

LOCAL GOVERNMENT FINANCES

Financial performance and position

Table A below shows summary financial performance data for the Local Government sector as a whole for the financial years 2005-06 through to 2009-10.

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

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|-----------|------------|------------|
| Operating Revenue ^(a) | 1 263 | 1 361 | 1 449 | 1 575 | 1 624 |
| /less Operating Expenses ^(b) | 1 287 | 1 369 | 1 449 | 1 551 | 1 627 |
| Operating surplus(+)/deficit(-) | -24 | -8 | — | 24 | -3 |
| Less: Net outlays on non-financial assets | | | | | |
| Capital investment expenditure on new/upgraded assets and renewal/replacement of existing assets ^(c) | 375 | 444 | 447 | 542 | 583 |
| /less Proceeds from sale of assets | 57 | 52 | 49 | 50 | 69 |
| /less Depreciation | 288 | 314 | 322 | 345 | 364 |
| /less Amounts received specifically for new/upgraded assets ^(c) | 58 | 57 | 68 | 105 | 117 |
| Net outlays on non-financial assets | -28 | 21 | 8 | 42 | 33 |
| Equals: Net lending(+)/borrowing(-) | 4 | -29 | -8 | -18 | -36 |

(a) Operating revenue excludes book gains on sale of assets and amounts received specifically for new/upgraded assets.

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

(c) Excludes the value of non-financial assets donated to Councils.

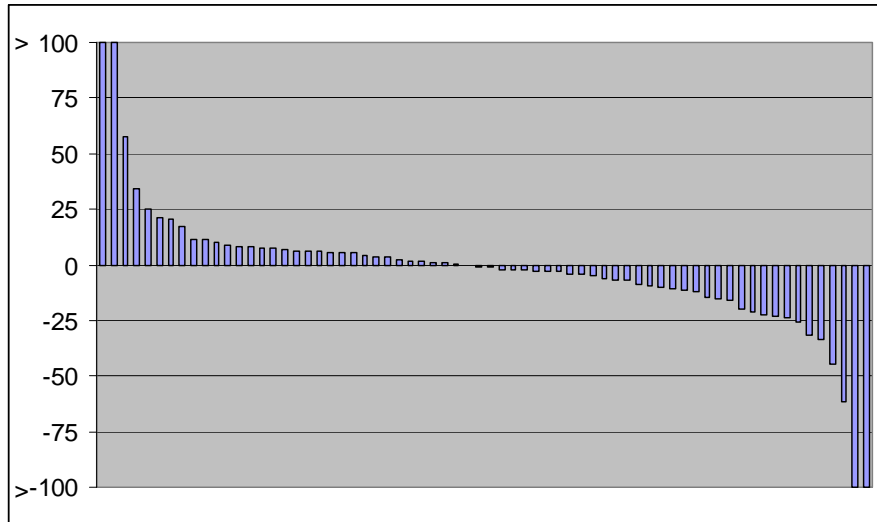
The aggregate level of Local Government's annual operating deficit has reduced steadily since 2000-01 when it was \$90 million. As shown in Table A, the operating deficit was eliminated in 2007-08. While an operating surplus of \$24 million was recorded in 2008-09, a break-even operating result (i.e. operating revenue equal to expenses) would have occurred but for the early receipt, in June 2009, of Commonwealth Government financial assistance grants otherwise due in 2009-10. A very small operating deficit of \$3 million was recorded in 2009-10 and, overall, Council budgets for 2010-11 are targeting a very small operating surplus of \$4 million in 2010-11.

While the financial performance of Local Government as a whole has improved 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 individual Councils in 2009-10. The operating surplus ratio is calculated by expressing a Council's operating surplus as a percentage of general and other rates.

The main sources of Local Government operating revenue in 2009-10 are shown in Chart 2 below. In real terms, Local Government's operating revenue increased by 15.1 per cent over the four-year period from 2005-06 to 2009-10.

