

## Local Government Finances

Table A below shows summary financial performance data for the South Australian local government sector for the financial years 2018-19 through to 2022-23. 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)**

	2018-19	2019-20	2020-21	2021-22	2022-23
Income <sup>(a)</sup>	2 379	2 464	2 553	2 629	2 790
Operating Expenses <sup>(b)</sup>	(2 331)	(2 414)	(2 455)	(2 545)	(2 775)
<b>Operating surplus / (deficit)</b>	<b>48</b>	<b>50</b>	<b>98</b>	<b>84</b>	<b>15</b>
<b>Net outlays on existing assets</b>					
Capital expenditure on renewal and replacement of existing assets	(450)	(407)	(402)	(433)	(493)
Add back: Depreciation	520	561	588	610	645
Proceeds from sale of replaced assets	19	17	21	19	21
<b>Net outlays on existing assets</b>	<b>89</b>	<b>170</b>	<b>207</b>	<b>196</b>	<b>174</b>
<b>Net outlays on new and upgraded assets</b>					
Capital expenditure on new and upgraded assets	(436)	(406)	(404)	(458)	(471)
Amounts received specifically for new and upgraded assets	109	104	148	150	167
Proceeds from sale of surplus assets	26	12	23	92	42
<b>Net outlays on new/upgraded assets</b>	<b>(301)</b>	<b>(290)</b>	<b>(233)</b>	<b>(216)</b>	<b>(262)</b>
<b>Net lending / (borrowing)</b>	<b>(164)</b>	<b>(69)</b>	<b>(72)</b>	<b>64</b>	<b>(73)</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 grants in recent years. This includes adding into both 2019-20 and 2020-21 figures, \$17 million of Supplementary Local Roads grants which originally were received and recorded by councils as income in June 2019.

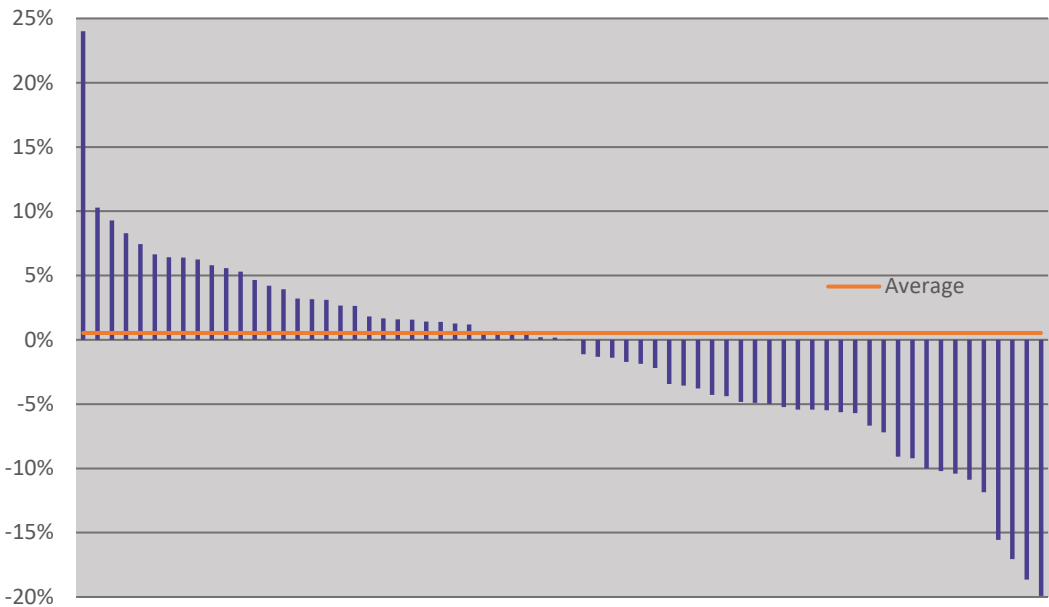
(b) Operating expenses include depreciation but exclude book losses on the sale or revaluation of assets.

As shown in the footnote above, figure-work in Table A has been adjusted to remove the material distortion otherwise caused by the irregular timing of receipt of Financial Assistance Grants (FA Grants) and Supplementary Local Roads 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 ten years.

