

Local Government Finances

Table A below shows summary financial performance data for the local government sector for the financial years 2019-20 through to 2023-24.

Table A Local Government operating statement (\$ million)

	2019-20	2020-21	2021-22	2022-23	2023-24
Income ^(a)	2 464	2 553	2 629	2 790	3 043
Operating Expenses ^(b)	(2 414)	(2 455)	(2 545)	(2 775)	(3 002)
Operating surplus / (deficit)	50	98	84	15	41
Capital expenditure on existing, new and upgraded non-financial assets	(813)	(806)	(891)	(964)	(1 087)
Less: Depreciation	561	588	610	645	707
Less: Amounts received specifically for new and upgraded assets	104	148	150	167	161
Less: Proceeds from sale of assets	29	44	111	63	70
Net outlays on non-financial assets	(119)	(26)	(20)	(89)	(149)
Net lending / (borrowing)	(69)	(72)	64	(74)	(108)

(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.

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

(c) A full explanation of the term 'Net lending / (borrowing)' is shown on page 9 of this document.

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 Federal Financial Assistance 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. Operating deficits were eliminated for the first time on record in 2007-08. Subsequently, an approximate 'break even' operating result was recorded for five years until 2012-13, with operating surpluses recorded in each of the last eleven years (\$41 million in 2023-24).

Financial Indicators

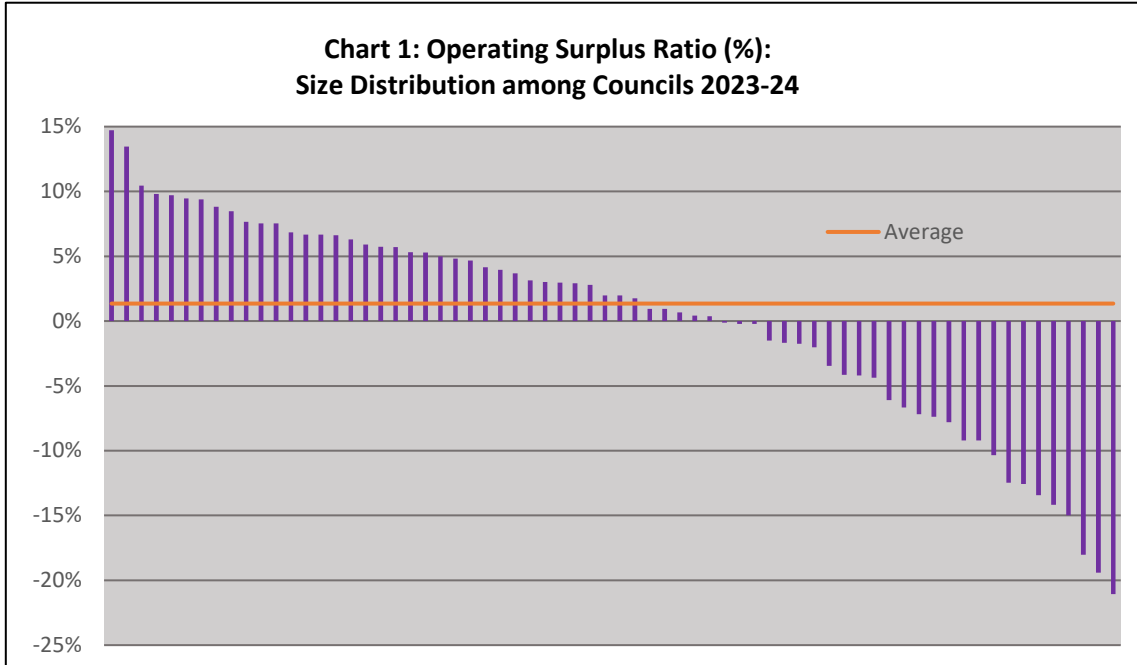
The *Local Government (Financial Management) Regulations 2011* require councils to use three financial indicators in their budgeting and long-term financial planning. The three indicators are:

- Operating surplus ratio (covering financial performance);
- Net financial liabilities ratio (covering financial position); and
- Asset renewal funding ratio (covering asset management performance).

These arrangements effectively require councils 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 individual councils, 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 Local Government Association's (LGA's) [Financial Sustainability Information Paper No.9 – 'Local Government Financial Indicators'](#).

