprisingly, more than one-third of councils had negative net financial liabilities at 30 June 2019 (i.e. their level of cash and investments exceeded their level of outstanding borrowings and other liabilities).

**Net Financial Liabilities Ratio**

Financial indicators adopted by the local government sector include the "net financial liabilities ratio" as the key measure of the financial position (as distinct from the financial performance) of a council. The net financial liabilities ratio indicates the extent to which net financial liabilities of a council at a point in time could be met by its annual income. The ratio is calculated by expressing net financial liabilities at the end of a reporting period as a percentage of a council's income for the same reporting period. The net financial liabilities ratio for the sector as a whole in in 2018-19 was 34 per cent.

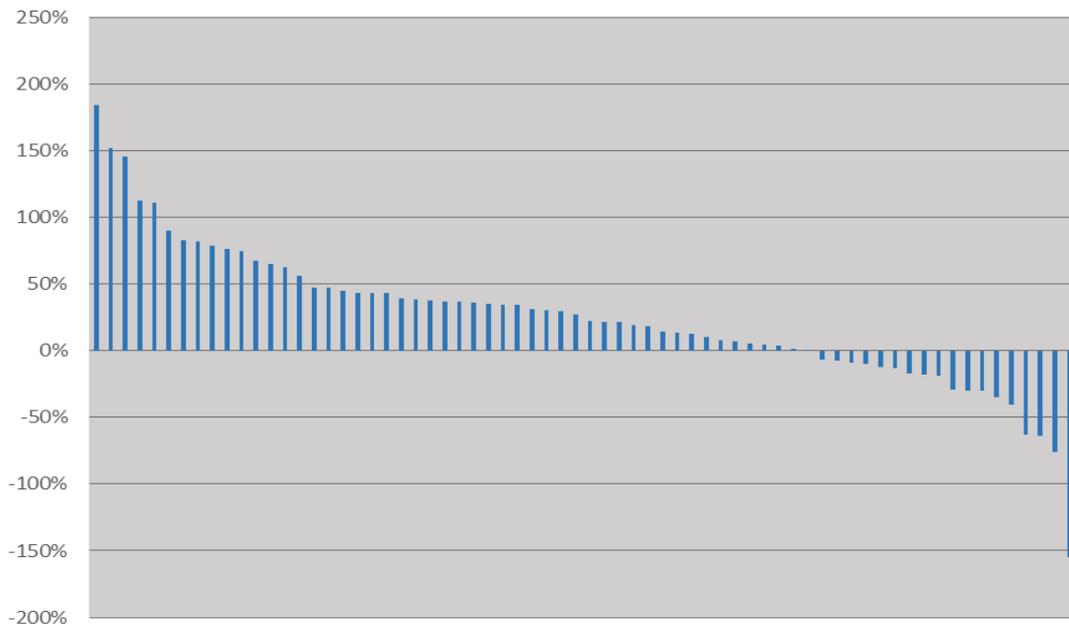
The LGA recommends that a well-managed council committed to sound financial strategies could comfortably manage with a net financial liabilities ratio of 100 per cent or more<sup>1</sup>. Councils with the need to accommodate significant outlays on new infrastructure associated with growth or to cost-effectively address large asset renewal or replacement needs may justifiably incur higher net financial liabilities ratios. All other things being equal, a council that provides Community Wastewater Management System (CWMS) services is likely to need to have higher net financial liabilities, as a result of financing associated with CWMS asset provision, relative to a council that does not provide such services.

Like their financial performance, the financial position of individual councils at 30 June 2019 (as measured by their net financial liabilities ratio) varies substantially. Chart 7 below shows the wide range of results covering the net financial liabilities ratio of councils in 2018-19. The 'Financial Indicators' section shown later in this document includes trend data on individual councils.

---

<sup>1</sup> See, for example, LGA Financial Sustainability Information Paper Number 9 – 'Local Government Financial Indicators'.