The large and consistent shortfall in the level of capital expenditure on renewal and replacement of existing assets compared with depreciation costs may indicate that the recorded useful lives of many assets are understated (resulting in higher depreciation costs than appropriate). This underlines the importance of each council maintaining, and following in its budget decisions, a rigorous infrastructure and asset management plan and, separately, carefully reviewing 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 2022-23. The operating surplus ratio is calculated by expressing a council's operating surplus as a percentage of income. The local government sector recorded a positive operating surplus ratio of 0.5% in 2022-23.

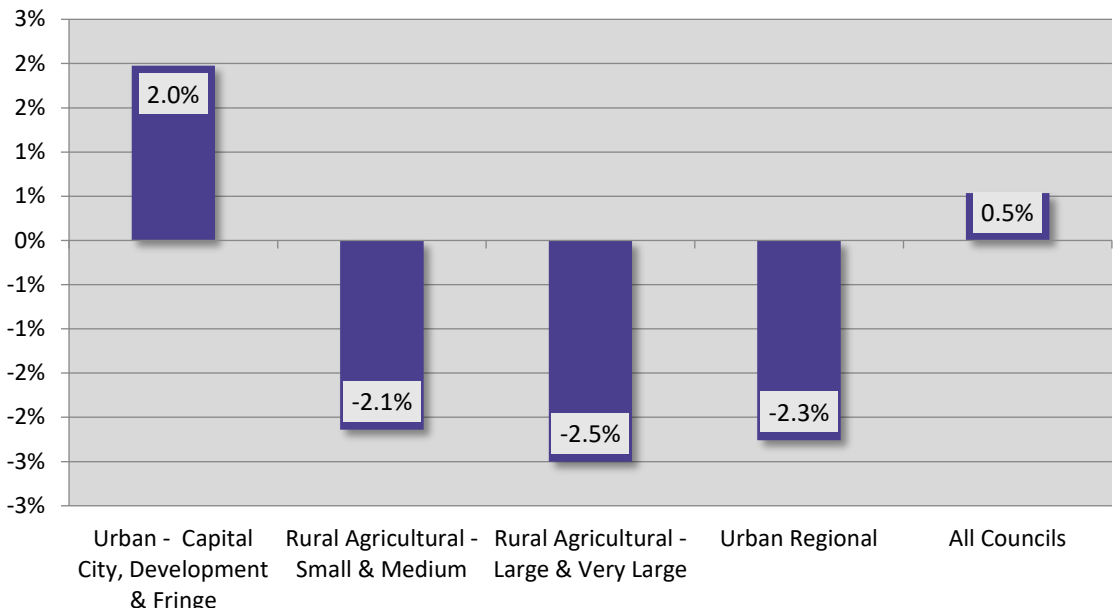
**Chart 1 Operating Surplus Ratio (%): Size Distribution among Councils 2022-23**



Source: South Australian Local Government Grants Commission

Chart 2 below shows the differences between categories of councils in their operating surplus ratios in 2022-23.

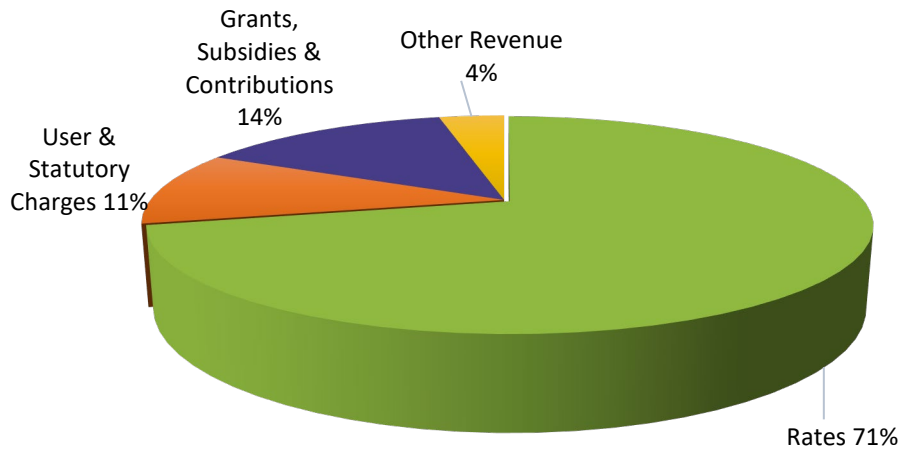
**Chart 2 Operating Surplus Ratio (%): Differences between categories of Councils 2022-23**



Source: South Australian Local Government Grants Commission

The main sources of local government income in 2022-23 are shown in Chart 3 below. During the four-year period from 2018-19 to 2022-23, local government’s income increased by 0.9% over and above the Adelaide consumer price index.