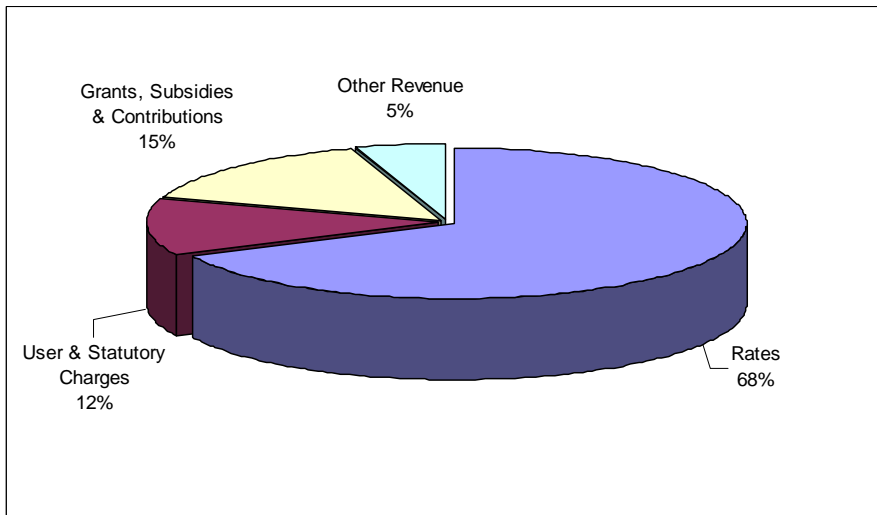
Local Government taxation revenue (from general and other rates on property) was \$1,100 million in 2009-10 and is estimated to be approximately \$1,170 million in 2010-11. Together with other own-source funding (mainly user charges), approximately 85 per cent of Local Government operating revenue is from its own sources. Chart 3 shows the significant differences in the self-sufficiency of individual Councils.

Chart 1: Operating Surplus Ratio (%): Size Distribution among Councils 2009-10



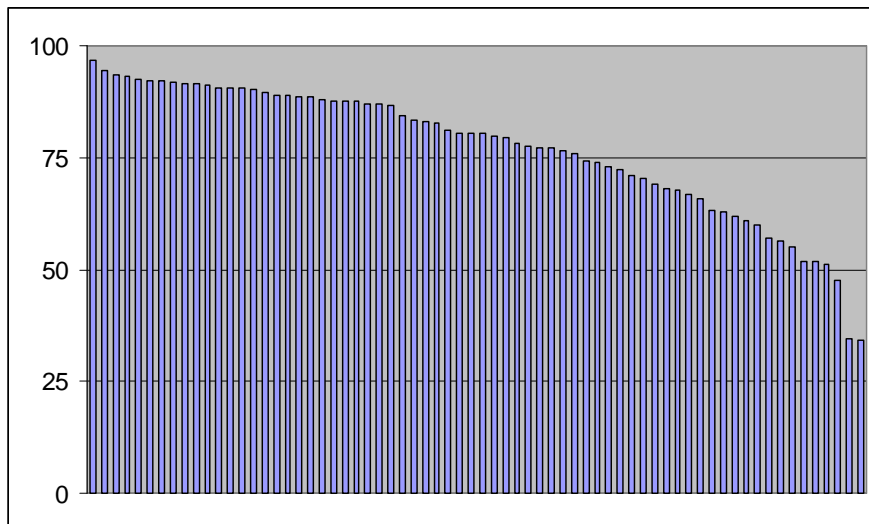
Source: South Australian Local Government Grants Commission

Chart 2: Sources of Operating Revenue 2009-10



Source: South Australian Local Government Grants Commission

Chart 3: Own-source Operating Revenue as a percentage of Total Operating Revenue (%): Size Distribution among Councils.