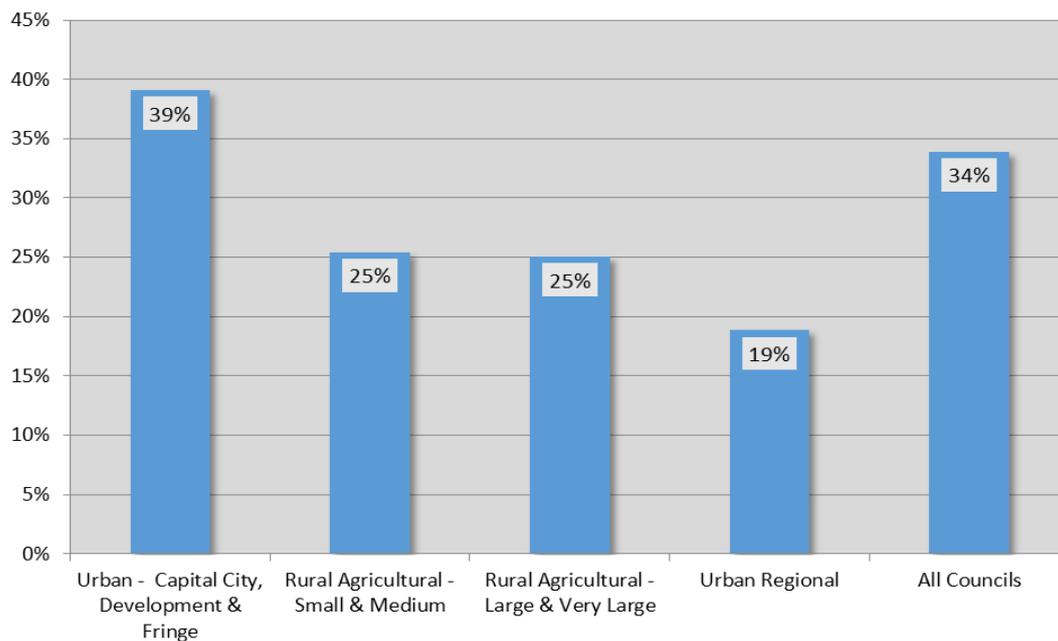
**Chart 7: Net Financial Liabilities Ratio (%): Size Distribution among Councils 2018-19**



Source: South Australian Local Government Grants Commission

Chart 8 below shows the differences between categories of councils in their net financial liabilities ratios in 2018-19.

**Chart 8: Net Financial Liabilities Ratio (%): Differences between categories of Councils 2018-19**



Source: South Australian Local Government Grants Commission

### Uniform Presentation of Finances

The level of a council's net financial liabilities is likely to fluctuate significantly between years, including because of the lumpy nature of some capital expenditure. The Uniform Presentation of Finances report that councils are required to include in their budgets, long-term financial plans, annual financial statements and mid-year budget reviews shows a bottom line entitled "Net Lending/(Borrowing)". An explanation of terms in the uniform report is shown in this link: [Uniform Presentation of Finances](#).

A net borrowing result in a particular year increases a council's accumulated level of net financial liabilities in that year whereas a net lending result reduces the level of net financial liabilities. A council's net lending/(borrowing) result in a financial year is calculated as the operating surplus/(deficit) less net capital outlays on non-financial assets. Put another way, a 'net borrowing' result represents the extent to which operating expenses (excluding depreciation) and capital expenditure exceed funding provided by operating revenue, proceeds from sale of assets and amounts received specifically for new/upgraded assets.

In the absence of explanatory material, some Council Members and interested readers may find it difficult to distinguish between the abovementioned 'net financial liabilities' measure and the 'net lending/(borrowing)' measure. It may be helpful to think about the 'net financial liabilities' measure as the outstanding amount of liabilities (net of financial assets) that have accumulated since the creation of a council – it is 'stock' concept, with the data drawn from a council's Statement of Financial Position. On the other hand, the 'net lending/(borrowing)' measure is a 'flow' concept as it captures only the result of a council's operating and capital investment activities in a particular financial year – with the data being drawn from a council's Statement of Comprehensive Income and its Cash Flow Statement for the year.

