

# L. Future financial sustainability measures

The Department of Housing, Local Government, Planning and Public Works has introduced a new sustainability guideline – *Financial Management (Sustainability) Guideline (2023)* – that will apply from the 2023–24 financial year onwards.

The new guideline has considered the challenges that councils face, especially in rural and remote areas, and introduces additional ratios to measure financial sustainability. This guideline groups councils into tiers (based on their remoteness and their population) as shown in Figure L1.

**Figure L1**  
**Sustainability groupings of councils that apply from 1 July 2023**

<b>Tier 1 councils (1 council)</b>						Population of 1,000,000 or more residents
Brisbane CC						
<b>Tier 2 councils (11 councils)</b>						Population between 100,000 and 999,999 residents
Cairns RC	Gold Coast CC	Fraser Coast RC	Ipswich CC	Logan CC	Mackay RC	
Moreton Bay CC	Redland CC	Sunshine Coast RC	Toowoomba RC	Townsville CC		
<b>Tier 3 councils (7 councils)</b>						Population between 40,000 and 99,999 residents
Bundaberg RC	Gladstone RC	Gympie RC	Lockyer Valley RC	Noosa SC	Rockhampton RC	
Scenic Rim RC						
<b>Tier 4 councils (11 councils)</b>						Population between 20,000 and 39,999 residents
Cassowary Coast RC	Central Highlands RC	Isaac RC	Livingstone SC	Mareeba SC	Somerset RC	
South Burnett RC	Southern Downs RC	Tablelands RC	Western Downs RC	Whitsunday RC		
<b>Tier 5 councils (9 councils)</b>						Population between 10,000 and 19,999 residents
Banana SC	Burdekin SC	Charters Towers RC	Douglas SC	Goondiwindi RC	Hinchinbrook SC	
Maranoa RC	Mount Isa CC	North Burnett RC				
<b>Tier 6 councils (7 councils)</b>						Population between 2,000 and 9,999 residents
Balonne SC	Barcaldine RC	Cloncurry SC	Cook SC	Longreach RC	Murweh SC	
Torres SC						
<b>Tier 7 councils (15 councils)</b>						Population between 0 and 1,999 residents
Barcoo SC	Blackall-Tambo RC	Boulia SC	Bulloo SC	Burke SC	Carpentaria SC	
Croydon SC	Diamantina SC	Etheridge SC	Flinders SC	McKinlay SC	Paroo SC	
Quilpie SC	Richmond SC	Winton SC				
<b>Tier 8 councils (16 councils)</b>						Population less than 10,000 residents
Aurukun SC	Cherbourg ASC	Doomadgee ASC	Hope Vale ASC	Kowanyama ASC	Lockhart River ASC	
Mapoon ASC	Mornington SC	Napranum ASC	Northern Peninsula Area RC	Palm Island ASC	Pormpuraaw ASC	
Torres Strait Island RC	Woorabinda ASC	Wujal Wujal ASC	Yarrabah ASC			

Note: ASC = Aboriginal Shire Council; CC = City Council; RC = Regional Council, SC = Shire Council.

Source: Compiled by the Queensland Audit Office, using the Department of Housing, Local Government, Planning and Public Works's *Financial Management (Sustainability) Guideline (2023)*.

## Sustainability measures

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The new guideline has 9 ratios on which councils are required to report in their financial sustainability statements, as a part of the financial statements. The council-controlled revenue, population growth, and asset renewal funding ratio measures are reported by councils for contextual purposes only and will not be audited by us.

We have summarised the 6 ratios that we will audit, including the target benchmarks in Figure L2.