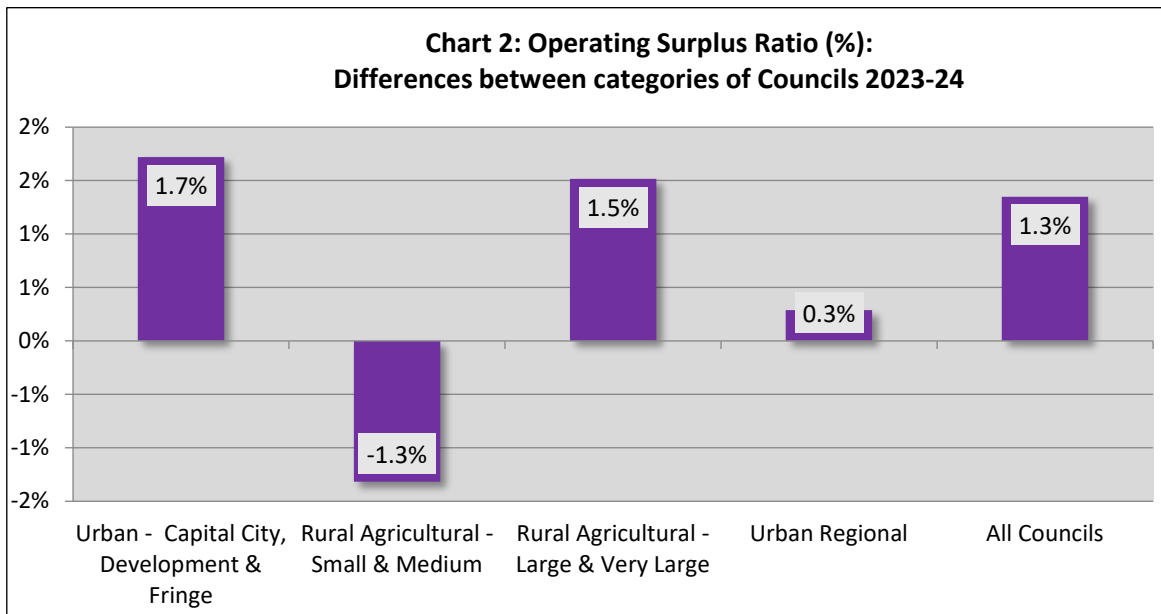
Financial Performance

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 (when records were first assembled), 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 2023-24. 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 1.3% in 2023-24.



Source: South Australian Local Government Grants Commission

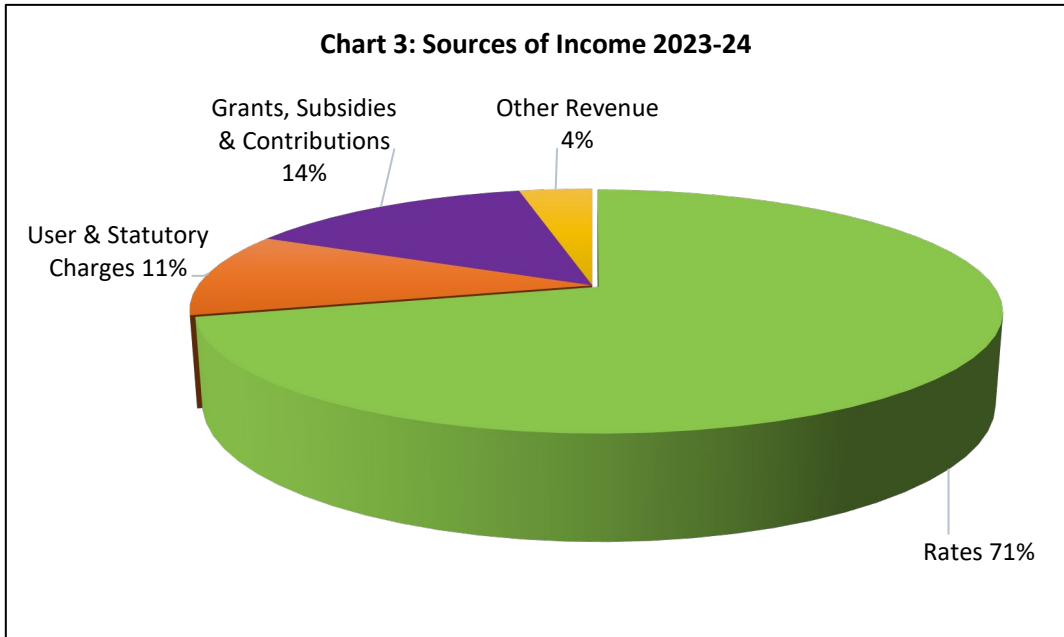
Chart 2 below shows the differences between categories of councils in their operating surplus ratios in 2023-24.



