

I. Financial sustainability measures

Figure I1 details the ratios (measures) indicating short-term and long-term sustainability.

Figure I1
Financial sustainability measures for councils

Measure	Formula	Description	Target range
Operating surplus ratio	<i>Net operating result divided by total operating revenue (excludes capital items)</i> Expressed as a percentage	Indicates the extent to which operational revenues raised cover operational expenses	Between zero and 10 per cent (per department-issued guidelines*)
	<p>A negative result indicates an operating deficit, and the larger the negative percentage, the worse the result. Operating deficits cannot be sustained in the long term. A positive percentage indicates that surplus revenue is available to support the funding of capital expenses, or to hold in reserve to offset past or expected future operating deficits.</p> <p>We consider councils as financially sustainable when they consistently achieve an operating surplus and expect that they can do so in the future, having regard to asset management and community service level needs.</p>		
Net financial liabilities ratio	<i>Total liabilities less current assets divided by total operating revenue</i> Expressed as a percentage	Indicates the extent to which a council's operating revenues (including grants and subsidies) can cover its net financial liabilities (usually loans and leases)	Not greater than 60 per cent (per department-issued guidelines*)
	<p>If net financial liabilities are greater than 60 per cent of operating revenue, the council has limited capacity to increase loan borrowings and may experience stress in servicing current debt.</p>		
Asset sustainability ratio	<i>Capital expenses on replacement of assets (renewals) divided by depreciation expenses</i> Expressed as a percentage	Indicates the extent to which assets are being replaced as they reach the end of their useful lives	Greater than 90 per cent (per department-issued guidelines*)
	<p>If the asset sustainability ratio is greater than 90 per cent, the council is likely to be sufficiently maintaining, replacing, and/or renewing its assets as they reach the end of their useful lives.</p> <p>While a low percentage may indicate that the asset base is relatively new (which may result from rectifying extensive natural disaster damage) and does not require replacement, the lower the percentage, the more likely it is that a council has inadequate asset management plans and practices.</p>		

Note: * Department of State Development, Infrastructure, Local Government and Planning.

Source: Queensland Audit Office.



Figure I2 details our risk assessment criteria for financial sustainability measures.

Figure I2
Our risk assessment criteria for financial sustainability measures

Relative risk rating measure	Operating surplus ratio	Net financial liabilities ratio	Asset sustainability ratio
Higher	Less than negative 10% (i.e. losses) ●	More than 80% ●	Less than 50% ●
	Insufficient revenue being generated to fund operations and asset renewal	Potential long-term concern over ability to repay debt levels from operating revenue	Insufficient spending on asset replacement or renewal, resulting in reduced service levels and increased burden on future ratepayers
Moderate	Negative 10% to zero (i.e. losses) ●	60% to 80% ●	50% to 90% ●
	A risk of long-term reduction in cash reserves and inability to fund asset renewals	Some concern over the ability to repay debt from operating revenue	Irregular spending or insufficient asset management practices, creating a backlog of maintenance/renewal work
Lower	More than zero (i.e. surpluses) ●	Less than 60% ●	More than 90% ●
	Generating surpluses consistently	No concern over the ability to repay debt from operating revenue	Likely to be sufficiently replacing or renewing assets as they reach the end of their useful lives

Source: Queensland Audit Office.

We calculate our overall risk assessment of financial sustainability using the ratings determined for each measure, as shown in Figure I1, and the assignment of the risk criteria, as shown in Figure I2.



Figure I3
Our overall relative risk assessment of financial sustainability

Risk level	Risk criteria
Higher risk	There is a higher risk of sustainability issues arising in the short to medium term if current operating income and expenses policies continue, as indicated by average operating deficits (losses) of more than 10 per cent of operating revenue.
Moderate risk	<p>There is a moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by:</p> <ul style="list-style-type: none"> • a current net financial liabilities ratio of more than 80 per cent of operating revenue, or • an average asset sustainability ratio of less than 50 per cent, or • average operating deficits (losses) of between two per cent and 10 per cent of operating revenue, or • having two or more of the ratios assessed as moderate risk (see Figure I2).
Lower risk	There is a lower risk of concerns about financial sustainability based on current income, expenses, asset investment, and debt financing policies.