**Figure L2**  
**The financial sustainability ratios we will audit and benchmarks per the new financial sustainability guidelines**

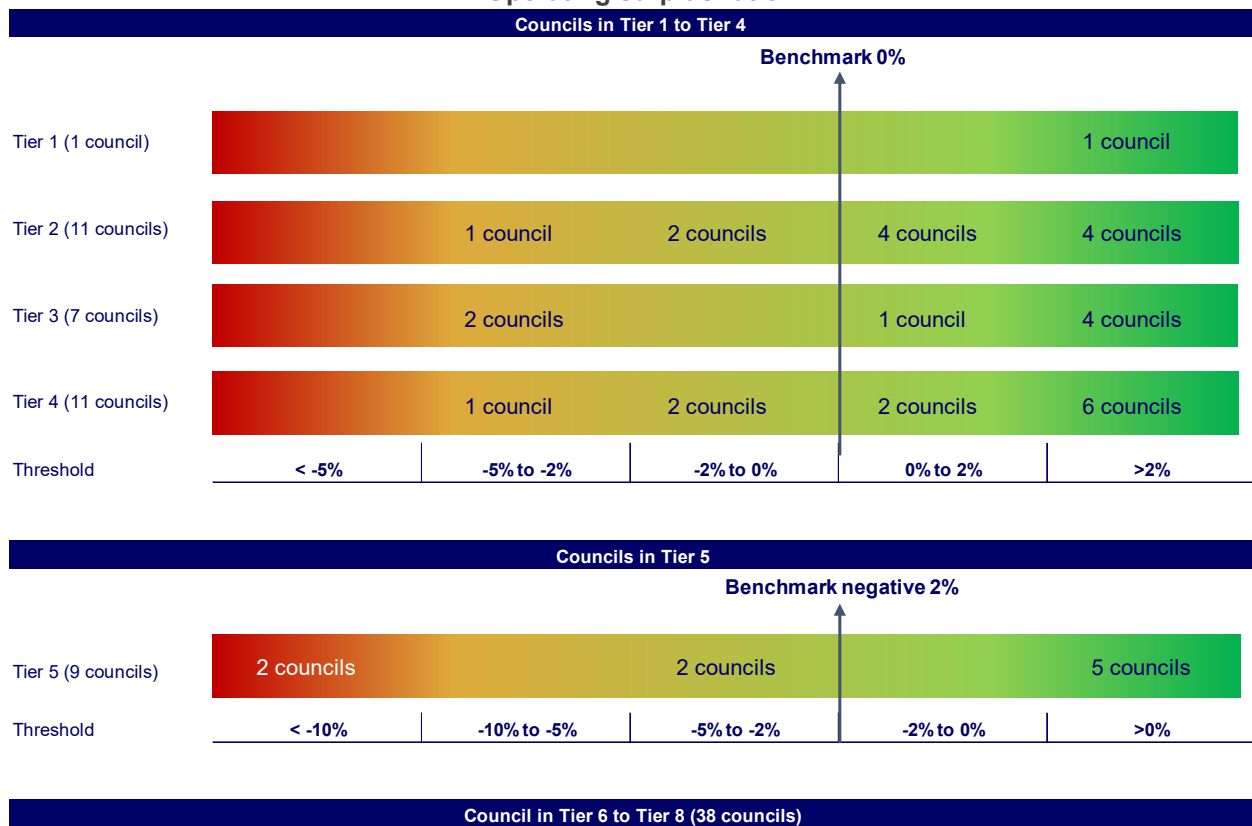
Ratio (measure)	Description	Formula	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 6	Tier 7	Tier 8
Operating surplus ratio	An indicator of the extent to which operating revenues generated cover operational expenses.	<i>Operating results divided by Operating expenses</i> Expressed as percentage	> 0%	> 0%	> 0%	> 0%	> -2%	N/A *	N/A *	N/A *
Operating cash ratio	Measure of council's ability to cover its core operational expenses	<i>Operating results plus depreciation and amortisation divided by Operating revenue</i> Expressed as percentage	>0%	>0%	>0%	>0%	>0%	>0%	>0%	>0%
Unrestricted cash expense cover ratio	Indicator of the unconstrained liquidity available to council to meet ongoing and emergent financial demands	<i>[Total cash &amp; cash equivalents plus current investments plus available QTC working capital facility less externally restricted cash] divided by [Total operating expenditure less depreciation and amortisation less finance costs]</i>	>2	>2	>3	>4	>4	>4	>4	>4
Asset sustainability ratio	Indicates the extent to which assets are being replaced as they reach the end of their useful lives	<i>Capital expenses on replacement of assets (renewals) divided by depreciation expenses</i> Expressed as a percentage	>50%	>60%	>80%	>80%	>90%	>90%	>90%	>90%
Asset consumption ratio	Measures the extent to which council's infrastructure assets have been consumed compared what it would cost to build a new asset with the same benefit to the community	<i>Written down replacement cost of depreciable infrastructure assets divided by gross replacement cost of depreciable infrastructure assets</i> Expressed as a percentage	>60%	>60%	>60%	>60%	>60%	>60%	>60%	>60%
Leverage ratio	Indicator of council's ability to repay its debts	<i>Book value of debt divided by Operating results plus depreciation and amortisation</i> Expressed in times	0–5	0–4	0–3	0–3	0–3	0–3	0–3	0–3

