

# I. Financial sustainability measures

Figure I1 details the ratios (measures) indicating short-term and long-term financial sustainability. The guidelines quoted in the target range were issued by the Department of State Development, Infrastructure, Local Government and Planning.

**Figure I1**  
**Financial sustainability measures for councils**

Measure	Formula	Description	Target range
<b>Operating surplus ratio</b>	<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 <b>zero and 10 per cent</b> – 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 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>			
<b>Net financial liabilities ratio</b>	<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)	<b>Not greater than 60 per cent</b> – 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>			
<b>Asset sustainability ratio</b>	<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	<b>Greater than 90 per cent</b> – 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. 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>			

Source: Queensland Audit Office.

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

**Figure I2**  
**Risk assessment criteria for financial sustainability measures**

Relative risk rating measure	Operating surplus ratio	Net financial liabilities ratio	Asset sustainability ratio
<b>Higher</b>	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
<b>Moderate</b>	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
<b>Lower</b>	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**  
**Explanations of our relative risk assessments**

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"> <li>• a current net financial liabilities ratio of more than 80 per cent of operating revenue, or</li> <li>• an average asset sustainability ratio of less than 50 per cent, or</li> <li>• average operating deficits (losses) of between 2 per cent and 10 per cent of operating revenue, or</li> <li>• having 2 or more of the ratios assessed as moderate risk (see Figure I2).</li> </ul>
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 5-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 2020–21**

Coastal councils	Avg. grant funding percentage <sup>1</sup>	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend <sup>2</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>2</sup>	Relative risk assessment			
<b>Coastal councils</b>													
Bundaberg Regional Council	21%	5.00%	5.64%	●	–	-7.00%	●	–	45.00%	55.40%	●	↑	Lower
Burdekin Shire Council	21%	0.26%	6.24%	●	↓	-71.90%	●	↑	107.54%	91.56%	●	↑	Lower
Cairns Regional Council	18%	1.00%	-0.07%	●	↑	72.00%	●	↓	96.00%	101.20%	●	↓	Moderate
Cassowary Coast Regional Council	23%	-3.00%	-3.08%	●	↓	-31.60%	●	↑	100.00%	90.40%	●	–	Moderate
Douglas Shire Council	25%	-5.00%	-3.11%	●	–	-32.00%	●	↓	93.00%	102.80%	●	↓	Moderate
Fraser Coast Regional Council	22%	0.21%	3.86%	●	↓	-23.95%	●	↓	137.69%	92.13%	●	↑	Lower
Gladstone Regional Council	15%	-11.96%	-0.61%	●	↓	31.18%	●	↓	87.02%	52.40%	●	↑	Moderate
Gympie Regional Council	23%	0.61%	-4.22%	●	↑	0.94%	●	↑	95.44%	121.17%	●	↓	Moderate
Hinchinbrook Shire Council	30%	-17.40%	-9.74%	●	↓	-17.80%	●	↓	89.80%	68.56%	●	↑	Moderate
Livingstone Shire Council	31%	3.65%	3.24%	●	–	22.76%	●	↑	62.97%	52.55%	●	↑	Lower
Mackay Regional Council	18%	2.20%	0.18%	●	–	6.10%	●	↑	82.20%	62.52%	●	↑	Lower
Noosa Shire Council	14%	7.48%	9.66%	●	–	-19.89%	●	↑	83.42%	110.04%	●	–	Lower
Rockhampton Regional Council	26%	1.00%	2.95%	●	↓	55.50%	●	↓	98.90%	96.92%	●	↑	Lower
Townsville City Council	28%	1.00%	-0.28%	●	–	79.00%	●	↑	59.00%	73.80%	●	↓	Moderate
Whitsunday Regional Council	35%	4.86%	3.29%	●	–	11.10%	●	↑	97.78%	147.39%	●	↑	Lower
<b>Coastal councils average</b>	<b>23%</b>	<b>-0.67%</b>	<b>0.93%</b>			<b>4.96%</b>			<b>89.05%</b>	<b>87.92%</b>			
<b>Coastal councils – combined risk assessment</b>	<b>Lower</b>				<b>Lower</b>			<b>Moderate</b>				<b>Lower</b>	