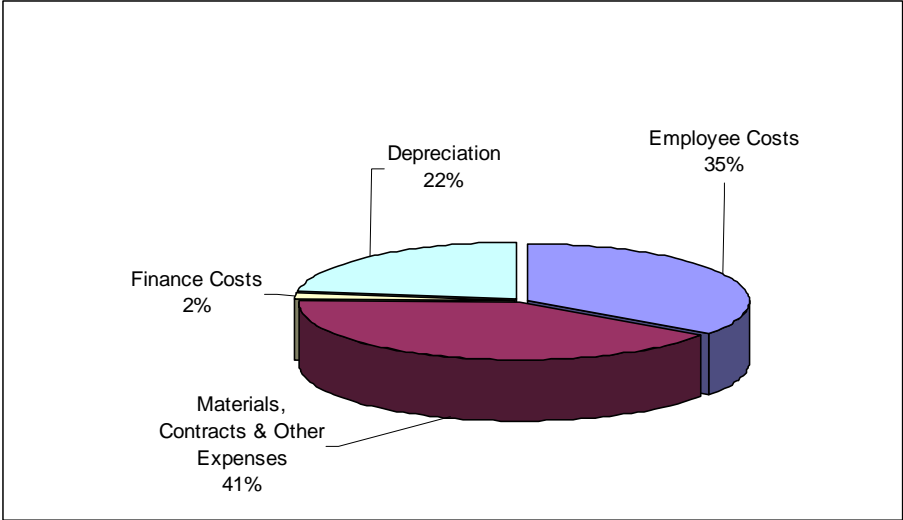


Source: South Australian Local Government Grants Commission

The main types of operating expenses in 2009-10 are shown in Chart 4 below and operating expenses by function are shown in Chart 5. Operating expenses increased in real terms by 13.1 per cent over the four-year period from 2005-06 to 2009-10.

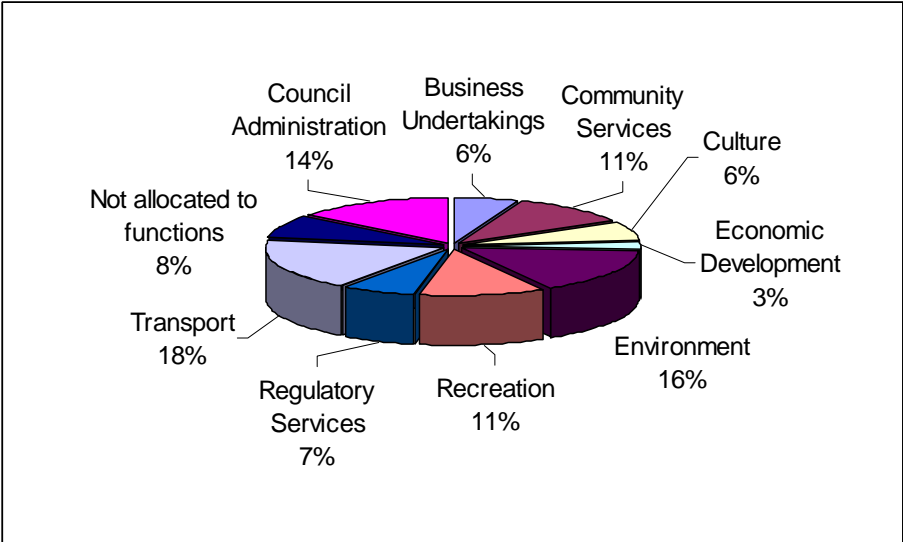
Gross capital investment expenditure was a record high \$583 million in 2009-10 which represents an increase in real terms by 39.1 per cent from 2005-06. It includes a significant increase in expenditure on renewing and replacing infrastructure over that period. The increased capital expenditure was supported heavily by Commonwealth economic stimulus funding.

