

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 (the department).

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 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. 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
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 assessment 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"> • 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 2 per cent and 10 per cent of operating revenue, or • having 2 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 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 2021–22

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	20%	6.00%	4.83%	●	–	-16.00%	●	↑	47.00%	48.40%	●	↓	Moderate
Burdekin Shire Council	22%	5.17%	4.52%	●	↓	-77.40%	●	↑	88.56%	95.49%	●	↑	Lower
Cairns Regional Council	18%	2.00%	-0.11%	●	–	57.00%	●	↑	71.00%	95.20%	●	↓	Lower
Cassowary Coast Regional Council	25%	0.00%	-2.33%	●	–	-34.00%	●	↑	68.00%	91.80%	●	↑	Moderate
Douglas Shire Council	26%	-1.00%	-2.39%	●	–	-28.00%	●	↓	74.00%	105.80%	●	↑	Moderate
Fraser Coast Regional Council	22%	-0.09%	1.30%	●	↓	-27.05%	●	↑	80.58%	93.51%	●	↑	Lower
Gladstone Regional Council	14%	-2.66%	-2.24%	●	↓	33.74%	●	↓	88.66%	61.34%	●	↑	Moderate
Gympie Regional Council	26%	-0.68%	-4.43%	●	–	-13.55%	●	↑	33.28%	98.98%	●	↓	Moderate
Hinchinbrook Shire Council	34%	-10.00%	-12.09%	●	↓	-18.70%	●	–	90.80%	74.52%	●	↑	Higher
Livingstone Shire Council	28%	1.91%	3.12%	●	–	-3.01%	●	↑	45.04%	51.96%	●	–	Lower
Mackay Regional Council	19%	0.20%	0.37%	●	–	4.30%	●	↑	65.50%	65.76%	●	↑	Lower
Noosa Shire Council	15%	4.29%	8.69%	●	–	-15.93%	●	↓	121.13%	117.88%	●	↑	Lower
Rockhampton Regional Council	26%	-0.10%	2.06%	●	–	40.80%	●	↑	63.20%	92.26%	●	↓	Lower
Townsville City Council	26%	1.00%	0.81%	●	↑	72.00%	●	↑	91.00%	73.60%	●	–	Moderate
Whitsunday Regional Council	37%	5.18%	4.14%	●	–	9.83%	●	↑	97.98%	151.23%	●	↑	Lower
Coastal councils average	24%	0.75%	0.42%			-1.06%			75.05%	87.85%			
Coastal councils – combined risk assessment				Lower				Lower			Moderate		Lower