Indigenous councils	Avg. grant funding percentage <sup>1</sup>	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend <sup>2</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>2</sup>	Relative risk assessment			
Indigenous councils													
Aurukun Shire Council	65%	-23.00%	-17.31%	●	↓	-80.00%	●	↑	2.00%	18.20%	●	-	Higher
Cherbourg Aboriginal Shire Council	55%	-15.00%	5.42%	●	↓	19.00%	●	↓	141.00%	117.20%	●	↑	Lower
Doomadgee Aboriginal Shire Council	55%	6.00%	-27.56%	●	↑	7.00%	●	↑	30.00%	70.40%	●	↓	Higher
Hope Vale Aboriginal Shire Council	46%	5.00%	8.54%	●	↓	-179.00%	●	↑	104.00%	97.60%	●	↑	Lower
Kowanyama Aboriginal Shire Council	71%	-41.00%	-44.80%	●	↓	3.00%	●	↓	120.00%	77.62%	●	↓	Higher
Lockhart River Aboriginal Shire Council	74%	-14.00%	-5.96%	●	↓	-37.00%	●	↓	54.00%	134.40%	●	↓	Moderate
Mapoon Aboriginal Shire Council	65%	-28.00%	-21.02%	●	↓	-64.00%	●	↑	13.00%	54.62%	●	↑	Higher
Mornington Shire Council	52%	-10.70%	-26.59%	●	↑	-16.00%	●	↑	92.60%	194.54%	●	↑	Higher
Napranum Aboriginal Shire Council	65%	-39.00%	-16.09%	●	↓	-35.00%	●	↓	20.00%	46.20%	●	↑	Higher
Northern Peninsula Area Regional Council	54%	-28.00%	-15.00%	●	↓	-10.00%	●	↓	57.00%	64.44%	●	↓	Higher
Palm Island Aboriginal Shire Council*	54%	-23.80%	-17.09%	●	↓	-2.93%	●	-	0.00%	60.20%	●	↓	Higher
Pormpuraaw Aboriginal Shire Council	63%	10.00%	10.32%	●	↑	-213.00%	●	↑	64.00%	78.20%	●	↓	Lower
Torres Shire Council	47%	-16.50%	-15.51%	●	↑	-64.30%	●	↓	31.41%	66.27%	●	↑	Higher
Torres Strait Island Regional Council	57%	-112.00%	-66.33%	●	↓	-39.00%	●	↓	28.00%	30.34%	●	↑	Higher
Woorabinda Aboriginal Shire Council	29%	-0.90%	-15.41%	●	-	-41.90%	●	↑	104.40%	34.25%	●	↑	Higher
Wujal Wujal Aboriginal Shire Council	66%	-14.00%	-28.48%	●	-	14.00%	●	↑	141.00%	71.80%	●	↑	Higher
Yarrabah Aboriginal Shire Council	48%	-28.00%	-27.15%	●	↓	-32.00%	●	↑	29.00%	41.80%	●	-	Higher
<b>Indigenous councils average</b>	<b>57%</b>	<b>-21.94%</b>	<b>-18.83%</b>			<b>-45.36%</b>			<b>60.67%</b>	<b>74.00%</b>			
<b>Indigenous councils – combined risk assessment</b>	<b>Higher</b>			<b>Lower</b>			<b>Moderate</b>			<b>Higher</b>			