Note: \* Under the department's guidelines, for tiers 6 to 8, the operating surplus ratio is contextual only – meaning that although these councils need to report this ratio, they do not have a benchmark for this ratio to measure their performance against.

Source: Department of Housing, Local Government, Planning and Public Works's Financial Management (Sustainability) Guideline (2023).

In the following tables, we have replicated how these ratios would be presented under the department’s risk framework. We have not applied our own risk assessment over these ratios.

**Figure L3**  
**Operating surplus ratio**

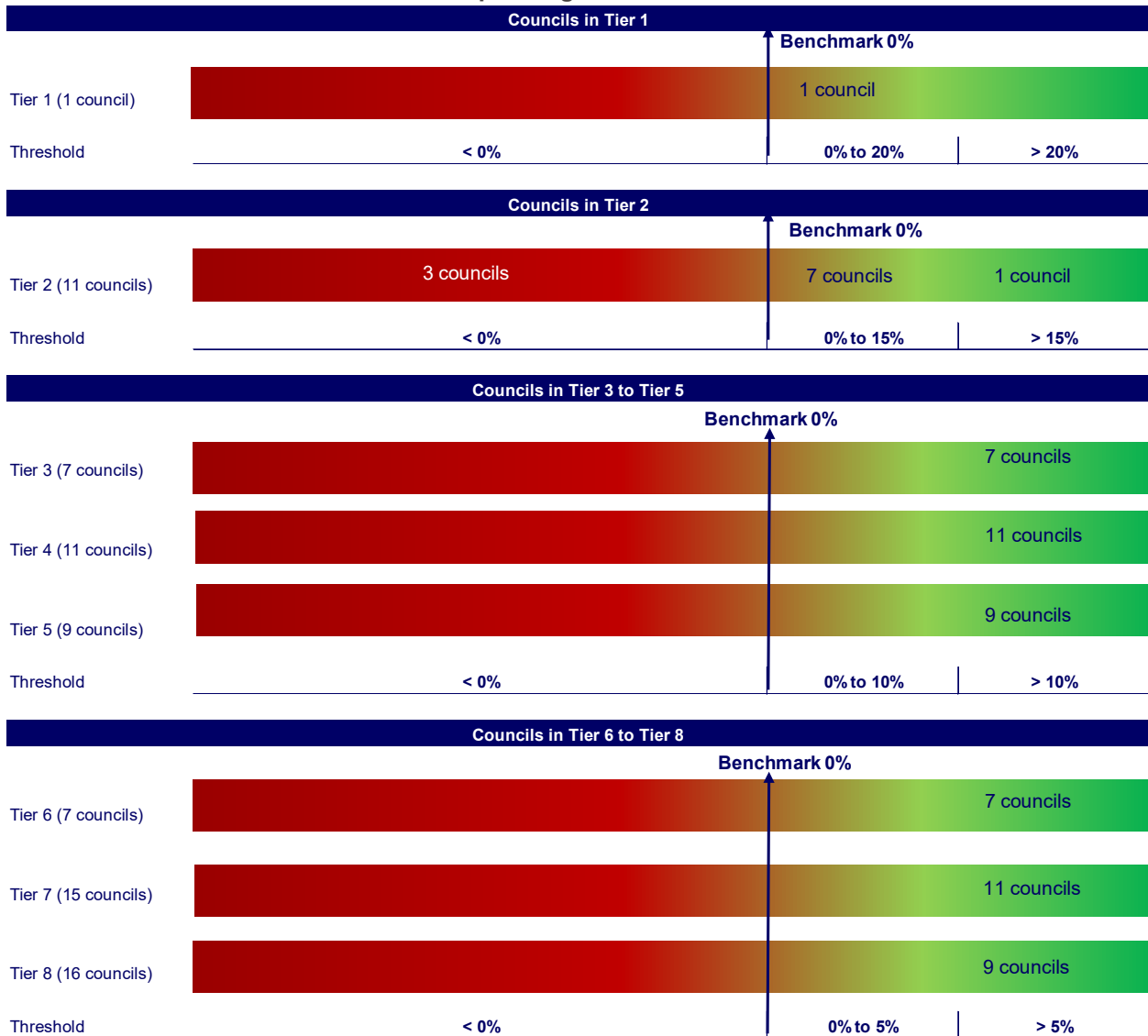


Councils in these tiers do not have a benchmark against which they need to measure their operating surplus ratios.

Source: Compiled by the Queensland Audit Office, from councils’ certified financial statements available 31 October 2023 – refer to [Appendix C](#) for further information.