Drawing on figures for the sector as a whole included in the above tables, local government had accumulated an amount of net financial liabilities of \$630 million at 30 June 2018. The sector incurred a net borrowing result of \$164 million covering 2018-19 activities - which increased the level of net financial liabilities by the same amount in that year. After taking account of miscellaneous transactions which affect a small proportion of councils, local government's net financial liabilities at 30 June 2019 was \$806 million.

**Table D: Summary Data: 2018-19**

|  |                        |
|--|------------------------|
| Income                                       | \$2,379 million        |
| Less: Operating Expenses                     | \$2,331 million        |
| <b>Equals: Operating Surplus / (Deficit)</b> | <b>\$48 million</b>    |
| Less: Net Capital Outlays                    | \$212 million          |
| <b>Equals: Net Lending / (Borrowing)</b>     | <b>(\$164 million)</b> |

|  |                      |
|--|----------------------|
| Net Financial Liabilities at 30 June 2018  | \$630 million        |
| Add: Net Borrowing Result in 2018-19   | \$164 million        |
| Add: Other Miscellaneous Transactions (mainly the impact of capital works-in-progress) | \$12 million         |
| <b>Equals: Net Financial Liabilities at 30 June 2019</b>                               | <b>\$806 million</b> |

### **Financing Council activities**

Some commentators on local government finances use the terms 'financing' and 'funding' interchangeably. In this document, the two terms are used with specific and very different meanings. 'Funding' refers to the raising of revenue (e.g. through rates, user charges or the receipt of grants). 'Financing' describes how payments for outlays are accommodated (e.g. by accessing cash held in a council's bank account or by taking out a borrowing from another entity). As shown in Tables A and D above, the overall net borrowing result for the local government sector as a whole in 2018-19 was \$164 million.

‘Financing’ transactions covering the amount of net borrowing in 2018-19 occurred as follows:

|  |                      |
|--|----------------------|
| New borrowings   | \$132 million        |
| Decrease in cash, cash equivalents and financial investments | \$79 million         |
| Principal repayments on past borrowings                      | (\$47 million)       |
| <b>Total</b>   | <b>\$164 million</b> |

## Financial Indicators

The *Local Government (Financial Management) Regulations 2011* require a council to use three financial indicators in its long-term financial plan, annual budget and report on annual financial results:

- An operating surplus ratio;
- A net financial liabilities ratio; and
- An asset renewal funding ratio.

In these documents, councils effectively are required to evaluate past performance and project the future impact of strategies under consideration against financial indicators. The use of these financial indicators and associated targets determined by a council are intended to act like a roadmap to assist Council Members and management to steer their Council’s financial performance and sustainability.

Detailed explanatory information about each financial indicator is provided in an update of the LGA’s [Financial Sustainability Information Paper No 9](#). Trend data on individual councils is available in the [Financial Indicators Dashboard](#). Up-to-date information about the current and future sustainability of each council’s financial performance and position is available in council long-term financial plans. These plans put detailed information about financial indicators into context and explain a council’s financial and asset management strategies. Interested readers are encouraged to study council long-term financial plans available on council websites.