Source: South Australian Local Government Grants Commission

Income

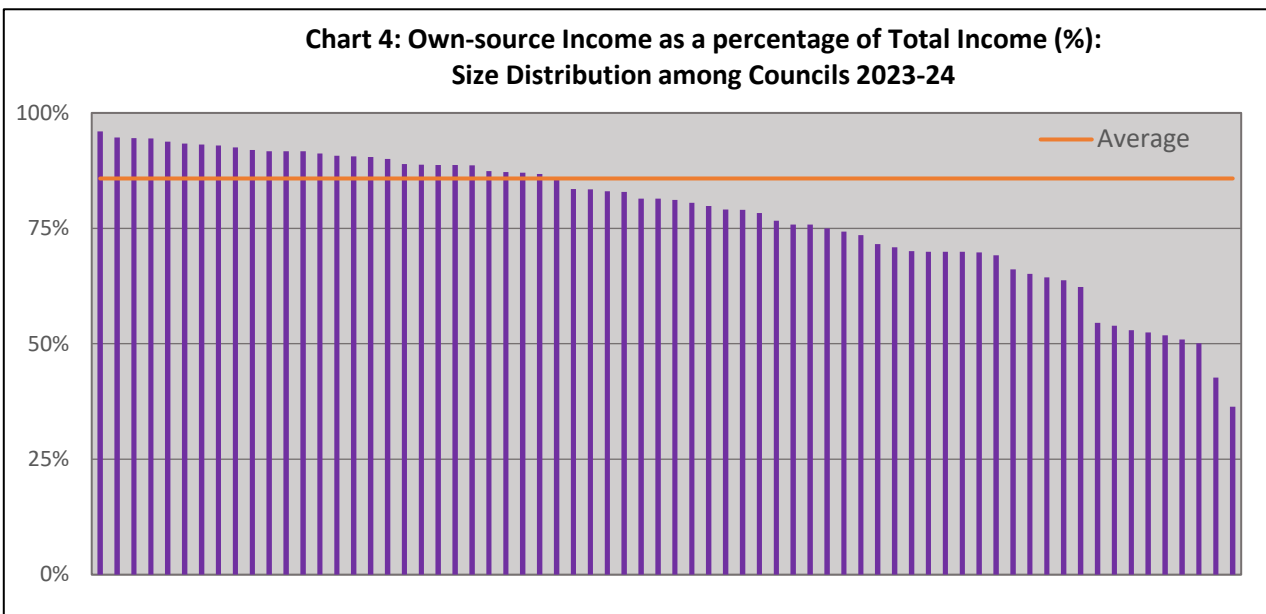
The main sources of local government income in 2023-24 are shown in Chart 3 below. During the four-year period from 2019-20 to 2023-24, local government’s income increased by 0.8% over and above the Adelaide consumer price index.



Source: South Australian Local Government Grants Commission

Taxation revenue (from general and other rates on property) was \$2,163 million in 2023-24. During the four-year period from 2019-20 to 2023-24, taxation revenue grew at the same rate as 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.

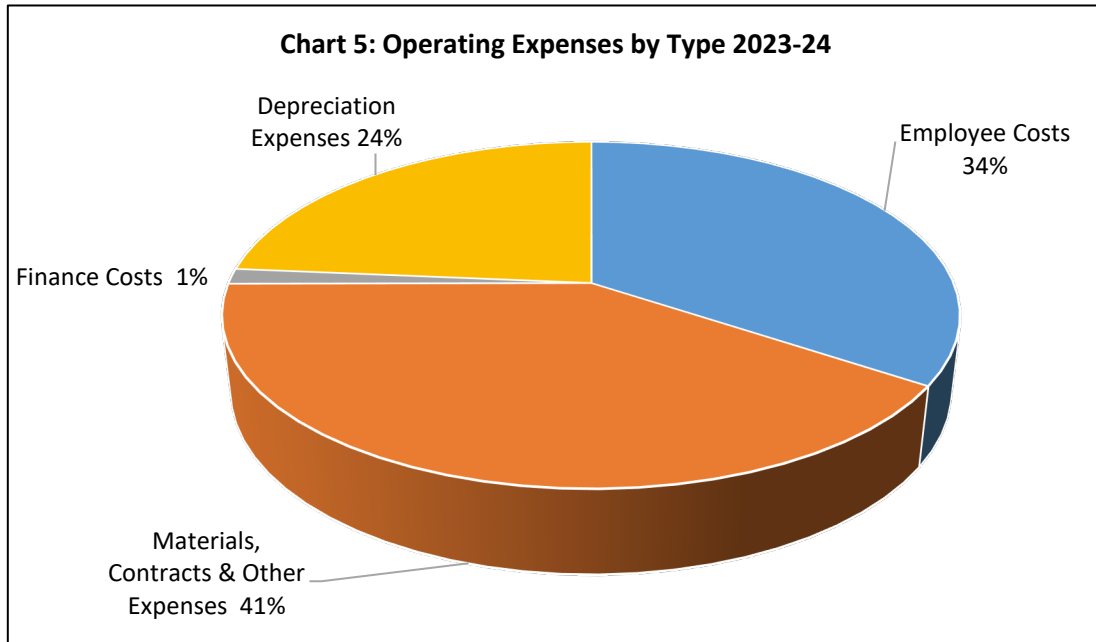
Chart 4 below shows the significant differences in the funding self-sufficiency of individual councils. In 2023-24, own-source funding ranged from 36% to 96% of total income. Nine councils relied on Commonwealth and State Government grants, subsidies and contributions for more than 45% of their income.