Chart 3 Sources of Income 2022-23

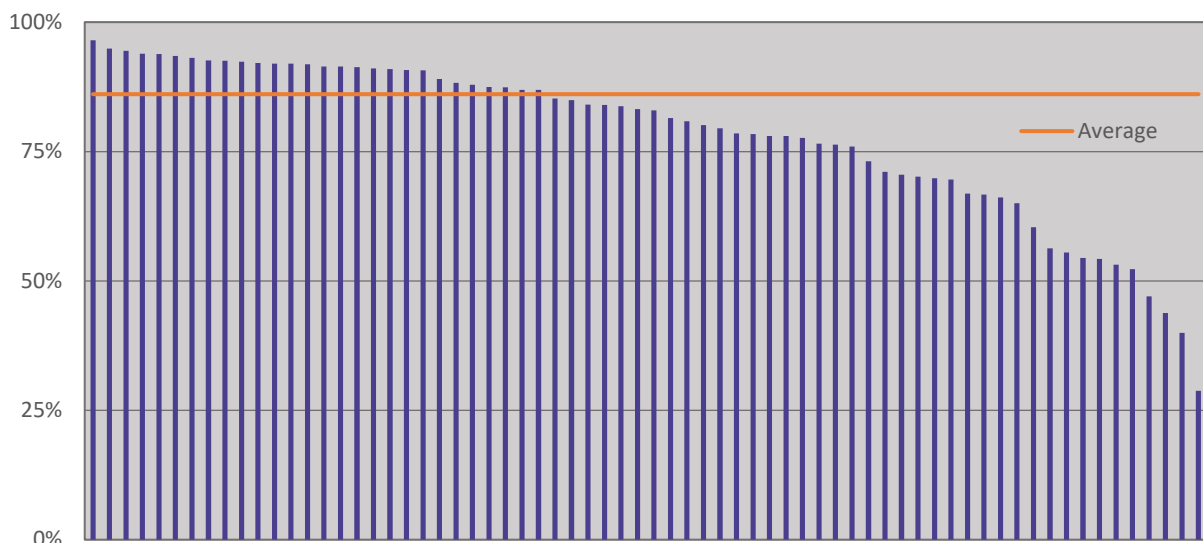


Source: South Australian Local Government Grants Commission

Taxation revenue (from general and other rates on property) was \$1,995 million in 2022-23. During the four-year period from 2018-19 to 2022-23, taxation revenue decreased by 1.6% below the Adelaide consumer price index. Together with other own-source funding (mainly user charges), approximately 86% of local government income is from its own sources.

Chart 4 below shows the significant differences in the funding self-sufficiency of individual councils. In 2022-23, own-source funding ranged from 97% to 29% of total income. Four councils relied on Commonwealth and State Government grants, subsidies and contributions for more than 50% of their income.

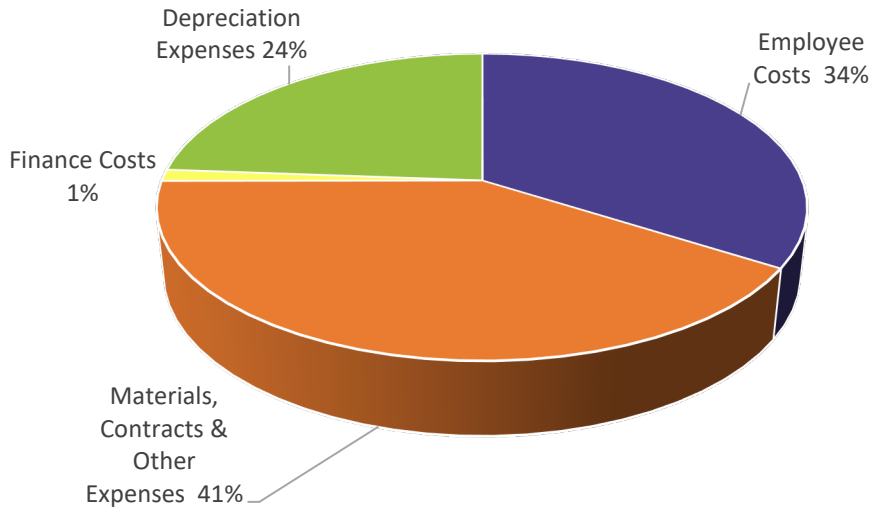
Chart 4 Own-source Income as a percentage of Total Income (%): Size Distribution among Councils 2022-23



Source: South Australian Local Government Grants Commission

The main types of operating expenses in 2022-23 are shown in Chart 5 below. During the four-year period from 2018-19 to 2022-23, operating expenses increased by 2.4% over and above the Adelaide consumer price index.

