

I. Financial sustainability measures

Figure I1 details the ratios (measures) reflecting 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 the council has inadequate asset management plans and practices.</p>			

Note: * Department of Local Government, Racing and Multicultural Affairs.

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 I2, and the assignment of the risk criteria, as shown in Figure I3.



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	There is a moderate risk of sustainability issues over the longer term if current debt financing and capital investment policies continue, as indicated by: <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 financial sustainability concerns 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 2018–19

Coastal councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend [^]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend [^]	Relative risk assessment	
Coastal councils										
Bundaberg Regional Council	2.41%	5.94%	● ↑	-19.93%	● ↑	32.00%	63.00%	● ↓	Lower	
Burdekin Shire Council	5.55%	9.19%	● -	-70.11%	● ↑	92.14%	79.59%	● ↓	Lower	
Cairns Regional Council	-2.16%	-0.35%	● -	47.68%	● ↓	106.00%	100.05%	● -	Lower	
Cassowary Coast Regional Council	-2.45%	-0.85%	● -	-49.52%	● ↑	84.00%	82.00%	● ↓	Moderate	
Douglas Shire Council	-2.14%	-3.15%	● ↑	-47.36%	● ↑	84.00%	110.00%	● ↑	Moderate	
Fraser Coast Regional Council	3.23%	7.23%	● -	-51.17%	● -	96.68%	77.62%	● ↑	Lower	
Gladstone Regional Council	5.07%	2.80%	● -	1.17%	● ↑	40.00%	65.40%	● ↓	Lower	
Gympie Regional Council	-13.78%	-3.50%	● ↓	1.28%	● ↓	52.70%	136.15%	● ↓	Moderate	
Hinchinbrook Shire Council	-4.10%	1.00%	● -	-52.93%	● ↓	40.00%	66.00%	● ↓	Lower	
Livingstone Shire Council	5.51%	1.55%	● ↑	51.97%	● ↑	45.40%	46.56%	● -	Moderate	
Mackay Regional Council	-0.19%	0.00%	● -	15.84%	● ↓	63.90%	59.04%	● ↓	Moderate	
Noosa Shire Council	11.62%	11.66%	● ↑	-13.82%	● ↑	132.31%	99.71%	● ↑	Lower	
Rockhampton Regional Council	2.49%	3.66%	● ↓	49.31%	● ↓	126.70%	91.85%	● ↑	Lower	
Townsville City Council	0.00%	0.52%	● -	64.00%	● ↑	64.00%	86.80%	● ↓	Moderate	
Whitsunday Regional Council	1.48%	4.95%	● ↑	28.04%	● ↓	253.39%	116.62%	● ↑	Lower	
Coastal average	0.84%	2.71%		-3.04%		87.55%	85.36%			
Coastal—combined risk assessment	Lower			Lower		Moderate		Lower		

[^] Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

Indigenous councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend [^]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend [^]	Relative risk assessment
Indigenous councils									
Aurukun Shire Council	-22.98%	-20.06%	● ↓	-73.96%	● ↑	4.00%	47.17%	● ↓	Higher
Cherbourg Aboriginal Shire Council	-26.98%	-21.12%	● -	-104.35%	● ↑	146.00%	90.00%	● ↑	Higher
Doomadgee Aboriginal Shire Council ^β	-24.00%	-29.27%	● ↓	-3.00%	● ↓	102.00%	75.02%	● ↑	Higher
Hope Vale Aboriginal Shire Council	19.56%	11.26%	● ↑	-114.78%	● ↑	79.00%	101.80%	● ↓	Lower
Kowanyama Aboriginal Shire Council*	-43.35%	-35.43%	● ↓	-32.80%	● ↓	65.10%	109.42%	● ↑	Higher
Lockhart River Aboriginal Shire Council	5.41%	5.02%	● ↑	-60.63%	● ↑	0.00%	212.40%	● ↓	Lower
Mapoon Aboriginal Shire Council	2.32%	-11.32%	● ↑	-109.70%	● ↑	31.00%	47.46%	● ↑	Higher
Mornington Shire Council	-46.18%	-37.17%	● ↑	-5.81%	● ↓	234.00%	217.40%	● ↑	Higher
Napranum Aboriginal Shire Council	5.57%	-16.40%	● ↑	-58.96%	● ↑	38.00%	85.60%	● ↑	Higher
Northern Peninsula Area Regional Council [∞]	-16.66%	-10.88%	● ↑	-32.07%	● ↓	100.00%	69.64%	● ↑	Higher
Palm Island Aboriginal Shire Council ^μ	4.88%	-5.97%	● ↑	-32.46%	● ↓	191.00%	222.90%	● ↓	Moderate
Pormpuraaw Aboriginal Shire Council	16.63%	6.57%	● ↑	-147.99%	● ↓	62.00%	114.80%	● ↓	Lower
Torres Shire Council	-12.02%	-15.94%	● -	-107.95%	● ↑	116.00%	58.64%	● ↑	Higher
Torres Strait Island Regional Council	-54.97%	-49.15%	● ↓	-69.01%	● ↑	30.00%	28.54%	● ↓	Higher
Woorabinda Aboriginal Shire Council ^μ	-6.88%	-3.47%	● -	-26.52%	● ↓	0.00%	14.22%	● ↓	Moderate
Wujal Wujal Aboriginal Shire Council	-37.75%	-27.49%	● ↓	-54.98%	● ↑	153.00%	49.80%	● ↑	Higher
Yarrabah Aboriginal Shire Council	-23.00%	-18.81%	● -	-35.85%	● ↓	65.00%	70.00%	● ↑	Higher
Indigenous average	-15.32%	-16.59%		-66.99%		83.30%	92.40%		
Indigenous—combined risk assessment		Higher		Lower			Lower		Higher