Source: South Australian Local Government Grants Commission

Operating Expenses

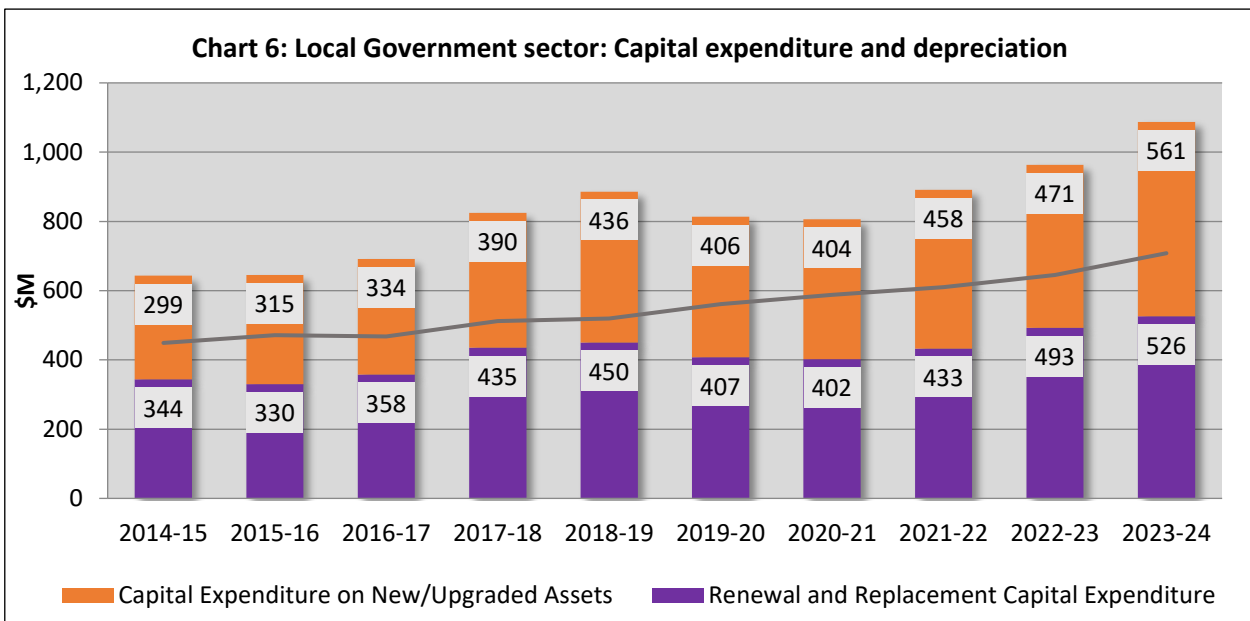
The main types of operating expenses in 2023-24 are shown in Chart 5 below. During the four-year period from 2019-20 to 2023-24, operating expenses increased by 0.9% over and above the Adelaide consumer price index.



Source: South Australian Local Government Grants Commission

Capital Expenditure

Chart 6 below shows 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.



Source: South Australian Local Government Grants Commission

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 costs.