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%	-7.00%	-14.83%	●	↑	-76.00%	●	↓	4.00%	19.00%	●	–	Higher
Cherbourg Aboriginal Shire Council	58%	-18.33%	-1.75%	●	↓	23.69%	●	↓	37.05%	114.01%	●	↓	Lower
Doomadgee Aboriginal Shire Council	55%	-31.00%	-23.80%	●	↑	4.00%	●	↑	40.00%	57.20%	●	↓	Higher
Hope Vale Aboriginal Shire Council	49%	1.00%	7.21%	●	↓	-193.00%	●	↑	91.00%	90.00%	●	↓	Lower
Kowanyama Aboriginal Shire Council	70%	0.00%	-37.46%	●	↑	-19.00%	●	↑	142.00%	103.42%	●	↑	Higher
Lockhart River Aboriginal Shire Council	73%	-8.00%	-3.36%	●	↑	-54.00%	●	↑	136.00%	90.60%	●	↓	Moderate
Mapoon Aboriginal Shire Council	69%	-41.00%	-27.76%	●	↓	-55.00%	●	↓	67.00%	62.80%	●	↑	Higher
Mornington Shire Council*	47%	-10.70%	-26.59%	●	↑	-16.00%	●	↑	92.60%	194.54%	●	↑	Higher
Napranum Aboriginal Shire Council	66%	-24.00%	-18.80%	●	↓	-41.00%	●	↑	0.00%	25.60%	●	↓	Higher
Northern Peninsula Area Regional Council*	53%	-28.00%	-15.00%	●	↓	-10.00%	●	↓	57.00%	64.44%	●	↓	Higher
Palm Island Aboriginal Shire Council**	60%	-23.80%	-17.09%	●	↓	-2.93%	●	–	0.00%	129.60%	●	↓	Higher
Pormpuraaw Aboriginal Shire Council	62%	0.00%	8.19%	●	↓	-257.00%	●	↑	13.00%	60.80%	●	↓	Lower
Torres Shire Council	50%	-19.07%	-18.80%	●	↓	-66.27%	●	↑	113.79%	85.44%	●	↑	Higher
Torres Strait Island Regional Council	60%	-79.00%	-74.40%	●	↓	-29.00%	●	↓	19.00%	28.60%	●	↓	Higher
Woorabinda Aboriginal Shire Council*	31%	-0.90%	-15.41%	●	–	-41.90%	●	↑	104.40%	34.25%	●	↑	Higher
Wujal Wujal Aboriginal Shire Council	67%	-30.00%	-29.29%	●	–	54.00%	●	↓	41.00%	80.00%	●	↑	Higher
Yarrabah Aboriginal Shire Council	51%	-51.00%	-33.42%	●	↓	-27.00%	●	↓	25.00%	39.60%	●	↓	Higher
Indigenous councils average	58%	-21.81%	-20.14%			-47.44%			57.81%	75.29%			
Indigenous councils – 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	31%	6.08%	-4.92%	●	–	-22.39%	●	↑	80.43%	94.27%	●	–	Moderate
Bulloo Shire Council	62%	-5.30%	-3.09%	●	↓	-69.20%	●	↓	42.60%	104.01%	●	↓	Moderate
Burke Shire Council	76%	-21.20%	-40.23%	●	↓	-38.60%	●	↓	82.30%	85.38%	●	↓	Higher
Central Highlands Regional Council	22%	1.71%	-1.85%	●	–	-7.71%	●	↓	76.87%	104.00%	●	↓	Lower
Charters Towers Regional Council	46%	5.00%	0.61%	●	–	-71.00%	●	↑	68.00%	139.60%	●	↓	Lower
Cloncurry Shire Council	55%	-15.62%	-8.90%	●	↓	-23.24%	●	↑	87.55%	172.71%	●	↓	Moderate
Cook Shire Council	82%	2.00%	-22.58%	●	↑	-7.00%	●	↑	8.00%	67.75%	●	↓	Higher
Etheridge Shire Council	54%	1.85%	-2.71%	●	↑	-32.68%	●	↓	0.00%	8.97%	●	↓	Moderate
Isaac Regional Council	25%	3.75%	2.30%	●	–	-19.55%	●	↑	62.90%	175.46%	●	↓	Lower
Maranoa Regional Council	43%	2.84%	2.04%	●	–	-55.10%	●	↑	120.74%	138.72%	●	↑	Lower
McKinlay Shire Council	72%	5.20%	-7.51%	●	↓	-130.20%	●	↑	137.10%	328.78%	●	↓	Moderate
Mount Isa City Council	24%	-1.80%	0.16%	●	↓	-45.00%	●	↓	55.70%	56.99%	●	↑	Lower
Quilpie Shire Council	64%	6.00%	-5.37%	●	↓	-99.00%	●	↑	40.00%	41.00%	●	↓	Moderate
Western Downs Regional Council	25%	2.57%	7.16%	●	↓	-122.12%	●	↑	82.11%	77.08%	●	↓	Lower
Resources councils average	49%	-0.49%	-6.06%			-53.06%			67.45%	113.91%			
Resources councils – 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	33%	-1.71%	1.60%	● ↓	-74.50%	● –	148.47%	115.29%	● ↑	Lower
Lockyer Valley Regional Council	24%	5.22%	5.76%	● –	41.12%	● ↓	74.26%	91.43%	● ↓	Lower
Mareeba Shire Council	39%	14.63%	13.65%	● ↓	-101.77%	● ↑	176.04%	167.41%	● ↓	Lower
North Burnett Regional Council	49%	-11.83%	-19.19%	● ↓	-29.45%	● ↑	102.65%	98.16%	● ↓	Higher
