

ORROROO/CARRIETON

Summary of Financial Performance and Position

The District Council of Orroroo/Carrieton'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 General Meeting in March 2007 with a view to the sector adopting a standard set of key measures for the future.

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

| | 2004-05 Actual \$'000 | 2005-06 Actual \$'000 | 2006-07 Estimate \$'000 |
|---------------------------------|--------------------------------------|--------------------------------------|--|
| Key Financial Aggregates | | | |
| Operating Surplus / (Deficit) | 89 | 84 | 170 |
| Net Financial Liabilities | (848) | (777) | (302) |
| | | | |
| | 2004-05 Actual % | 2005-06 Estimate % | 2006-07 Budget % |
| Key Financial Indicators | | | |
| Operating Surplus Ratio | 20 | 17 | 33 |
| Asset Sustainability Ratio | n/a | n/a | n/a |
| Net Financial Liabilities Ratio | (45) | (34) | (12) |

After taking account of the actual financial outcome in 2005-06, the Council is estimating that it will incur an operating surplus of \$170,000 in 2006-07. This follows the achievement of modest operating surpluses over the last two years which is an ongoing key financial target for the Council. All operating surpluses are applied to the enhancement of infrastructure, thus reducing the amount of borrowings required for that purpose.

Despite a net borrowing requirement of \$475,000 in 2006-07 (associated with the provision and enhancement of infrastructure), the accumulated stock of net financial liabilities at 30 June 2007 is expected to be negative \$0.3 million. This strong financial position provides additional financial flexibility for the Council to liquidate financial assets in the future to meet the Council's strategic objectives.

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 additional capital expenditure without the need to increase the level of the 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 the 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). 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, 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 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 by that amount. Conversely, the amount of Net Lending decreases the level of Net Financial Liabilities. Where an ongoing negative Net Financial Liabilities position occurs, it implies that the Council may be placing a higher priority on investment in financial assets than applying ratepayer funds to the provision of services and the rehabilitation of existing assets.

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 the Council's financial obligations against the level of one-year's operating revenue. The measure also indicates the capacity of the Council to meet its financial obligations from revenue streams. Where the ratio is falling, it indicates that the Council's capacity to meet its financial obligations from revenue streams is strengthening. Conversely, where this ratio is increasing, it indicates that the Council's capacity to meet its financial obligations is deteriorating.