

## DISTRICT COUNCIL OF ELLISTON

### Summary of Financial Performance and Position

The District Council of Elliston's financial performance and position is summarised below using a set of key measures of financial sustainability. The measures used are consistent with those recommended by the independent Inquiry into the Financial Sustainability of councils commissioned by the Local Government Association (LGA). Explanatory notes on each measure are attached. It is expected that the measures will be considered by the LGA Annual General Meeting in October 2006 with a view to the sector adopting a standard set of key measures for the future.

This website also provides supporting data in a table entitled "Uniform Presentation of Finances". The table shows financial information on both operating and capital investment activities of the Council and has been prepared on a uniform and consistent basis, thereby enabling more meaningful comparisons between councils.

	<b>2004-05 Actual \$'000</b>	<b>2005-06 Estimate \$'000</b>	<b>2006-07 Budget \$'000</b>
<b>Key Financial Aggregates</b>			
Operating Surplus / (Deficit) for the financial year	386	67	(117)
Net Financial Liabilities as at 30 June	(200)	(200)	40
	<b>2004-05 Actual %</b>	<b>2005-06 Estimate %</b>	<b>2006-07 Budget %</b>
<b>Key Financial Indicators</b>			
Operating Surplus Ratio	33	5	(9)
Asset Sustainability Ratio	135	113	92
Net Financial Liabilities Ratio	(8)	(7)	(1)

A key financial target for the Council is to achieve an operating surplus each year so as to maintain intergenerational ratepayer equity and ensure that sufficient funds are available for the upkeep of existing assets. Any funds not required in the short term for this purpose are used to help fund capital expenditure on new/upgrading assets or reduce liabilities.

The budgeted operating deficit for 2006-07 of \$117,000 is to be considered in the context of large expenditure on the 'Links' land development. Council has also been in and remains in a position of net lending as a hedge against these sales. Whilst Council is confident of a good return on this development the sales will not be substantially known until June 2007.

The stock of net financial liabilities at 30 June 2007 is expected to be negative \$0.1 million which represents approximately 2% of the Council's expected operating revenue in 2006-07. The ratio of 2% is low compared with the average of the local government sector in South Australia which currently stands at 30%.

A secondary target is to ensure that the stock of net financial liabilities does not exceed 50% of total operating revenue in any year. In recent years, the Council has achieved an overall net lending result (i.e. the Council has met all of its operating and capital expenditure from the current year's revenue).

The Asset Sustainability Ratio clearly shows that, on average, the Council is renewing and replacing its assets as they are deteriorating. The Council is keen to ensure that capital expenditure levels on renewing and replacing assets is being optimised so as to minimise whole-of-life cycle costs of assets.

## Explanatory notes on financial measures and indicators

**Operating Surplus / (Deficit)** measures the extent to which operating revenue is or is not sufficient to meet all of the costs of providing council services, which include depreciation expenses. Where an operating deficit exists, some costs being incurred in the current year are not being met by today's ratepayers. Where an operating surplus is achieved, the amount of the surplus is available for capital expenditure over and above the level of depreciation expenses for the year, without the need to increase the level of a council's net financial liabilities. When such capital expenditure is not required, the amount of the operating surplus leads to a reduction in the level of net financial liabilities.

**Operating Surplus Ratio** expresses the Operating Surplus / (Deficit) as a percentage of general and other rates, net of rebates. Where an operating deficit exists, this measure indicates the percentage increase needed in rate revenue to achieve a break-even operating result. Equally, a break-even operating result also could be targeted by decreasing operating expenses.

**Asset Sustainability Ratio** expresses net capital expenditure on renewal and replacement of existing assets as a percentage of the optimal level for such expenditure as shown in a council's Infrastructure and Asset Management Plan (where the latter level of expenditure is not available for an asset class, depreciation is used as a proxy). Alternatively, a council may choose to calculate this ratio by expressing net capital expenditure on renewal and replacement of existing assets as a percentage of depreciation expenses. Either way, this measure can assist in identifying the potential decline or improvement in asset condition and standards. A percentage less than 100 on an ongoing basis indicates that capital expenditure levels are not being optimised so as to minimise whole of life cycle costs of assets (having regard to the Infrastructure and Asset Management Plan) or that assets may be deteriorating at a greater rate than spending on their renewal or replacement.

**Net Financial Liabilities** is a financial position measure and equals total liabilities less financial assets (being cash, investments, loans to community groups, receivables, prepayments, but excluding equity-type investments). Net Financial Liabilities is a stock concept and is measured by reference to how much of it is outstanding at a point in time – normally 30 June. Net Financial Liabilities is the key indicator of a council's indebtedness to other sectors of the economy. It is a more comprehensive measure than Net Debt as it includes, for example, creditors and provisions for employee entitlements. The amount of Net Borrowing in any one-year increases the level of Net Financial Liabilities in the year by that amount, and indicates that a council has to incur liabilities or liquidate financial assets to finance its overall budget. Conversely, the amount of Net Lending decreases the level of Net Financial Liabilities, and indicates that a council has to purchase financial assets or repay liabilities in that year. Where an ongoing negative Net Financial Liabilities position occurs, it implies that a council may be placing a higher priority on investment in financial assets than applying ratepayer funds to the provision of services.

**Net Financial Liabilities Ratio** expresses Net Financial Liabilities as a percentage of Total Operating Revenue. This measure allows interested parties to readily equate the outstanding level of a council's financial obligations against the level of one-year's operating revenue. The measure also indicates the capacity of a council to meet its financial obligations from revenue streams. Where the ratio is falling, it indicates that a council's capacity to meet its financial obligations from revenue streams is strengthening. Conversely, where this ratio is increasing, it indicates that a council's capacity to meet its financial obligations is deteriorating.