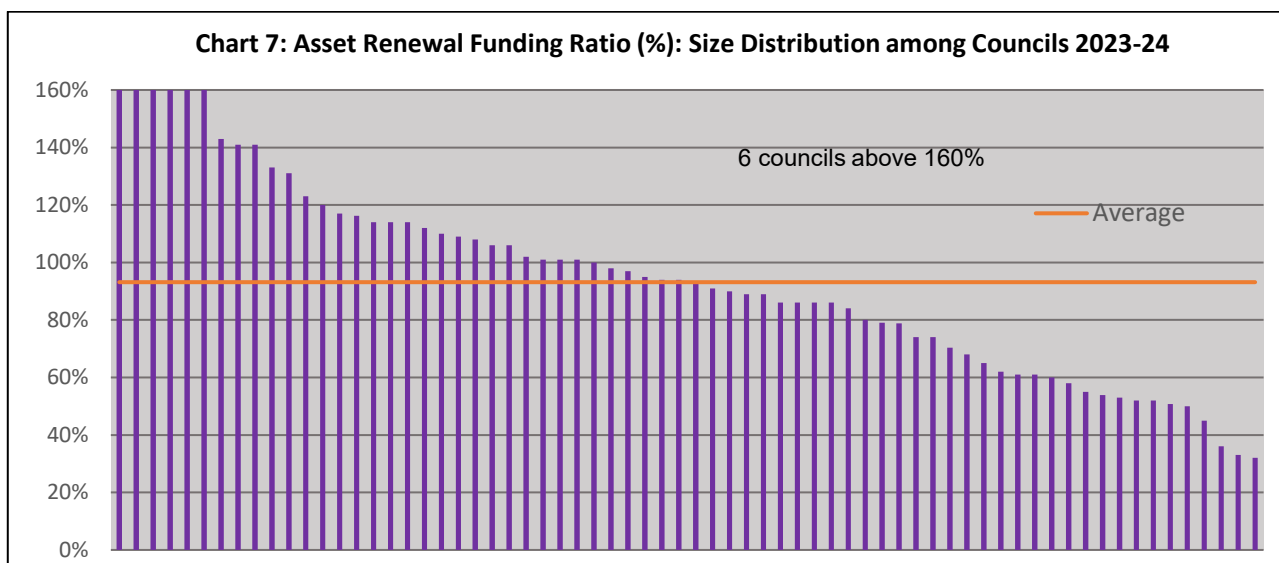
Chart 6 above also illustrates the large and consistent shortfall (\$181 million in 2023-24 and averaging \$146 million per annum over the last ten years) in the level of capital expenditure on renewal and replacement of assets compared with depreciation. Although this is a coarse and outdated measure of asset management performance and has been replaced in South Australia with a much-improved measure being the asset renewal funding ratio described in the following sub-section, it may indicate that the recorded useful lives of assets in many councils 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 for individual councils 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.

Asset Renewal Funding Ratio

The asset renewal funding 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. This 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.

Chart 7 below shows the results covering the asset renewal funding ratio of councils in 2023-24. The local government sector recorded an average ratio of 93% in that year. This high percentage is consistent with results over many years and again, indirectly, brings into question the validity of existing depreciation calculations in some councils.



Source: South Australian Local Government Grants Commission

If capital expenditure on renewing and replacing existing assets is at a level consistent with that proposed in a soundly prepared Infrastructure and Asset Management Plan that is based on long-run affordable service levels, then it is likely that a council is reasonably optimising the timing of asset renewal activity.

Any material underspending on renewal and replacement of assets over the medium term is likely to adversely impact on the cost-effective achievement of preferred, affordable service levels and could potentially progressively undermine a council's financial sustainability. For example, additional maintenance costs associated with assets that have exceeded their economic life might be higher than costs that would be associated with the optimal timing of renewal or replacement capital expenditure. Eventually a Council would be confronted with failed assets, and potentially significant renewal and replacement expenditure needs that cannot be accommodated without sudden large rate increases or unplanned borrowings.

Balance Sheet

Table B below shows an abridged balance sheet for the local government sector for five years through to 2023-24. Figure-work in Table B has been adjusted to remove the material distortion otherwise caused by the irregular timing of receipt of Federal grants in recent years.