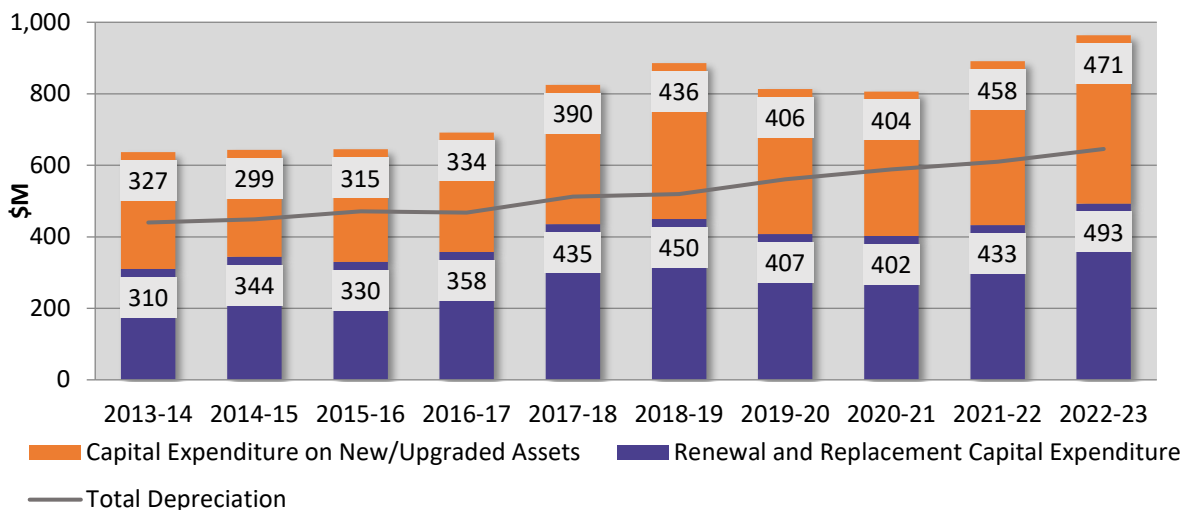
Chart 5 Operating Expenses by Type 2022-23



Source: South Australian Local Government Grants Commission

Chart 6 below shows, from 2013-14, 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, 2018-19 and 2021-22 was boosted by the impact of grants under a State-Local Government Infrastructure Partnership. There continues a worrying trend in the high 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

Chart 6 above also illustrates the large and consistent shortfall (\$152 million in 2022-23) in the level of capital expenditure on renewal and replacement of assets compared with depreciation. As mentioned earlier, this may indicate that the recorded useful lives of many assets are understated. If so, it is likely that depreciation costs are being overstated. In turn, assuming operating break-even results or better are being achieved (i.e. depreciation is being fully funded), general rates may be higher than necessary or appropriate.

Where the shortfalls are large and consistent, council audit and risk committees, finance managers and asset managers should be working closely to ensure that the useful lives of assets assumed in calculating depreciation costs are aligned with those included in infrastructure and asset management plans. Importantly, the useful lives chosen should reflect what is happening in practice. Accurate useful lives are an essential basis for projections (in infrastructure and asset management plans) covering capital expenditure on renewal and replacement of assets.

Table B below shows an abridged balance sheet for the local government sector for five years through to 2022-23. Figure-work in Table B has been adjusted to remove the material distortion otherwise caused by the irregular timing of receipt of FA Grants and Supplementary Local Roads Grants FA Grants in recent years.