* This council's sustainability statement was qualified from 2014–15 to 2015–16. The qualification impacts on the average operating surplus ratio.

∞ This council's sustainability statement was qualified from 2014–15 to 2016–17. The qualification impacts on all three ratios, both current and average.

β 2018–19 audits for this council are unfinished. The sustainability measures reported are based on the unaudited 2018–19 financial statements.

μ 2018–19 audits for this council are unfinished. The sustainability measures reported are based on the 2017–18 financial statements.

^ Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3. 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.



Local government entities: 2018–19 results of financial audits (Report 13: 2019–20)

Resources councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend [^]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend [^]	Relative risk assessment
Resources councils									
Banana Shire Council	-5.38%	-3.70%	● -	13.34%	● ↓	67.22%	109.00%	● ↓	Moderate
Barcoo Shire Council	-25.30%	-13.85%	● ↓	-63.48%	● ↓	118.06%	129.74%	● ↑	Higher
Bulloo Shire Council	3.64%	0.72%	● ↑	-105.56%	● ↑	83.32%	162.15%	● ↓	Lower
Burke Shire Council	-31.47%	-31.94%	● ↑	-57.26%	● ↓	60.00%	56.20%	● ↓	Higher
Central Highlands Regional Council	-0.24%	5.03%	● -	-34.56%	● ↓	150.00%	110.63%	● ↑	Lower
Charters Towers Regional Council	8.42%	-3.19%	● ↑	-65.94%	● ↓	229.00%	142.60%	● ↑	Moderate
Cloncurry Shire Council	-0.89%	-1.93%	● ↓	-79.71%	● ↑	153.00%	151.60%	● ↓	Lower
Cook Shire Council	-50.44%	-41.24%	● ↑	8.49%	● ↓	38.74%	288.62%	● ↓	Higher
Etheridge Shire Council	6.92%	-7.42%	● ↑	-60.67%	● ↓	28.50%	70.98%	● ↓	Moderate
Isaac Regional Council	5.77%	0.83%	● ↑	-29.78%	● ↓	358.00%	216.09%	● ↑	Lower
Maranoa Regional Council	4.95%	-4.18%	● ↑	-42.68%	● ↓	205.94%	66.40%	● ↑	Moderate
McKinlay Shire Council	-11.97%	-5.57%	● -	-111.15%	● ↓	192.43%	234.97%	● ↑	Moderate
Mount Isa City Council	2.40%	5.03%	● ↑	-54.40%	● ↑	77.00%	87.73%	● ↓	Lower
Quilpie Shire Council	4.93%	6.85%	● ↑	-150.37%	● ↑	20.00%	91.80%	● ↓	Lower
Western Downs Regional Council	10.70%	7.48%	● -	-84.46%	● ↑	79.05%	88.51%	● ↓	Lower
Resources average	-5.20%	-5.81%		-61.21%		124.02%	133.80%		
Resources—combined risk assessment		Moderate		Lower			Lower		Moderate

[^] Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

Rural/Regional councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend [^]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend [^]	Relative risk assessment
Rural/Regional councils									
Goondiwindi Regional Council	4.81%	3.05%	● ↑	-78.12%	● ↓	103.08%	111.20%	● ↑	Lower
Lockyer Valley Regional Council	4.74%	-0.24%	● ↑	58.95%	● ↓	113.67%	121.30%	● ↑	Lower
Mareeba Shire Council	15.05%	13.89%	● ↑	-72.44%	● -	129.10%	175.82%	● ↑	Lower
North Burnett Regional Council	-20.77%	-8.57%	● ↑	-39.35%	● ↓	143.58%	155.37%	● ↓	Moderate
Scenic Rim Regional Council	2.47%	8.12%	● ↑	3.63%	● ↓	301.00%	228.60%	● ↓	Lower
Somerset Regional Council	7.56%	5.10%	● ↓	-163.24%	● ↓	115.00%	182.59%	● ↓	Lower
South Burnett Regional Council	2.38%	5.03%	● -	12.75%	● ↑	55.90%	109.12%	● ↓	Lower
Southern Downs Regional Council	6.07%	7.04%	● ↑	-19.57%	● ↓	179.22%	113.70%	● ↑	Lower
Tablelands Regional Council	-0.50%	3.92%	● ↑	-45.54%	● ↓	140.07%	99.55%	● ↓	Lower
Rural/Regional average	2.42%	4.15%		-38.10%		142.29%	144.14%		
Rural/Regional—combined risk assessment		Lower		Lower			Lower		Lower

[^] Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.