Table B Local Government balance sheet (\$ million)

	2019-20	2020-21	2021-22	2022-23	2023-24
Assets					
Financial assets					
Cash and cash equivalents	306	321	322	261	312
Trade and other receivables	202	233	243	254	283
Equity accounted investments in Council businesses	122	136	164	180	228
Other financial assets	25	7	15	27	59
Non-financial assets					
Assets held for sale and inventories	37	42	48	53	37
Land, buildings, infrastructure, plant, equipment and other non-financial assets	26 258	26 929	28 348	30 733	34 349
Total assets	26 950	27 668	29 140	31 508	35 268
Liabilities					
Trade and other payables	382	403	468	531	545
Borrowings, including leases	954	902	846	832	1 007
Employee entitlements and other provisions	213	229	230	229	230
Total liabilities	1 549	1 533	1 544	1 592	1 782
Net worth	25 401	26 135	27 596	29 916	33 486
Net financial liabilities^(a)	1 015	972	964	1 050	1 128

(a) Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in council businesses).
A full explanation of the term 'Net Financial Liabilities' is shown on page 7 of this document.

As shown in Table B above, the depreciated replacement cost of local government non-financial assets at 30 June 2024 was \$34.3 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 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 2024, and may provide interested readers with a better understanding:

Table C Net Financial Liabilities at 30 June

	2022 \$ million	2023 \$ million	2024 \$ million
Gross borrowings, including leases	846	832	1 007
Less: Cash, cash equivalents and other financial assets	337	288	371
Equals: Net Debt	509	544	636
Add: Trade and other payables	468	531	545
Add: Employee entitlements and other provisions	230	229	230
Less: Trade and other receivables	243	254	283
Equals: Net Financial Liabilities	964	1 050	1 128

As shown in Table C above, the level of net financial liabilities at 30 June 2024 was \$1,128 million. In the context of local government's infrastructure and other physical assets valued at \$34.3 billion at 30 June 2024, the level of net financial liabilities is extremely low. Inexplicably, more than a quarter of councils had negative net financial liabilities at 30 June 2024 (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 incurring capital expenditure on renewing infrastructure in an optimal and cost-effective way.

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 2023-24 was 34%. Separately, the sector's net interest costs in 2023-24 represented only 0.7% 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 more¹. 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

¹ See, for example, the LGA's [Financial Sustainability Information Paper No. 9 – 'Local Government Financial Indicators'](#).

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 2024 (as measured by their net financial liabilities ratio) varies substantially. Chart 8 below shows the wide range of results covering the net financial liabilities ratio of councils in 2023-24.