Resources councils	Avg. grant funding percentage <sup>1</sup>	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend <sup>2</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>2</sup>	Relative risk assessment
Resources councils										
Banana Shire Council	32%	-9.24%	-5.48%	● ↓	-16.22%	● ↑	90.24%	95.04%	● ↑	Moderate
Bulloo Shire Council	63%	-7.80%	1.54%	● ↓	-82.80%	● ↓	47.00%	114.29%	● ↓	Lower
Burke Shire Council	77%	-32.40%	-33.79%	● ↑	-46.10%	● ↑	146.40%	86.92%	● ↑	Higher
Central Highlands Regional Council	23%	-2.53%	-1.28%	● ↓	-9.22%	● ↑	87.60%	107.14%	● ↓	Lower
Charters Towers Regional Council	44%	-4.00%	-0.02%	● -	-46.00%	● -	80.00%	148.40%	● ↓	Lower
Cloncurry Shire Council	54%	-20.00%	-5.25%	● ↓	-10.00%	● -	115.00%	211.80%	● ↓	Moderate
Cook Shire Council	81%	-18.04%	-28.51%	● ↑	4.10%	● ↑	43.20%	141.50%	● ↓	Higher
Etheridge Shire Council	55%	-1.62%	-7.31%	● -	-62.07%	● ↑	0.00%	12.19%	● ↓	Moderate
Isaac Regional Council	26%	1.21%	2.40%	● ↓	-7.17%	● ↓	103.90%	193.23%	● ↓	Lower
Maranoa Regional Council	44%	6.13%	2.24%	● ↑	-43.58%	● ↑	134.35%	122.43%	● ↑	Lower
McKinlay Shire Council	72%	0.53%	-4.94%	● ↑	-100.40%	● ↑	484.27%	366.32%	● ↑	Moderate
Mount Isa City Council	26%	-3.92%	3.07%	● ↓	-49.50%	● ↓	42.00%	52.71%	● ↓	Lower
Quilpie Shire Council	63%	-6.00%	-3.89%	● -	-67.00%	● ↓	83.00%	47.20%	● ↓	Moderate
Western Downs Regional Council	28%	8.10%	8.84%	● ↑	-117.50%	● ↑	88.70%	80.30%	● -	Lower
<b>Resources councils average</b>	<b>49%</b>	<b>-6.40%</b>	<b>-5.17%</b>		<b>-46.68%</b>		<b>110.40%</b>	<b>127.11%</b>		
<b>Resources councils – combined risk assessment</b>	<b>Moderate</b>			<b>Lower</b>			<b>Lower</b>			<b>Moderate</b>



Rural/Regional councils	Avg. grant funding percentage <sup>1</sup>	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend <sup>2</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>2</sup>	Relative risk assessment				
Rural/Regional councils														
Goondiwindi Regional Council	33%	1.85%	3.89%	●	–	↓	-73.77%	●	↓	98.17%	103.75%	●	↓	Lower
Lockyer Valley Regional Council	23%	12.30%	6.48%	●	↑	↑	38.23%	●	↑	95.16%	94.48%	●	↑	Lower
Mareeba Shire Council	40%	14.00%	14.92%	●	–	↑	-89.00%	●	↑	161.00%	190.40%	●	↑	Lower
North Burnett Regional Council	52%	-31.80%	-15.39%	●	↓	↑	-26.17%	●	↑	97.34%	102.99%	●	↓	Higher
Scenic Rim Regional Council	32%	-3.00%	2.61%	●	↓	↑	6.00%	●	↑	81.00%	174.00%	●	↓	Lower
Somerset Regional Council	26%	2.00%	2.63%	●	–	↓	-83.00%	●	↓	78.00%	105.60%	●	↓	Lower
South Burnett Regional Council	25%	-1.60%	0.20%	●	↓	↑	9.10%	●	↑	110.70%	88.34%	●	↓	Lower
Southern Downs Regional Council	28%	0.61%	6.26%	●	↓	↑	-18.80%	●	↑	101.13%	120.96%	●	↑	Lower
Tablelands Regional Council	29%	1.55%	1.46%	●	–	↑	-45.24%	●	↑	98.33%	101.55%	●	↑	Lower
<b>Rural/Regional councils average</b>	<b>32%</b>	<b>-0.45%</b>	<b>2.56%</b>				<b>-31.41%</b>			<b>102.31%</b>	<b>120.23%</b>			
<b>Rural/Regional councils – combined risk assessment</b>	<b>Lower</b>			<b>Lower</b>			<b>Lower</b>			<b>Lower</b>				