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

	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Assets</b>					
Financial assets					
Cash and cash equivalents	275	306	321	322	261
Trade and other receivables	224	202	233	243	254
Equity accounted investments in Council businesses	117	122	136	164	180
Other financial assets	38	25	7	15	27
Non-financial assets					
Assets held for sale and inventories	39	37	42	48	53
Land, buildings, infrastructure, plant, equipment and other non-financial assets	25 406	26 258	26 929	28 348	30 733
<b>Total assets</b>	<b>26 099</b>	<b>26 950</b>	<b>27 668</b>	<b>29 140</b>	<b>31 508</b>
<b>Liabilities</b>					
Trade and other payables	388	382	403	468	531
Borrowings, including leases	754	954	902	846	832
Employee entitlements and other provisions	201	213	229	230	229
<b>Total liabilities</b>	<b>1 343</b>	<b>1 549</b>	<b>1 533</b>	<b>1 544</b>	<b>1 592</b>
<b>Net worth</b>	<b>24 756</b>	<b>25 401</b>	<b>26 135</b>	<b>27 596</b>	<b>29 916</b>
<b>Net financial liabilities<sup>(a)</sup></b>	<b>806</b>	<b>1 015</b>	<b>972</b>	<b>964</b>	<b>1 050</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 2023 was \$30.7 billion. The Office of Local Government estimates that more than 50% 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% 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) former 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 other 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. Table C below (with figure-work adjusted to remove the material distortion otherwise caused by the irregular timing of FA Grants and Supplementary Local Roads Grants received in recent years) provides actual data for the local government sector's net financial liabilities over the three years to 30 June 2023, and may provide interested readers with a better understanding:

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

	2021 \$ million	2022 \$ million	2023 \$ million
Gross borrowings, including leases	902	846	832
Less: Cash, cash equivalents and other financial assets	329	337	288
<b>Equals: Net Debt</b>	<b>573</b>	<b>509</b>	<b>544</b>
Add: Trade and other payables	403	468	531
Add: Employee entitlements and other provisions	229	230	229
Less: Trade and other receivables	233	243	254
<b>Equals: Net Financial Liabilities</b>	<b>972</b>	<b>964</b>	<b>1 050</b>

As shown in Table C above, the level of net financial liabilities at 30 June 2023 was \$1,050 million. In the context of local government's infrastructure and other physical assets valued at \$30.7 billion at 30 June 2023, the level of net financial liabilities is very low. Inexplicably, more than a quarter of councils had negative net financial liabilities at 30 June 2023 (i.e. their level of cash and investments exceeded their outstanding borrowings and other liabilities). It may be possible that some councils are attaching a higher priority to maintaining or building up the level of their financial assets rather than providing services.

## 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 in 2022-23 was 34%. Separately, the sector's net interest costs in 2022-23 represented only 0.6% of income.

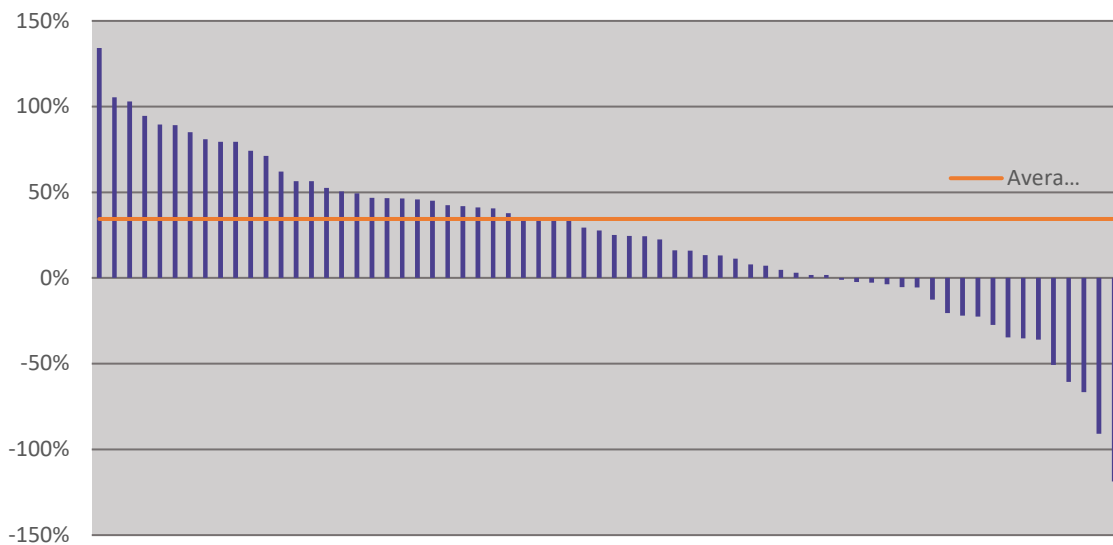
The LGA recommends that a well-managed council committed to sound financial strategies could comfortably manage with a net financial liabilities ratio of 100% or more<sup>1</sup>.