Source: Queensland Audit Office.

We use a five-year average when assessing the operating surplus and asset sustainability ratios. This is because these are long-term indicators. Viewing the annual ratios in isolation does not provide insights into councils' long-term financial sustainability.

The net financial liabilities ratio, however, is more effective as a point-in-time ratio. The more recent the point in time, the more useful this ratio is in assessing councils' flexibility to increase debt.

Our assessment of financial sustainability risk factors does not consider councils' long-term forecasts or credit assessments undertaken by the Queensland Treasury Corporation.



Figure I4
Financial sustainability risk assessment by council category: Results at the end of 2019–20

Coastal councils	Avg. grant funding percentage ¹	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend ²	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend ²	Relative risk assessment
Coastal councils										
Bundaberg Regional Council	22%	1.00%	5.54%	● ↓	-6.00%	● ↓	51.00%	53.80%	● ↓	Lower
Burdekin Shire Council	19%	4.52%	8.20%	● ↓	-61.00%	● ↓	92.36%	83.55%	● ↑	Lower
Cairns Regional Council	18%	-2.00%	-1.36%	● ↓	68.00%	● ↓	102.00%	102.60%	● ↑	Moderate
Cassowary Coast Regional Council	21%	-4.00%	-2.05%	● ↓	-26.00%	● ↓	131.00%	90.00%	● ↑	Moderate
Douglas Shire Council	27%	-2.00%	-2.95%	● ↑	-39.00%	● ↓	173.00%	131.20%	● ↑	Moderate
Fraser Coast Regional Council	21%	-1.12%	5.53%	● ↓	-35.22%	● ↓	80.73%	79.26%	● ↑	Lower
Gladstone Regional Council	15%	-1.37%	2.10%	● ↓	5.00%	● ↓	41.00%	48.40%	● ↓	Moderate
Gympie Regional Council	23%	-6.05%	-5.64%	● ↓	8.36%	● ↓	107.00%	123.52%	● ↓	Moderate
Hinchinbrook Shire Council	29%	-21.30%	-3.78%	● ↓	-30.00%	● ↓	103.00%	62.40%	● ↓	Moderate
Livingstone Shire Council	34%	-0.20%	4.00%	● ↑	42.70%	● ↑	51.90%	47.32%	● -	Moderate
Mackay Regional Council	18%	-9.00%	-2.06%	● ↓	17.7%	● ↓	58.20%	56.88%	● ↓	Moderate
Noosa Shire Council	14%	6.52%	10.34%	● ↓	-11.62%	● ↓	121.68%	111.03%	● ↑	Lower
Rockhampton Regional Council	25%	0.70%	4.91%	● ↑	52.60%	● ↓	77.50%	92.07%	● -	Lower
Townsville City Council	28%	-1.00%	-0.08%	● ↓	99.00%	● ↓	64.00%	82.00%	● ↓	Moderate
Whitsunday Regional Council	30%	2.25%	3.11%	● ↓	28.11%	● ↓	138.53%	138.75%	● ↑	Lower
Coastal average	23%	-2.20%	1.72%		7.51%		92.86%	86.85%		
Coastal—combined risk assessment			Lower		Lower			Moderate		Moderate