Chart 4: Operating Expenses by Type 2009-10



Source: South Australian Local Government Grants Commission

Chart 5: Operating Expenses by Function 2009-10



Source: South Australian Local Government Grants Commission

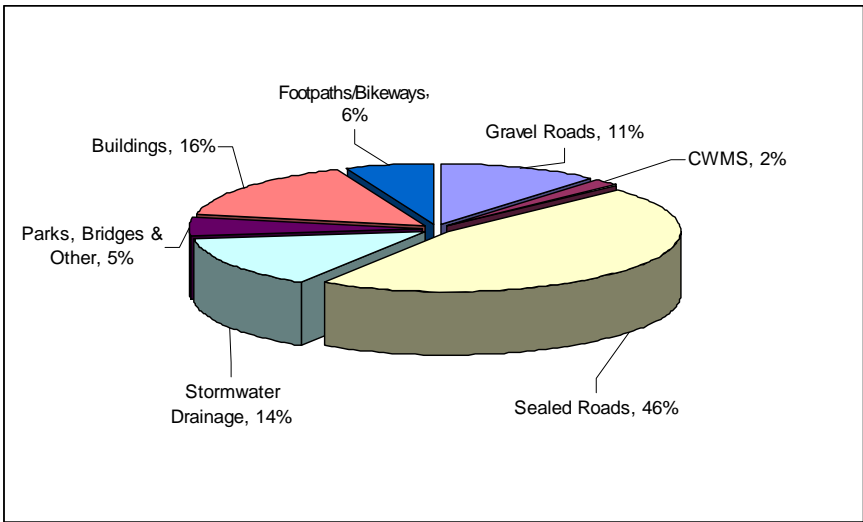
Table B below shows an abridged balance sheet for the Local Government sector at the end of the financial years 2005-06 through to 2009-10. Chart 6 shows the make-up of Local Government’s non-financial assets.

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

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|----------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Assets | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 263 | 277 | 291 | 318 | 315 |
| Trade and other receivables | 95 | 107 | 115 | 115 | 144 |
| Equity accounted investments in Council businesses | 19 | 30 | 53 | 59 | 61 |
| Other financial assets | 2 | 1 | 1 | 10 | 2 |
| Non-financial assets | | | | | |
| Assets held for sale and inventories | 36 | 42 | 57 | 105 | 98 |
| Land, buildings, infrastructure, plant, equipment and other non-financial assets | 11 553 | 12 648 | 14 114 | 16 267 | 17 758 |
| Total assets | 11 968 | 13 105 | 14 631 | 16 874 | 18 378 |
| Liabilities | | | | | |
| Trade and other payables | 159 | 217 | 243 | 278 | 299 |
| Borrowings and finance leases | 456 | 472 | 471 | 486 | 527 |
| Employee entitlements and other provisions | 103 | 92 | 109 | 112 | 106 |
| Total liabilities | 718 | 781 | 823 | 876 | 932 |
| Net worth | 11 250 | 12 324 | 13 808 | 15 999 | 17 446 |
| Net financial liabilities^(a) | 358 | 396 | 416 | 433 | 471 |

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

Chart 6: Local Government Non-Financial Assets (i.e. Infrastructure and other physical assets). Written-down replacement cost at 30 June 2010 - \$17.8 billion.