Rural/Remote councils	Avg. grant funding percentage <sup>1</sup>	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend <sup>2</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>2</sup>	Relative risk assessment			
Rural/Remote councils													
Balonne Shire Council	51%	-8.10%	-7.85%	●	↑	-43.83%	●	↓	70.80%	45.38%	●	↑	Moderate
Barcaldine Regional Council	46%	-9.02%	-19.13%	●	–	-9.05%	●	↓	209.75%	127.70%	●	↑	Higher
Barcoo Shire Council	52%	-27.33%	-23.39%	●	↓	-22.88%	●	↓	26.08%	85.97%	●	↓	Higher
Blackall-Tambo Regional Council	43%	0.00%	-9.77%	●	↑	-45.00%	●	↓	93.00%	84.40%	●	–	Moderate
Boulia Shire Council	68%	-64.23%	-25.27%	●	↓	-135.46%	●	↑	56.61%	40.52%	●	↓	Higher
Carpentaria Shire Council	70%	-3.80%	-14.75%	●	↑	-22.19%	●	↑	10.53%	54.37%	●	↓	Higher
Croydon Shire Council	78%	4.20%	4.71%	●	↑	-147.20%	●	↑	72.30%	129.10%	●	↓	Lower
Diamantina Shire Council	43%	16.80%	-9.88%	●	↑	-49.50%	●	↓	5.30%	75.70%	●	↓	Moderate
Flinders Shire Council	45%	21.99%	12.85%	●	↑	-53.75%	●	↓	128.85%	87.91%	●	↓	Lower
Longreach Regional Council	53%	-3.40%	-6.15%	●	↑	-4.37%	●	↑	98.13%	122.76%	●	↓	Moderate
Murweh Shire Council	59%	-10.07%	-7.83%	●	–	-1.07%	●	↓	90.00%	105.64%	●	↑	Moderate
Paroo Shire Council	67%	-2.05%	-23.37%	●	↑	-14.98%	●	↓	45.93%	62.51%	●	–	Higher
Richmond Shire Council*	60%	-12.67%	-32.25%	●	↑	4.25%	●	↓	311.93%	154.33%	●	↑	Higher
Winton Shire Council	68%	-7.45%	-4.96%	●	↓	-98.51%	●	↓	329.36%	241.36%	●	↑	Moderate
<b>Rural/Remote councils average</b>	<b>57%</b>	<b>-7.51%</b>	<b>-11.93%</b>			<b>-45.97%</b>			<b>110.61%</b>	<b>101.26%</b>			
<b>Rural/Remote councils – combined risk assessment</b>	<b>Higher</b>					<b>Lower</b>			<b>Lower</b>			<b>Higher</b>	





South East Queensland councils	Avg. grant funding percentage <sup>1</sup>	Current operating surplus ratio %	Avg. operating surplus ratio %	Avg operating surplus ratio trend <sup>2</sup>	Net financial liabilities ratio %	Net financial liabilities ratio trend	Current asset sustainability ratio %	Avg. asset sustainability ratio %	Avg. asset sustainability ratio trend <sup>2</sup>	Relative risk assessment			
South East Queensland councils													
Brisbane City Council	12%	1.00%	5.71%	●	–	202% <sup>3</sup>	●	–	47.00%	80.70%	●	↓	Moderate
Council of the City of Gold Coast	22%	-2.10%	-0.80%	●	–	-14.50%	●	↓	65.80%	57.14%	●	↑	Moderate
Ipswich City Council	29%	1.28%	7.30%	●	–	73.43%	●	↓	57.67%	63.76%	●	–	Moderate
Logan City Council	28%	0.35%	2.85%	●	↓	-19.87%	●	↑	65.72%	79.46%	●	↓	Lower
Moreton Bay Regional Council	24%	15.10%	20.88%	●	↓	15.00%	●	↑	72.00%	60.94%	●	↓	Lower
Redland City Council	13%	-4.01%	-4.18%	●	–	-37.37%	●	↑	54.64%	48.35%	●	↑	Moderate
Sunshine Coast Regional Council	27%	2.20%	7.33%	●	↓	49.60%	●	↑	75.70%	74.40%	●	↓	Lower
Toowoomba Regional Council	21%	4.25%	2.10%	●	–	53.14%	●	↑	91.05%	60.25%	●	↑	Lower
<b>SEQ councils average</b>	<b>22%</b>	<b>2.26%</b>	<b>5.15%</b>			<b>17.06%</b>			<b>66.20%</b>	<b>65.63%</b>			
<b>SEQ councils – combined risk assessment</b>	<b>Lower</b>			<b>Lower</b>			<b>Moderate</b>			<b>Lower</b>			

## Notes:

- <sup>1</sup> Average grant funding percentage shows the 5-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.
- <sup>2</sup> Average ratio trend compares the average ratio from 2020–21 with the average ratio from 2019–20. 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.
- <sup>3</sup> The net financial liabilities ratio was impacted for first-time in 2020–21 with the introduction of Australian Accounting Standards Board's AASB 1059 *Service Concession Arrangements: Grantors*. 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 127 per cent, with the risk rating remaining unchanged.
- \* The 2020–21 audit for this council is unfinished. The sustainability measures reported are based on the audited 2019–20 financial statements.

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.