Indigenous councils	Avg. grant funding percentage ¹	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend ²	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend ²	Relative risk assessment		
Indigenous councils												
Aurukun Shire Council	62%	6.00%	-14.23%	● ↑	-50.00%	● ↓	29.00%	17.80%	● ↓	Higher		
Cherbourg Aboriginal Shire Council	51%	-43.00%	-30.88%	● ↓	-34.00%	● ↓	171.00%	89.00%	● ↓	Higher		
Doomadgee Aboriginal Shire Council	51%	-25.00%	-31.49%	● ↓	11.00%	● ↓	63.00%	79.69%	● ↑	Higher		
Hope Vale Aboriginal Shire Council	41%	6.00%	11.34%	● -	-155.00%	● ↑	69.00%	96.20%	● ↓	Lower		
Kowanyama Aboriginal Shire Council ³	69%	-62.00%	-42.12%	● ↓	9.00%	● ↓	108.00%	102.02%	● ↓	Higher		
Lockhart River Aboriginal Shire Council	69%	-6.00%	-0.35%	● ↓	-43.00%	● ↓	60.00%	155.20%	● ↓	Lower		
Mapoon Aboriginal Shire Council	58%	-51.00%	-17.66%	● ↓	-61.00%	● ↓	126.00%	52.64%	● ↑	Higher		
Mornington Shire Council	54%	-18.10%	-30.84%	● ↑	-3.20%	● ↓	79.10%	178.62%	● ↓	Higher		
Napranum Aboriginal Shire Council	57%	-27.00%	-11.56%	● ↑	-56.00%	● ↓	8.00%	44.20%	● ↓	Higher		
Northern Peninsula Area Regional Council	54%	-23.00%	-10.40%	● -	-18.00%	● ↓	41.00%	77.04%	● ↑	Higher		
Palm Island Aboriginal Shire Council ⁴	61%	1.5%	-5.15%	● ↑	-32.62%	● ↓	0%	129.60%	● ↓	Moderate		
Pormpuraaw Aboriginal Shire Council	64%	-2.00%	8.26%	● ↑	-185.00%	● ↑	41.00%	98.80%	● ↓	Lower		
Torres Shire Council	46%	-32.00%	-17.71%	● ↓	-74.00%	● ↓	123.00%	61.39%	● ↑	Higher		
Torres Strait Island Regional Council	54%	-86.00%	-57.21%	● ↓	-50.00%	● ↓	27.00%	28.34%	● -	Higher		
Woorabinda Aboriginal Shire Council	27%	-14.7%	-14.8%	● ↓	-21.70%	● ↓	33.00%	16.74%	● -	Higher		
Wujal Wujal Aboriginal Shire Council	61%	-35.00%	-28.68%	● ↓	30.00%	● ↓	40.00%	52.00%	● ↑	Higher		
Yarrabah Aboriginal Shire Council	43%	-39.00%	-23.77%	● ↓	-30.00%	● ↓	30.00%	42.00%	● ↓	Higher		
Indigenous average	54%	-25.83%	-18.04%		-45.19%		70.95%	83.06%				
Indigenous—combined risk assessment			Higher			Lower		Moderate		Higher		

Resources councils	Avg. grant funding percentage ¹	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend ²	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend ²	Relative risk assessment	
Resources councils											
Banana Shire Council	32%	-7.18%	-4.40%	● ↓	-8.41%	● ↑	83.89%	92.40%	● ↓	Moderate	
Bulloo Shire Council	61%	-11.03%	3.70%	● ↑	-101.58%	● ↓	67.76%	154.91%	● ↓	Lower	
Burke Shire Council	75%	-31.60%	-35.81%	● ↓	-41.70%	● ↓	47.20%	60.04%	● ↑	Higher	
Central Highlands Regional Council	22%	-6.64%	1.34%	● ↓	17.88%	● ↓	122.02%	116.34%	● ↑	Lower	
Charters Towers Regional Council	37%	-1.00%	0.38%	● ↑	-46.00%	● ↓	148.00%	160.80%	● ↑	Lower	
Cloncurry Shire Council	55%	-1.00%	-2.24%	● ↓	-19.00%	● ↑	371.00%	213.20%	● ↑	Moderate	
Cook Shire Council	82%	-12.87%	-35.04%	● ↑	6.92%	● ↑	24.26%	207.71%	● ↓	Higher	
Etheridge Shire Council	59%	-3.84%	-6.80%	● ↑	43.91%	● ↓	7.56%	47.79%	● ↓	Moderate	
Isaac Regional Council	26%	0.16%	3.60%	● ↑	-15.69%	● ↓	122.52%	213.37%	● ↓	Lower	
Maranoa Regional Council	47%	2.49%	-2.65%	● ↑	-28.94%	● ↓	188.01%	100.18%	● ↑	Moderate	
McKinlay Shire Council	71%	-16.16%	-7.58%	● ↓	-96.33%	● ↓	556.59% ⁴	322.19%	● ↑	Moderate	
Mount Isa City Council	26%	-1.70%	4.51%	● -	-51.29%	● ↓	29.92%	62.43%	● ↓	Lower	
Quilpie Shire Council	60%	-23.00%	-2.92%	● ↓	-118.00%	● ↓	26.00%	66.80%	● ↓	Moderate	
Western Downs Regional Council	30%	4.70%	7.23%	● -	-106.00%	● ↑	65.00%	79.35%	● ↓	Lower	
Resources average	49%	-8.92%	-6.01%		-45.89%		117.32%	117.39%			
Resources—combined risk assessment			Moderate			Lower		Lower		Moderate	