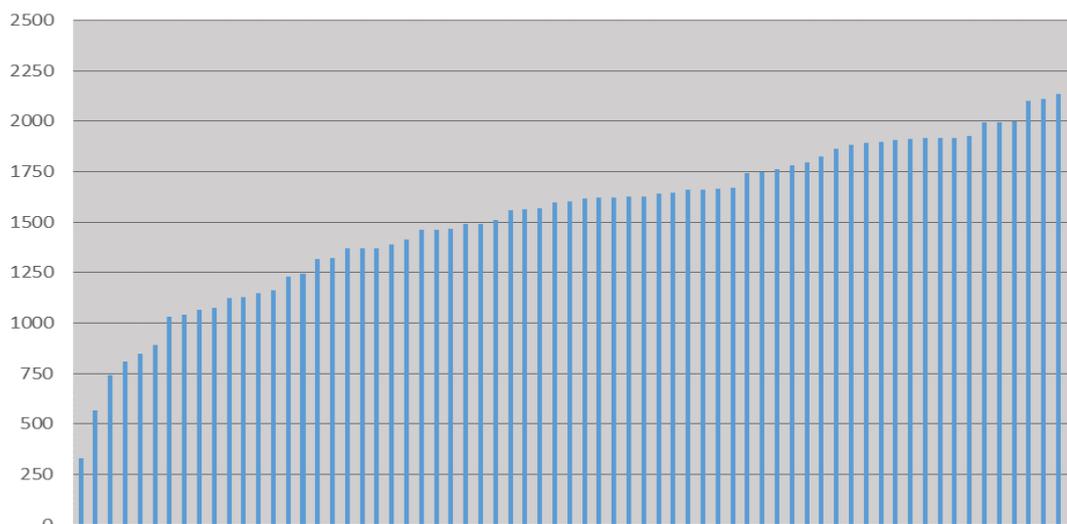
## Council Rating

As shown in the below table, total rate revenue received by councils in 2018-19 was \$1,744 million. Of this amount, \$1,152 million was attributable to residential rates, representing about 66 per cent of total rate revenue and about 48 per cent of total income.

|   |                 |
|---|-----------------|
| <b>Item</b>   |                 |
| Capital value of properties in council areas at 1 January 2018                          | \$381 billion   |
| Number of rateable residential properties in council areas at 1 January 2018            | 730,148         |
| Total rate revenue for 2018-19  | \$1,744 million |
| Total rates as a proportion of total income in 2018-19                                  | 73%             |
| Increase in rate revenue from 2017-18 to 2018-19 (including rates from new development) | 3.4%            |
| Average residential rates in 2018-19 – <b>also see Chart 9 below</b>                    | \$1,577         |
| Mandatory and discretionary rate rebates, remissions and write-offs for 2018-19         | \$43 million    |

Chart 9 below shows average residential rates charged by each council in 2018-19. Information about the rating regime of individual councils is summarised in Database Report 6 published by the Local Government Grants Commission on its public website.

**Chart 9: Average residential rates (excluding CWMS rates) per rateable residential property (\$): Size distribution among councils 2018-19**



Source: South Australian Local Government Grants Commission

### Other selected financial and demographic information

The following table provides an assortment of data on other local government financial and demographic characteristics. This data highlights the considerable diversity among councils.

| Item   |                     |
|--|---------------------|
| <b>Operating expenses covering council services in 2018-19</b> |                     |
| Waste Management   | \$207 million       |
| Recreation   | \$363 million       |
| Library and Cultural Services                                  | \$163 million       |
| Community Services, Health Services and Public Safety          | \$290 million       |
| Transport  | \$483 million       |
| <b>Estimated council population at 30 June 2019</b>            |                     |
| Lowest   | 850                 |
| Average  | 25,674              |
| Highest  | 172,938             |
| Total  | 1,745,812           |
| <b>Council road length</b>                                     |                     |
| Minimum  | 36 km               |
| Average  | 1,102 km            |
| Maximum  | 3,899 km            |
| Total  | 74,925 km           |
| <b>Council employees at 30 June 2019</b>                       |                     |
| Minimum  | 12 FTE's            |
| Average  | 132 FTE's           |
| Maximum  | 799 FTE's           |
| Total  | 8,952 FTE's         |
| <b>Council area</b>  |                     |
| Minimum  | 357 hectares        |
| Average  | 230,633 hectares    |
| Maximum  | 886,635 hectares    |
| Total  | 15,683,029 hectares |