Scenic Rim Regional Council	31%	0.00%	0.31%	● ↓	15.00%	● ↓	98.00%	161.80%	● ↓	Lower
Somerset Regional Council	26%	-9.00%	-0.25%	● ↓	-74.00%	● ↓	87.00%	97.00%	● ↓	Lower
South Burnett Regional Council	25%	6.00%	0.48%	● –	-10.80%	● ↑	78.70%	86.34%	● ↓	Lower
Southern Downs Regional Council	29%	-4.55%	2.01%	● ↓	-26.89%	● ↑	119.00%	123.68%	● ↑	Lower
Tablelands Regional Council	29%	5.24%	0.32%	● ↓	-52.98%	● ↑	77.44%	94.16%	● ↓	Lower
Rural/Regional councils average	32%	0.44%	0.52%		-34.92%		106.84%	115.03%		
Rural/Regional councils – 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 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/Remote councils													
Balonne Shire Council	62%	-5.30%	-8.69%	●	–	-32.30%	●	↓	53.80%	49.81%	●	↑	Moderate
Barcaldine Regional Council	48%	6.83%	-16.04%	●	↑	-27.73%	●	↑	224.72%	144.05%	●	↑	Higher
Barcoo Shire Council	46%	-3.63%	-21.93%	●	↑	-30.13%	●	↑	83.91%	77.90%	●	↓	Higher
Blackall-Tambo Regional Council	45%	11.00%	-7.98%	●	↑	-53.00%	●	↑	68.00%	81.20%	●	↓	Moderate
Boulia Shire Council	65%	-20.75%	-29.99%	●	↓	-85.60%	●	↓	120.70%	62.50%	●	↑	Higher
Carpentaria Shire Council	69%	-13.36%	-17.81%	●	↓	-26.27%	●	↑	61.23%	48.98%	●	↓	Higher
Croydon Shire Council	76%	9.30%	4.74%	●	–	-85.30%	●	↓	63.50%	124.00%	●	↓	Lower
Diamantina Shire Council	43%	-19.90%	-9.58%	●	–	-63.40%	●	↑	8.20%	45.98%	●	↓	Moderate
Flinders Shire Council	41%	14.00%	11.00%	●	↓	-63.00%	●	↑	25.20%	64.16%	●	↓	Lower
Longreach Regional Council	53%	-2.30%	-10.41%	●	↓	-17.10%	●	↑	51.40%	100.86%	●	↓	Higher
Murweh Shire Council	58%	-14.00%	-12.18%	●	↓	-4.00%	●	↑	85.00%	92.44%	●	↓	Higher
Paroo Shire Council	72%	4.00%	-20.83%	●	↑	-24.00%	●	↑	46.00%	60.68%	●	↓	Higher
Richmond Shire Council	57%	-9.68%	-30.14%	●	–	-30.64%	●	↑	56.76%	156.18%	●	↓	Higher
Winton Shire Council	66%	-3.80%	-7.78%	●	↓	-104.37%	●	↑	246.79%	265.48%	●	↑	Moderate
Rural/Remote councils average	57%	-3.40%	-12.69%			-46.20%			85.37%	98.16%			
Rural/Remote councils – 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 councils													
Brisbane City Council	13%	-3.00%	3.09%	●	↓	125.00%	●	↑	55.00%	75.20%	●	↓	Moderate
Council of the City of Gold Coast	19%	-1.10%	-1.33%	●	–	-16.10%	●	↑	63.00%	59.82%	●	↑	Moderate
Ipswich City Council	30%	2.74%	4.21%	●	↓	67.13%	●	↑	70.69%	64.35%	●	–	Moderate
Logan City Council	27%	5.28%	2.61%	●	–	-9.76%	●	↓	63.12%	74.81%	●	↓	Lower
Moreton Bay Regional Council	25%	10.70%	17.83%	●	↓	19.50%	●	↓	70.10%	62.98%	●	↑	Lower
Redland City Council	11%	1.63%	-3.01%	●	↑	-45.94%	●	↑	66.31%	50.97%	●	↑	Moderate
Sunshine Coast Regional Council	25%	9.30%	6.68%	●	–	58.80%	●	↓	71.20%	72.04%	●	↓	Lower
Toowoomba Regional Council	21%	-1.10%	1.41%	●	–	49.76%	●	↑	73.84%	66.16%	●	↑	Lower
SEQ councils average	21%	3.06%	3.94%			31.05%			66.66%	65.79%			
SEQ councils – combined risk assessment						Lower						Moderate	Lower

Notes:

¹ Average grant funding percentage shows the 5-year average level of grant funding as a percentage of total revenue per council. This does not form a part of the financial sustainability ratios but has 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 2021–22 with the average ratio from 2020–21. 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.

* The 2021–22 audit for this council is unfinished. The sustainability measures reported are based on the audited 2020–21 financial statements.

** The 2020–21 and 2021–22 audits for this council are 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.