Rural/Regional councils	Avg. grant funding percentage ¹	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend ²	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend ²	Relative risk assessment
Rural/Regional councils										
Goondiwindi Regional Council	32%	2.04%	3.96%	● -	-77.18%	● ↓	103.08%	108.14%	● ↓	Lower
Lockyer Valley Regional Council	22%	1.35%	3.02%	● ↑	61.78%	● ↓	113.67%	85.56%	● ↓	Moderate
Mareeba Shire Council	40%	11.60%	14.00%	● -	-79.00%	● ↑	129.10%	183.00%	● ↑	Lower
North Burnett Regional Council	55%	-15.23%	-11.34%	● ↓	-32.10%	● ↓	72.43%	117.75%	● ↓	Higher
Scenic Rim Regional Council	31%	-4.00%	5.27%	● ↑	11.00%	● ↓	301.00%	183.60%	● ↓	Lower
Somerset Regional Council	27%	-3.00%	2.55%	● ↑	-162.00%	● ↓	115.00%	117.19%	● ↓	Lower
South Burnett Regional Council	25%	-3.70%	1.26%	● ↓	13.70%	● -	55.90%	98.46%	● ↓	Lower
Southern Downs Regional Council	25%	0.22%	7.83%	● -	-17.33%	● ↓	179.22%	118.37%	● ↑	Lower
Tablelands Regional Council	31%	-6.40%	2.07%	● ↓	-41.82%	● ↓	140.07%	97.21%	● ↓	Lower
Rural/Regional average	32%	-1.90%	3.18%		-48.09%		134.39%	123.25%		
Rural/Regional—combined risk assessment			Lower			Lower		Lower		Lower



Rural/Remote councils	Avg. grant funding percentage ¹	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus trend ²	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend ²	Relative risk assessment
Rural/Remote councils										
Balonne Shire Council	44%	-9.30%	-8.92%	● ↓	-103.55%	● ↓	64.22%	41.74%	● ↓	Moderate
Barcaldine Regional Council	48%	-25.46%	-19.22%	● ↓	-16.71%	● ↓	79.43%	106.61%	● ↓	Higher
Barcoo Shire Council	49%	-42.79%	-21.13 %	● ↓	-41.01%	● ↓	31.75%	101.51%	● ↑	Higher
Blackall-Tambo Regional Council	41%	-25.00%	-11.22%	● ↓	-52.00%	● ↓	54.00%	84.80%	● ↓	Higher
Boulia Shire Council	66%	-19.91%	-14.99%	● ↓	-113.24%	● ↓	54.51%	46.40%	● ↓	Higher
Carpentaria Shire Council	75%	-15.00%	-16.62%	● ↓	-17.70%	● ↑	39.10%	73.92%	● ↓	Higher
Croydon Shire Council	75%	1.70%	2.57%	● ↓	-136.40%	● ↑	171.20%	143.24%	● ↑	Lower
Diamantina Shire Council	39%	-14.00%	-15.53%	● ↑	-67.70%	● ↓	46.4%	82.96%	● ↓	Higher
Flinders Shire Council	45%	1.10%	9.53%	● -	-56.77%	● ↓	116.02%	93.21%	● ↑	Lower
Longreach Regional Council	50%	-6.20%	-8.31%	● ↑	1.70%	● ↑	32.00%	131.85%	● ↑	Moderate
Murweh Shire Council	57%	-11.00%	-8.65%	● ↑	-11.00%	● -	116.00%	96.44%	● ↑	Moderate
Paroo Shire Council	61%	-40.00%	-28.61%	● ↓	-44.00%	● ↑	59.00%	62.17%	● ↓	Higher
Richmond Shire Council ⁴	61%	-54.20%	-44.58%	● ↓	-14.70%	● ↓	96.60%	112.52%	● ↓	Higher
Winton Shire Council	69%	-12.13%	-1.90%	● ↓	-101.41%	● ↓	300.73%	214.09%	● ↑	Lower
Rural/Remote average	56%	-18.11%	-11.81%		-56.35%		98.67%	100.80%		
Rural/Remote—combined risk assessment			Higher		Lower		Lower			Higher