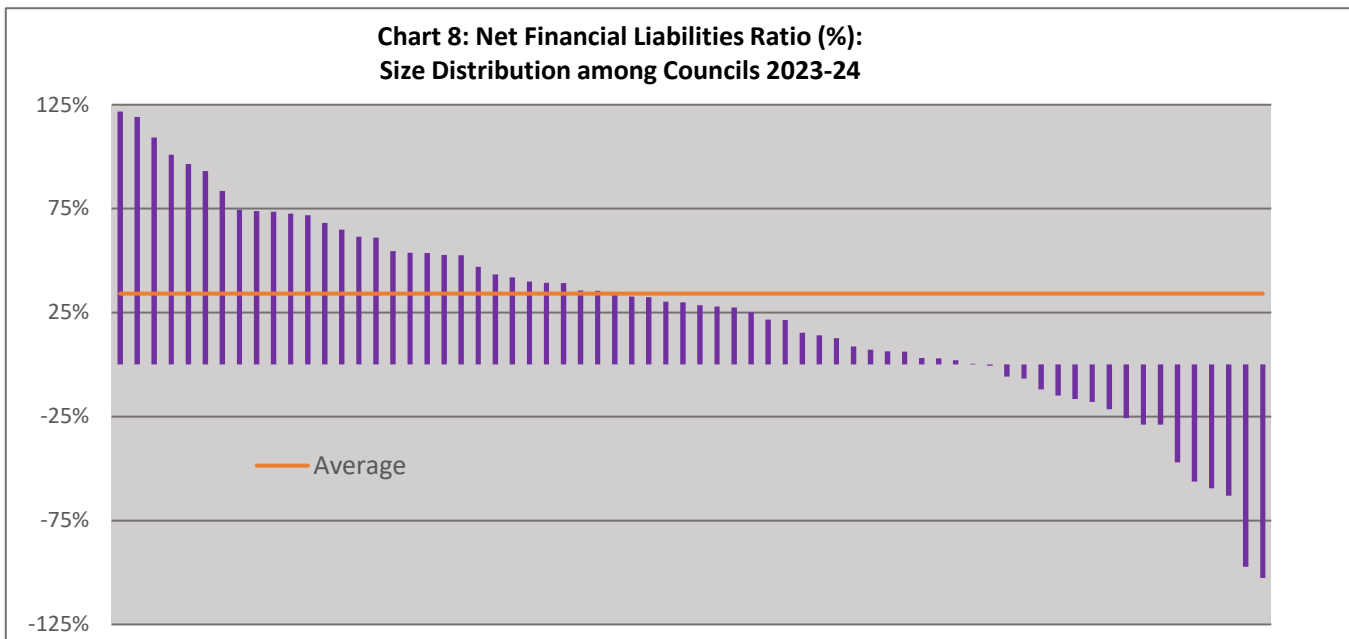
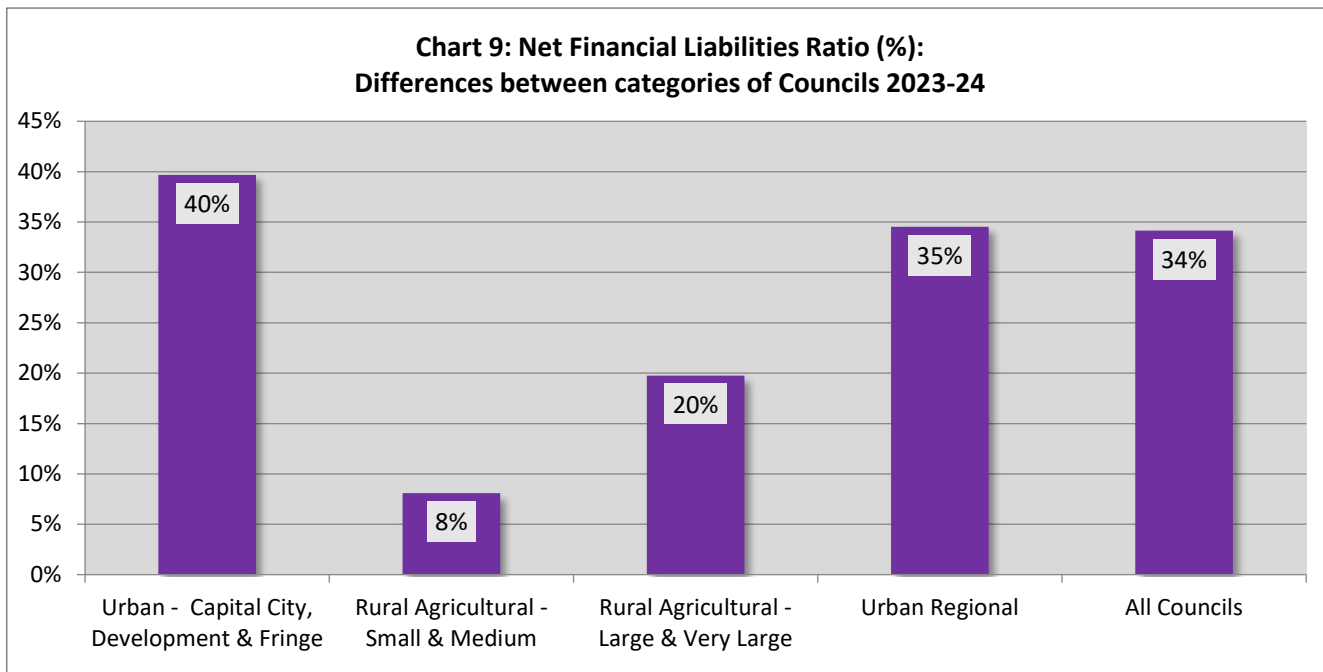


Chart 9 below shows the differences between categories of councils in their net financial liabilities ratios in 2023-24.



Annual Change in the level of Net Financial Liabilities

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 on non-financial assets. Table A above shows a bottom line entitled "Net lending/(borrowing)".

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 outlays on non-financial assets. Put another way, a 'net borrowing' result represents the extent to which operating expenses (excluding depreciation) and capital expenditure on non-financial assets exceed funding provided by operating income, 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 \$1,050 million at 30 June 2023. The sector incurred a net borrowing result of \$108 million covering 2023-24 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 2024 was \$1,128 million.