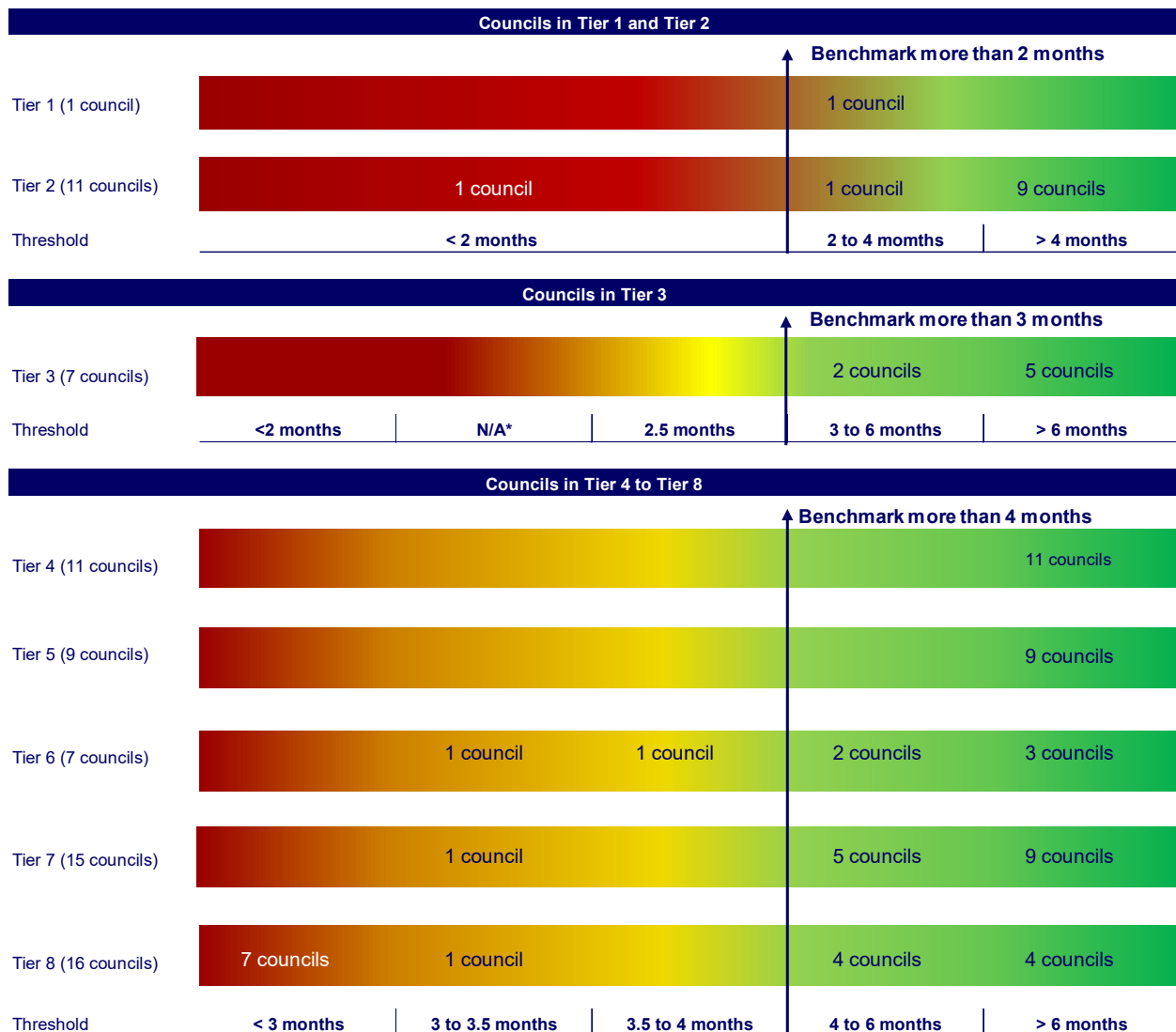
**Figure L4  
Operating cash ratio**



Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to [Appendix C](#) for further information.