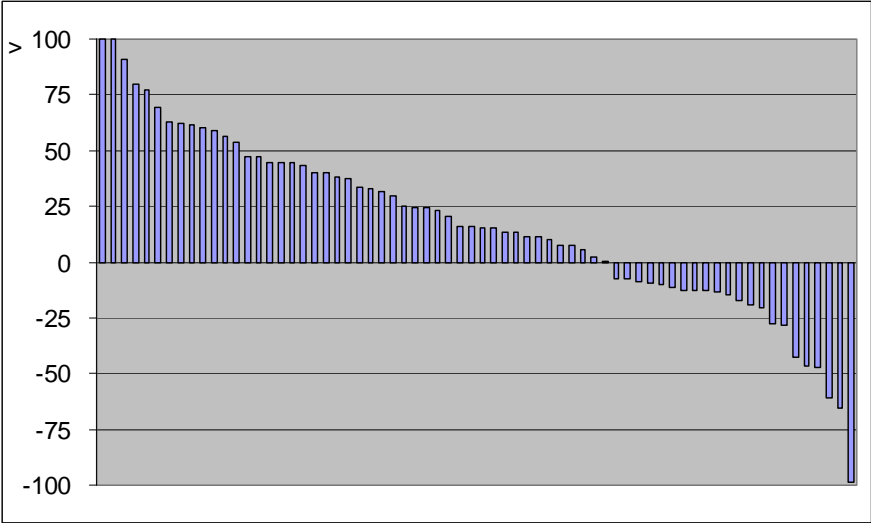


Source: Office for State/Local Government Relations

As shown in Table B above, the level of Local Government net financial liabilities at 30 June 2010 was \$471 million, which represents 29 per cent of Local Government’s operating revenue in 2009-10. This compares with a figure of 28 per cent in 2005-06. In the context of Local Government’s infrastructure and other physical assets valued at nearly \$18 billion at 30 June 2010, the level of net financial liabilities is very low.

Like their financial performance, the financial position of individual Councils (as measured by their net financial liabilities ratio – also see the following section on Council indebtedness) varies substantially. Chart 7 below shows the wide range of results covering the net financial liabilities ratio of Councils in 2009-10. Individual Councils deliberately are not identified as it is not meaningful to view this data without an understanding or explanation of the differing financial and asset management strategies and targets of each Council.

Chart 7: Net Financial Liabilities Ratio (%): Size Distribution among Councils 2009-10



Source: South Australian Local Government Grants Commission

Council Indebtedness

Consistent with guidance material provided to Councils under the 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 financial assets (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. The following table, which incorporates actual data for the Local Government sector at 30 June 2009 and 30 June 2010 may provide interested readers with a better understanding:-

Net Financial Liabilities at 30 June

| | 2009 \$ million | 2010 \$ million |
|---------------------------------------------------------|--------------------|--------------------|
| Gross borrowings | 486 | 527 |
| Less: Cash, Cash Equivalents and other financial assets | 328 | 317 |
| Equals: Net Debt | 158 | 210 |
| Add: Trade and other payables | 278 | 299 |
| Add: Employee entitlements and other provisions | 112 | 106 |
| Less: Trade and other receivables | 115 | 144 |
| Equals: Net Financial Liabilities | 433 | 471 |

Financial indicators endorsed 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 operating revenue. The ratio is calculated by expressing net financial liabilities at the end of a reporting period as a percentage of a Council's operating revenue for the same reporting period.

As mentioned earlier, the net financial liabilities ratio for the Local Government sector in 2009-10 was 29 per cent. Chart 7 above shows a distribution of values among Councils. Data on the level of Local Government's level of net financial liabilities and its net financial liabilities ratio for the last ten years is shown in an update report assembled by the LGA for each Annual General Meeting. The report provides the latest values and history of key financial indicators – [Financial Indicators Report 2010](#).

The LGA recommends that a well managed Council committed to sound financial strategies could comfortably manage with a net financial liabilities ratio of 100% or more¹. 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.

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 and annual financial statements 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 (being an accrual accounting concept) 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.

¹ See, for example, LGA Financial Sustainability Information Paper Number No.12 – 'Targets for Local Government Financial Indicators'.

Separately, where a net borrowing result is incurred in a particular year, it needs to be “financed”. As shown in Table A above, the net borrowing result for the Local Government sector as a whole in 2009-10 was \$36 million. That amount of ‘net borrowing’ was financed as follows:

| | \$ million |
|---------------------------------------------------------------|-------------------|
| New borrowings | 131 |
| (Principal repayments on past borrowings) | (90) |
| Decrease in cash, cash equivalents and other financial assets | 11 |
| (Increase in receivables) | (29) |
| Increase payables and provisions | 15 |
| (Other – including movements in inventories) | (2) |
| Total | <u>36</u> |

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 balance sheet. 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. In any event, a focus on the annual ‘net borrowing’ measure is not considered important. Rather, the annual ‘flow’ measure that is crucial is the operating surplus/(deficit).