Local government entities: 2018–19 results of financial audits (Report 13: 2019–20)

Rural/Remote councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend [^]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend [^]	Relative risk assessment
Rural/Remote councils									
Balonne Shire Council	-6.36%	-7.51%	● ↓	-117.59%	● ↑	31.89%	48.43%	● ↓	Moderate
Barcaldine Regional Council	-30.00%	-15.40%	● ↓	-38.77%	● ↓	92.40%	114.43%	● ↓	Higher
Blackall-Tambo Regional Council	-10.44%	-3.77%	● ↓	-54.42%	● ↓	85.00%	90.80%	● ↓	Moderate
Boulia Shire Council	-11.97%	-11.72%	● ↑	-127.20%	● ↑	57.50%	79.10%	● ↑	Higher
Carpentaria Shire Council	-28.79%	-11.98%	● ↓	-6.50%	● -	2.70%	77.60%	● ↓	Higher
Croydon Shire Council	3.57%	4.75%	● -	-124.67%	● ↓	111.00%	130.80%	● ↓	Lower
Diamantina Shire Council	-14.63%	-18.62%	● ↓	-106.85%	● ↑	90.90%	86.90%	● ↓	Higher
Flinders Shire Council	8.73%	10.41%	● ↑	-69.08%	● ↓	11.42%	86.52%	● ↓	Lower
Longreach Regional Council	-18.19%	-4.74%	● ↓	3.40%*	● ↑	130.71%	148.16%	● ↓	Moderate
Murweh Shire Council	-13.65%	-9.89%	● -	-11.10%	● ↓	74.32%	81.55%	● ↓	Moderate
Paroo Shire Council***	-34.93%	-23.83%	● ↓	-60.90%	● ↑	70.86%	64.96%	● ↓	Higher
Richmond Shire Council ^β	-53.34%	-39.99%	● ↓	1.46%	● ↓	39.50%	113.81%	● ↓	Higher
Winton Shire Council	1.08%	3.76%	● -	-103.84%	● ↓	324.33%	208.43%	● ↑	Lower
Rural/Remote average	-16.07%	-9.89%		-62.77%		86.35%	102.42%		
Rural/Remote—combined risk assessment		Moderate		Lower			Lower		Moderate

*** This council's sustainability statements were qualified in 2014–15. The qualification impacts on the calculation of the average operating surplus ratio and the average asset sustainability ratio.

^β 2018–19 audits for this council are unfinished. The sustainability measures reported are based on the unaudited 2018–19 financial statements.

* This council's net financial liabilities ratio was incorrectly reported in the audited sustainability statement. Our audit opinion was not reissued as the council remained well within the department's target range.

[^] Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs' set benchmarks, and the analysis performed and explained in Chapter 3.

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.

South East Queensland councils	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg. operating surplus ratio trend [^]	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend [^]	Relative risk assessment
South East Queensland councils									
Brisbane City Council	5.24%	6.76%	● ↑	88.70%	● ↓	87.00%	85.51%	● ↑	Moderate
Council of the City of Gold Coast	1.52%	-0.21%	● ↑	-31.36%	● ↑	50.70%	47.60%	● -	Moderate
Ipswich City Council	7.34%	8.63%	● -	34.43%	● ↑	62.95%	55.97%	● ↓	Lower
Logan City Council	1.61%	5.57%	● -	-31.95%	● ↑	74.60%	81.84%	● ↓	Lower
Moreton Bay Regional Council	24.16%	23.13%	● ↓	20.58%	● ↑	54.80%	64.02%	● ↓	Lower
Redland City Council	-3.68%	-2.28%	● ↓	39.83%	● ↑	42.35%	44.34%	● -	Moderate
Sunshine Coast Regional Council	11.65%	12.74%	● -	55.57%	● ↓	72.50%	76.84%	● -	Lower
Toowoomba Regional Council	0.94%	1.67%	● -	47.93%	● ↓	62.83%	71.76%	● ↓	Lower
SEQ average	6.10%	7.00%		18.01%		63.47%	65.99%		
SEQ—combined risk assessment		Lower		Lower			Moderate		Lower

[^] Average ratio trend compares the average ratio from 2018–19 with the average ratio from 2017–18. Trends should be considered in conjunction with the Department of Local Government, Racing and Multicultural Affairs’ set benchmarks, and the analysis performed and explained in Chapter 3.

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.

