

NARACOORTE LUCINDALE COUNCIL

Summary of Financial Performance and Position

The District Council of Naracoorte Lucindale'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 a supporting table entitled Uniform Presentation of Finances showing 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.

	2004-05 Actual \$'000	2005-06 Estimate \$'000	2006-07 Budget \$'000
Key Financial Aggregates			
Operating Surplus / (Deficit) for the financial year	(3,886)	(683)	(2,167)
Net Financial Liabilities as at 30 June	2,405	2,863	3,908
	2004-05 Actual %	2005-06 Estimate %	2006-07 Budget %
Key Financial Indicators			
Operating Surplus Ratio	(60)	(10)	(30)
Asset Sustainability Ratio	40	80	67
Net Financial Liabilities Ratio	23	26	33

The Council has budgeted for a \$2.2 million operating deficit in 2006-07 and recognises that deficits at this sort of level are unsustainable in the long-term. However, at this stage, the Council is reluctant to reduce services or increase rates excessively to fully pay for the services that citizens are utilising. Council commenced a service review in 2005-06 and this will continue in 2006-07. The community will be engaged in public consultation where significant changes are expected as a result of the review. It needs to be emphasised that the Council is responsible for infrastructure and other assets with a current written-down replacement value of approximately eight times the Council's annual operating revenue.

The estimated level of net financial liabilities at 30 June 2007 is \$3.9 million which represents approximately 33% of the Council's operating revenue in 2006-07. This ratio is in line with the average of 30% for all South Australian councils.

The Asset Sustainability Ratio shows that the Council may need to increase its level of capital expenditure on renewing and replacing its existing assets. In that regard the council is undertaking a review of its methodology of valuing and depreciating 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. 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 costs. 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 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 order to use surplus funds 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.