**Figure L5**  
**Unrestricted cash expense cover ratio**

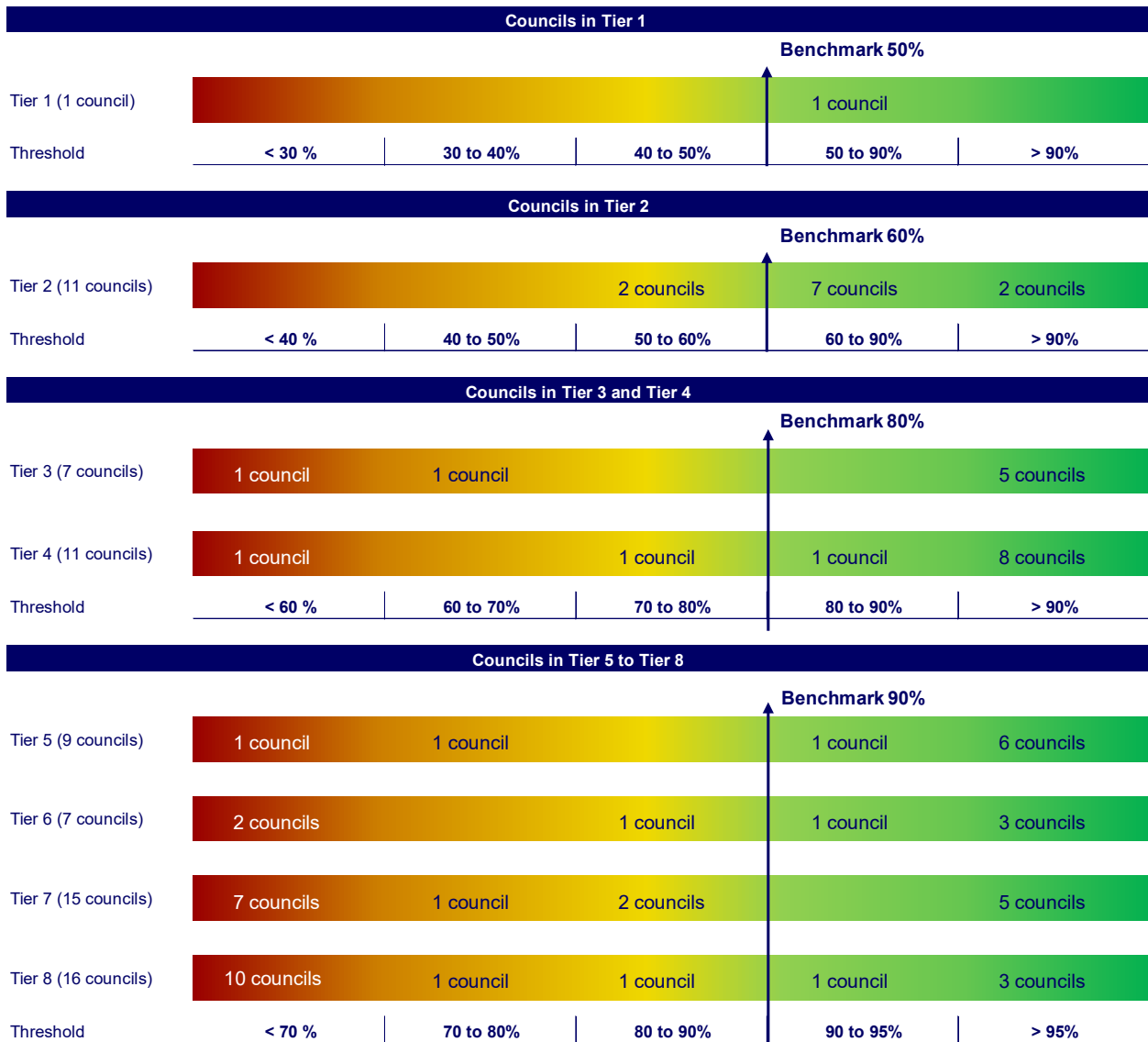


\* The N/A range included in tier 3 is per the department's Risk Framework – Financial Sustainability.

Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to [Appendix C](#) for further information.