Table D Summary Data: 2023-24

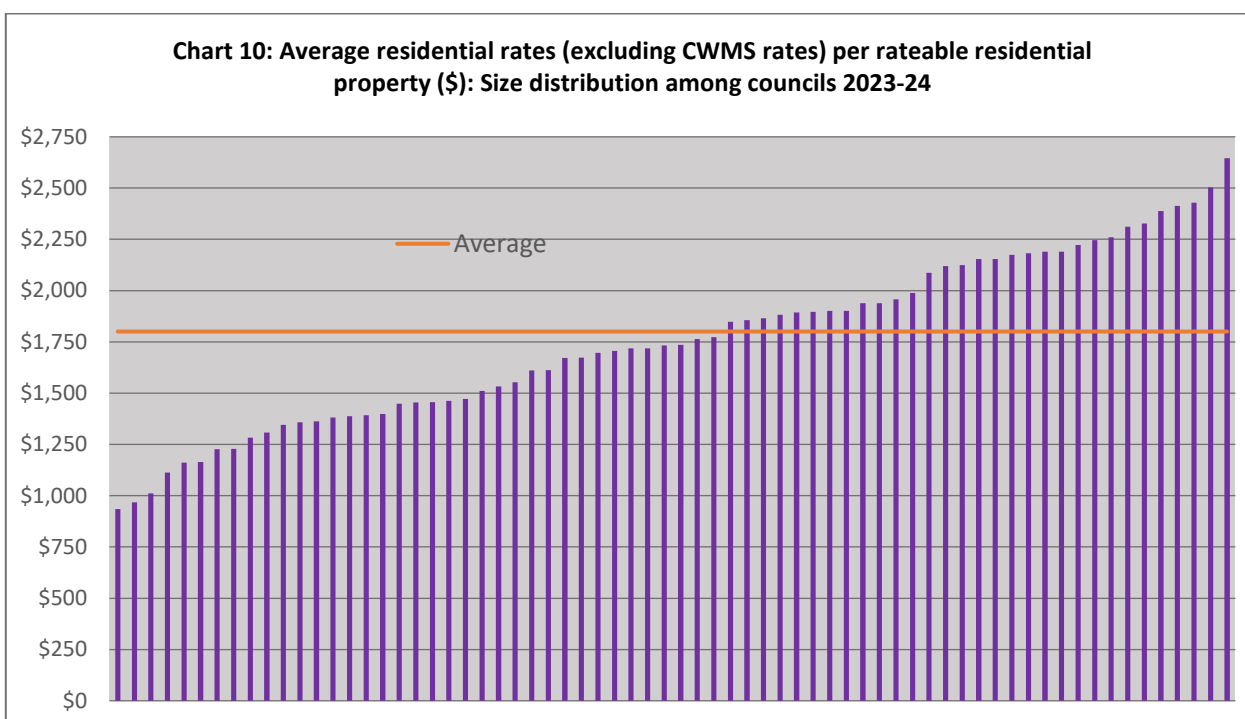
Income	\$3,043 million
Less: Operating Expenses	\$3,002 million
Equals: Operating Surplus / (Deficit)	\$41 million
Less: Net Capital Outlays	\$149 million
Equals: Net Lending / (Borrowing)	(\$108 million)

Net Financial Liabilities at 30 June 2023	\$1 050 million
Add: Net Borrowing Result in 2023-24	\$108 million
Less: Other miscellaneous transactions	\$30 million
Equals: Net Financial Liabilities at 30 June 2024	\$1,128 million

Council Rating

As shown in the below table, total rate revenue received by councils in 2023-24 was \$2,163 million. Of this amount, \$1,409 million was attributable to residential rates, representing about 65% of total rate revenue and about 46% of total income.

Item	
Capital value of properties in council areas at 1 January 2023	\$614 billion
Number of rateable residential properties in council areas at 1 January 2023	783,131
Total rate revenue for 2023-24	\$2,163 million
Total rates as a proportion of total income in 2023-24	71%
Increase in rate revenue from 2022-23 to 2023-24 (including rates from new development)	8.4%
Average residential rates in 2023-24 – also see Chart 10 below	\$1,801
Mandatory and discretionary rate rebates, remissions and write-offs for 2023-24	\$54 million



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	
Operating expenses covering council services in 2023-24	
Waste Management	\$309 million
Recreation	\$496 million
Library and Cultural Services	\$191 million
Community Services, Health Services and Public Safety	\$395 million
Transport	\$611 million
Estimated council population at 30 June 2024	
Lowest	890
Average	27,533
Highest	182,821
Total	1,872,245
Council road length at 30 June 2024	
Minimum	36 km
Average	1,106 km
Maximum	3,900 km
Total	75,235 km
Council employees at 30 June 2024	
Minimum	14 FTE's
Average	140 FTE's
Maximum	787 FTE's
Total	9,529 FTE's
Council area	
Minimum	357 hectares
Average	230,628 hectares
Maximum	886,635 hectares
Total	15,682,730 hectares

Source: South Australian Local Government Grants Commission