<sup>1</sup> See, for example, the draft update of the LGA's [Financial Sustainability Information Paper No. 9 – 'Local Government Financial Indicators'](#).

Councils with at least a reasonable financial performance, and 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, because 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 2023 (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 2022-23.

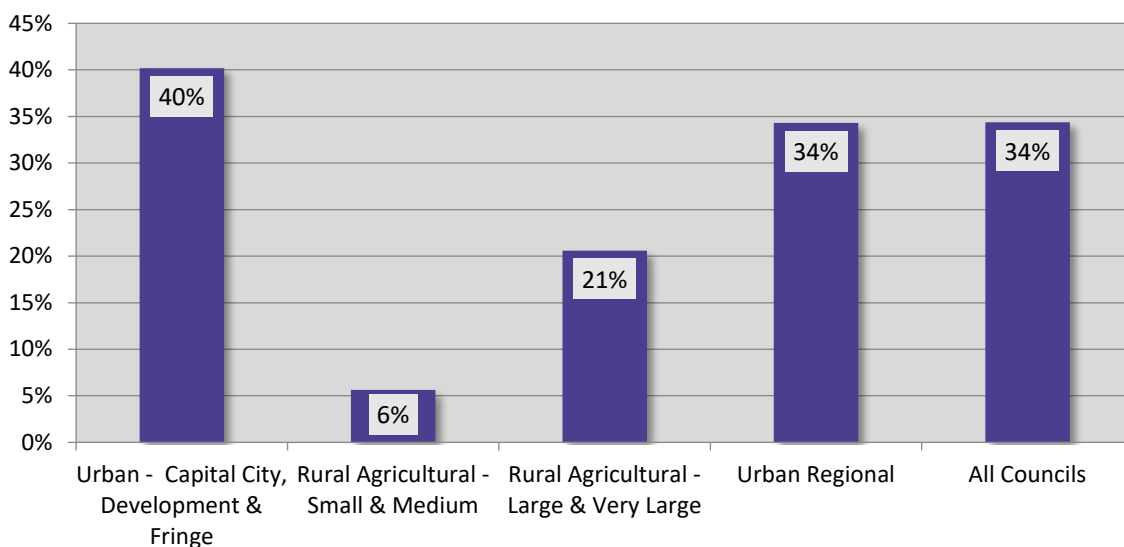
**Chart 7 Net Financial Liabilities Ratio (%): Size Distribution among Councils 2022-23**



Source: South Australian Local Government Grants Commission

Chart 8 below shows the differences between categories of councils in their net financial liabilities ratios in 2022-23.

**Chart 8 Net Financial Liabilities Ratio (%): Differences between categories of Councils 2022-23**



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 in 2022-23 shows a bottom line entitled "Net lending/(borrowing)". An explanation of terms in the uniform presentation 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 other 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 \$964 million at 30 June 2022. The sector incurred a net borrowing result of \$73 million covering 2022-23 activities - which increased the level of net financial liabilities by the same amount in that year. After taking account of the impact of miscellaneous transactions which affect only a small proportion of councils, local government's net financial liabilities at 30 June 2023 was \$1,050 million.

**Table D Summary Data: 2022-23**

Income	\$2,790 million
Less: Operating Expenses	\$2,775 million
<b>Equals: Operating Surplus / (Deficit)</b>	<b>\$15 million</b>
Less: Net Capital Outlays	\$88 million
<b>Equals: Net Lending / (Borrowing)</b>	<b>(\$73 million)</b>

Net Financial Liabilities at 30 June 2022	\$964 million
Add: Net Borrowing Result in 2022-23	\$73 million
Add: Other miscellaneous transactions	\$13 million
<b>Equals: Net Financial Liabilities at 30 June 2023</b>	<b>\$1 050 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. The three indicators are:

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

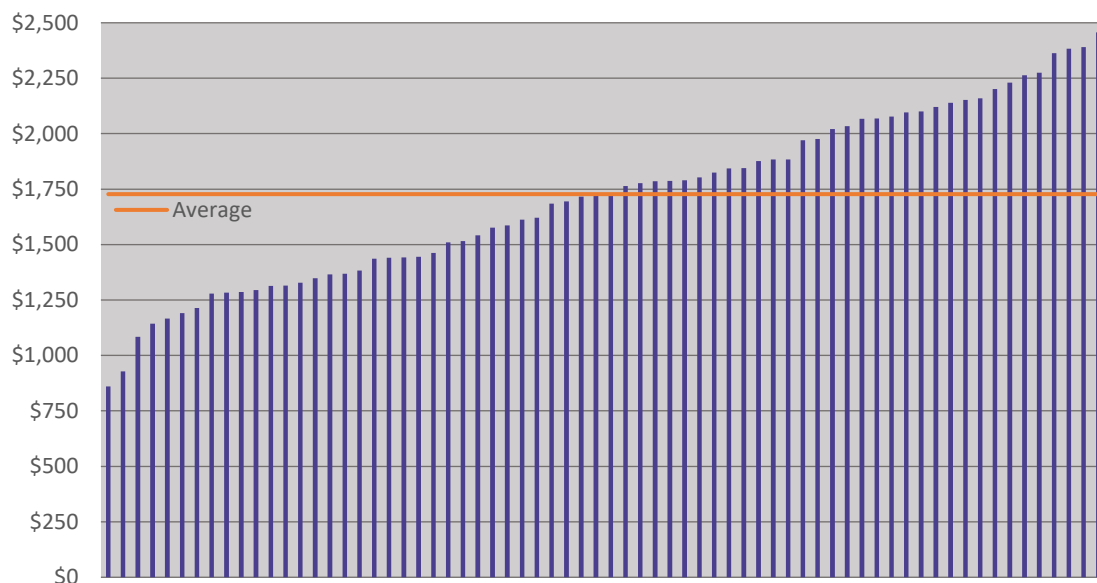
In these documents, councils effectively are required to evaluate past performance and project the future impact of strategies under consideration against financial indicators. The use of these financial indicators and associated targets determined by a council are intended to act like a roadmap to assist council members and management to steer their council's financial performance and sustainability. Detailed explanatory information about each financial indicator is provided in the draft update of the LGA's [Financial Sustainability Information Paper No 9](#).

## Council Rating

As shown in the below table, total rate revenue received by councils in 2022-23 was \$1,995 million. Of this amount, \$1,326 million was attributable to residential rates, representing 66.5% of total rate revenue and about 48% of total income.

Item	
Capital value of properties in council areas at 1 January 2022	\$435 billion
Number of rateable residential properties in council areas at 1 January 2022	766,892
Total rate revenue for 2022-23	\$1,995 million
Total rates as a proportion of total income in 2022-23	71.5%
Increase in rate revenue from 2021-22 to 2022-23 (including rates from new development)	4.8%
Average residential rates in 2022-23 – <b>also see Chart 9 below</b>	\$1,729
Mandatory and discretionary rate rebates, remissions and write-offs for 2022-23	\$51 million

**Chart 9 Average residential rates (excluding CWMS rates) per rateable residential property (\$): Size distribution among councils 2022-23**



Source: South Australian Local Government Grants Commission

Chart 9 above shows average residential rates charged by each council in 2022-23. Summary information about the rating regime of individual councils is shown in Database Report 6 published by the SA Local Government Grants Commission on its public website. Detailed information about rates and other income is included in Annual Business Plans shown on individual council websites.

## 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 2022-23</b>	
Waste Management	\$287 million
Recreation	\$444 million
Library and Cultural Services	\$180 million
Community Services, Health Services and Public Safety	\$363 million
Transport	\$556 million
<b>Estimated council population at 30 June 2023</b>	
Lowest	889
Average	27,155
Highest	180,865
Total	1,846,535
<b>Council road length at 30 June 2023</b>	
Minimum	36 km
Average	1,106 km
Maximum	3,900 km
Total	75,194 km
<b>Council employees at 30 June 2023</b>	
Minimum	14 FTEs
Average	136 FTEs
Maximum	780 FTEs
Total	9,215 FTEs
<b>Council area</b>	
Minimum	357 hectares
Average	230,629 hectares
Maximum	886,635 hectares
Total	15,682,739 hectares

Source: South Australian Local Government Grants Commission