Drawing on figures for the sector as a whole in 2009-10 included in the above tables, Local Government recorded an amount of net financial liabilities of \$433 million at 30 June 2009. The sector incurred a net borrowing result of \$36 million covering 2009-10 activities - which increased the level of net financial liabilities by the same amount in that year. After taking account of several minor factors which affect only a small proportion of Councils (and which led to an increase in net financial liabilities of \$2 million in 2009-10), the recorded amount of Local Government’s net financial liabilities at 30 June 2010 was \$471 million. Had a net lending result been incurred in 2009-10, the amount of net financial liabilities would have decreased in that year.

Summary Data: 2009-10

| | |
|--------------------------------------|----------------------|
| Operating Revenue | \$1,624 million |
| Less: Operating Expenses | \$1,627 million |
| Equals: Operating Deficit (-) | -\$3 million |
| Less: Net Capital Outlays | \$33 million |
| Equals: Net Borrowing (-) | -\$36 million |

| | |
|----------------------------------------------------------|----------------------|
| Net Financial Liabilities at 30 June 2009 | \$433 million |
| Add: Net Borrowing Result in 2009-10 | \$36 million |
| Add: Other Miscellaneous Transactions | \$2 million |
| Equals: Net Financial Liabilities at 30 June 2010 | \$471 million |

Summary financial information about individual Councils

During 2008, OSLGR and the LGA initiated a pilot project whereby 33 Councils agreed to publish high-level summary information about their financial performance and position in a central and publicly accessible location on the OSLGR and LGA websites. While the project attracted very little interest at the time, OSLGR remains prepared to provide a central facility on its website if Councils wish to publish such information in the future. The high-level summary information published for each Council in 2008 was less than one page and can be found [here](#).

Other selected financial or related information

| Item | |
|-----------------------------------------------------------------------------------------|---------------------|
| Cost of Council services in 2009-10:- | |
| Waste recycling | \$128 million |
| Recreation and sport | \$181 million |
| Libraries and culture | \$100 million |
| Community services and public safety | \$173 million |
| Maintaining and renewing roads, footpaths and kerbing | \$275 million |
| Council Rating:- | |
| Capital value of properties in Council areas at 1 Jan 2011 | \$327 billion |
| Increase in capital values from 1 Jan 2010 to 1 Jan 2011 | 6.6% |
| Number of rateable properties in Council areas at 1 Jan 2011 | 874,000 |
| Increase in number of rateable properties 1 Jan 2010 to 1 Jan 2011 | 9,000 |
| Total rates revenue for 2009-10 | \$1.1 billion |
| Rates as a proportion of total operating revenue in 2009-10 | 68% |
| Increase in rate revenue from 2008-09 to 2009-10 (including rates from new development) | 6.8% |
| Average residential rates in 2009-10 | \$1,114 |
| Rates rebates, remissions and write-offs for 2009-10 | \$26 million |
| Estimated Council Population at 30 June 2010:- | |
| Minimum | 930 |
| Average | 24,000 |
| Maximum | 163,000 |
| Total | 1,638,000 |
| Council Road Length:- | |
| Minimum | 36 km |
| Average | 1,098 km |
| Maximum | 3,384 km |
| Total | 75,000 km |
| Council Employees at 30 June 2010:- | |
| Minimum | 13 FTE's |
| Average | 123 FTE's |
| Maximum | 684 FTE's |
| Total | 8,350 FTE's |
| Council Area:- | |
| Minimum | 356 hectares |
| Average | 22,000 hectares |
| Maximum | 886,000 hectares |
| Total | 15,557,000 hectares |