South East Queensland councils	Avg. grant funding percentage ¹	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend ²	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend ²	Relative risk assessment
South East Queensland (SEQ) councils										
Brisbane City Council ⁵	12%	3.00%	5.51%	● -	126.00% ⁵	● ↓	73.00%	84.64%	● -	Moderate
Council of the City of Gold Coast	24%	-1.30%	-0.15%	● -	-24.70%	● ↓	62.70%	53.18%	● ↑	Moderate
Ipswich City Council	29%	0.06%	7.70%	● -	59.51%	● ↓	68.08%	64.12%	● ↑	Lower
Logan City Council	27%	-0.40%	4.11%	● ↓	18.70%	● ↓	78.20%	83.60%	● ↑	Lower
Moreton Bay Regional Council	25%	14.10%	22.19%	● -	21.80%	● ↓	55.50%	62.08%	● ↓	Lower
Redland City Council	16%	-2.92%	-3.38%	● ↓	-32.84%	● ↓	37.69%	44.59%	● -	Moderate
Sunshine Coast Regional Council ⁶	26%	-0.30%	9.71%	● ↓	105.10% ⁶	● ↓	70.50%	76.86%	● ↑	Moderate
Toowoomba Regional Council	23%	-0.92%	1.27%	● -	65.85%	● ↓	64.22%	58.10%	● ↓	Moderate
SEQ average	23%	1.42%	6.00%		33.47%		63.74%	65.90%		
SEQ—combined risk assessment			Lower			Lower		Moderate		Moderate

Notes:

- 1 Average grant funding percentage shows the five-year average level of grant funding as a percentage of total revenue per council. These ratios do not form a part of the financial sustainability ratios but have been included for contextual purposes. Refer also to further commentary in Chapter 4, which analyses the financial sustainability by grant funding levels.
- 2 Average ratio trend compares the average ratio from 2019–20 with the average ratio from 2018–19. Trends should be considered in conjunction with the Department of State Development, Infrastructure, Local Government and Planning's set benchmarks, and the analysis performed and explained in Chapter 4.
- 3 This council's sustainability statement was qualified for 2015–16. The qualification impacts on the average operating surplus ratio and the average asset sustainability ratio.
- 4 The 2019–20 audit for this council is unfinished. The sustainability measures reported are based on the audited 2018–19 financial statements.
- 5 The net financial liabilities ratio was impacted for first-time in 2019–20 with the introduction of Australian Accounting Standards Board's AASB 16 Leases. The Department of State Development, Infrastructure, Local Government and Planning did not adjust the target for this ratio in response to the introduction of the new standard. This new standard impacted Brisbane City Council more than other councils. Excluding the impact of the new standard, the ratio would be 98 per cent, with the risk rating remaining unchanged.
- 6 In the 2019–20 financial year, the council drew down debt of \$212 million to extend the airport. Under an agreement with the airport owner, the council will receive \$290 million by 30 June 2022 for the airport extension. At 30 June 2020, the amount owed to the council is reported by the council as a non-current receivable and, therefore, excluded from the calculation of the financial liabilities ratio.

Refer also to Figures I1, I2 and I3, which explain the financial sustainability measures and associated benchmarks.

Legend: ↑ An improving trend; - No substantial change; ↓ A deteriorating trend.

Source: Queensland Audit Office.