

Financial sustainability information card

The information card gives an explanation of the seven financial sustainability indicators prescribed by the Local Government (Finance, Plans and Reporting) Regulation 2010.

INDICATOR 1 - OPERATING SURPLUS RATIO

Indicator 1 shows the operating surplus or deficit of the Council as a percentage of recurrent revenue. In other words, the operating revenue less the operating expenses.

A **negative ratio** suggests the percentage increase in total recurrent revenue required to achieve a break even operating result.

A **positive ratio** indicates the percentage of total recurrent revenue available to fund capital expenditure initiatives over and above depreciation.

Council aims to maintain an operating surplus ratio greater than or equal to zero in each of the next five years

INDICATOR 2 - NET FINANCIAL LIABILITIES RATIO

Indicator 2 highlights the extent to which Council's debt can be met by operating revenue.

It is reached by **dividing net financial liabilities by total operating revenue**.

Financial assets = cash, investments, receivables and prepayments.

Financial liabilities = loans, creditors and provisions such as employee entitlements.

A **falling ratio** indicates we are becoming better equipped to meet our financial obligations from operating revenues.

A **rising ratio** indicates a need to use more of our operating revenues to service our financial obligations.

Council aims to maintain a ratio greater than zero, but less than 60%.

INDICATOR 3- INTEREST COVER RATIO

Indicator 3 shows how the interest we pay on our loans is being met by operating revenues.

It is reached by **dividing net interest costs by total operating revenue**.

Council aims to achieve an ongoing ratio of less than 10%. This is considered a reasonable limit to ensure net interest costs are comfortably met by operating revenues.

INDICATOR 4 - ASSET SUSTAINABILITY RATIO

Indicator 4 shows how what is spent on the renewal and replacement of non financial assets matches the rate at which these assets are used or 'consumed'.

Non financial assets = roads, drains, footpaths

The ratio shows capital expenditure on the renewal and replacement of existing assets as a percentage of total depreciation expense.

Council aims for an ongoing ratio of 90% or higher.

Achieving a break even result will demonstrate that the cost of consumption of assets in any one year is being met by current rates and ratepayers.

Break even result = 100%

INDICATOR 5 - ASSET CONSUMPTION RATIO

Asset consumption refers to what is called the useful life of an asset.

Indicator 5 shows the extent to which Council has used up the useful life of all its assets.

The ratio is reached by **dividing the total of carrying value of depreciable assets by the value of all depreciable assets before accumulated depreciation**.

Depreciation is the loss of value of the assets each year

Accumulated depreciation is the total reduction of the assets over their useful lives.

INDICATOR 6 – WORKING CAPITAL RATIO

Current assets (CA) divided by current liabilities (CL)

This is an indicator of the management of working capital (short term financial capital). Measures the extent to which a local government has liquid assets available to meet short term financial obligations.