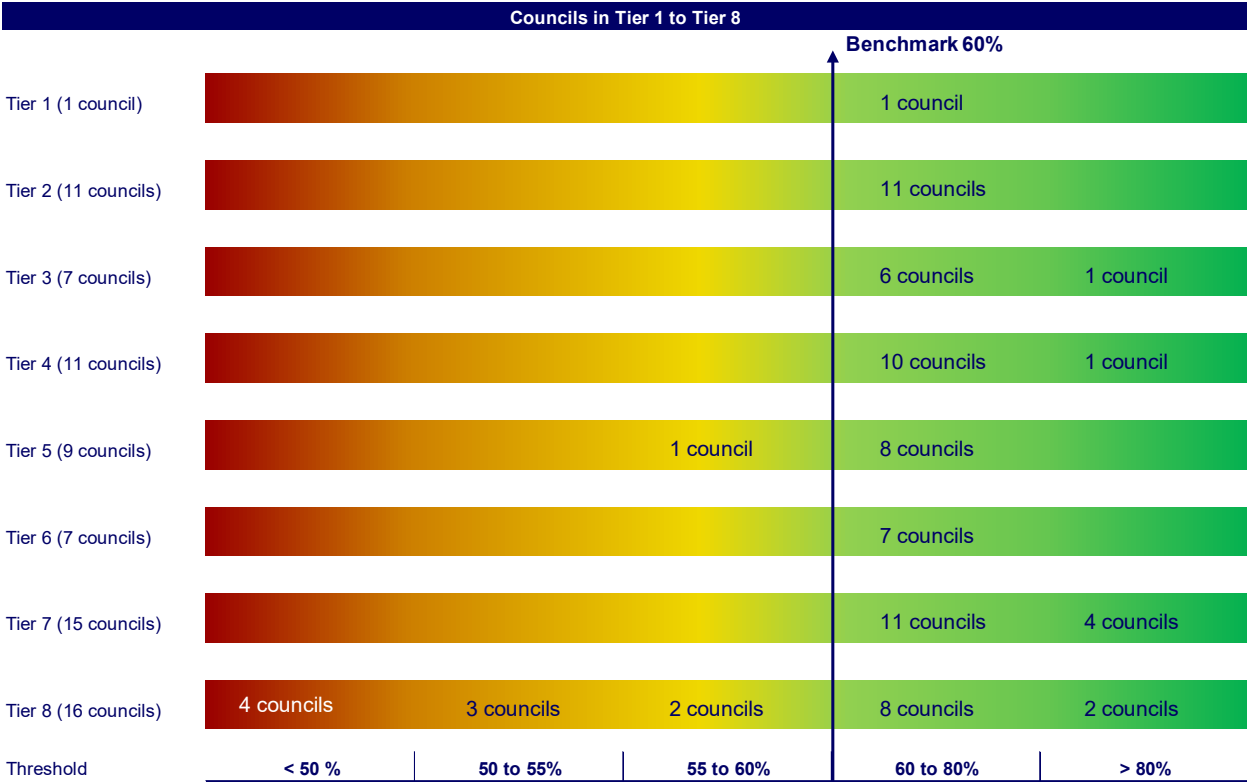
**Figure L6**  
**Asset sustainability ratio**



Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to [Appendix C](#) for further information.



**Figure L7**  
**Asset consumption ratio**

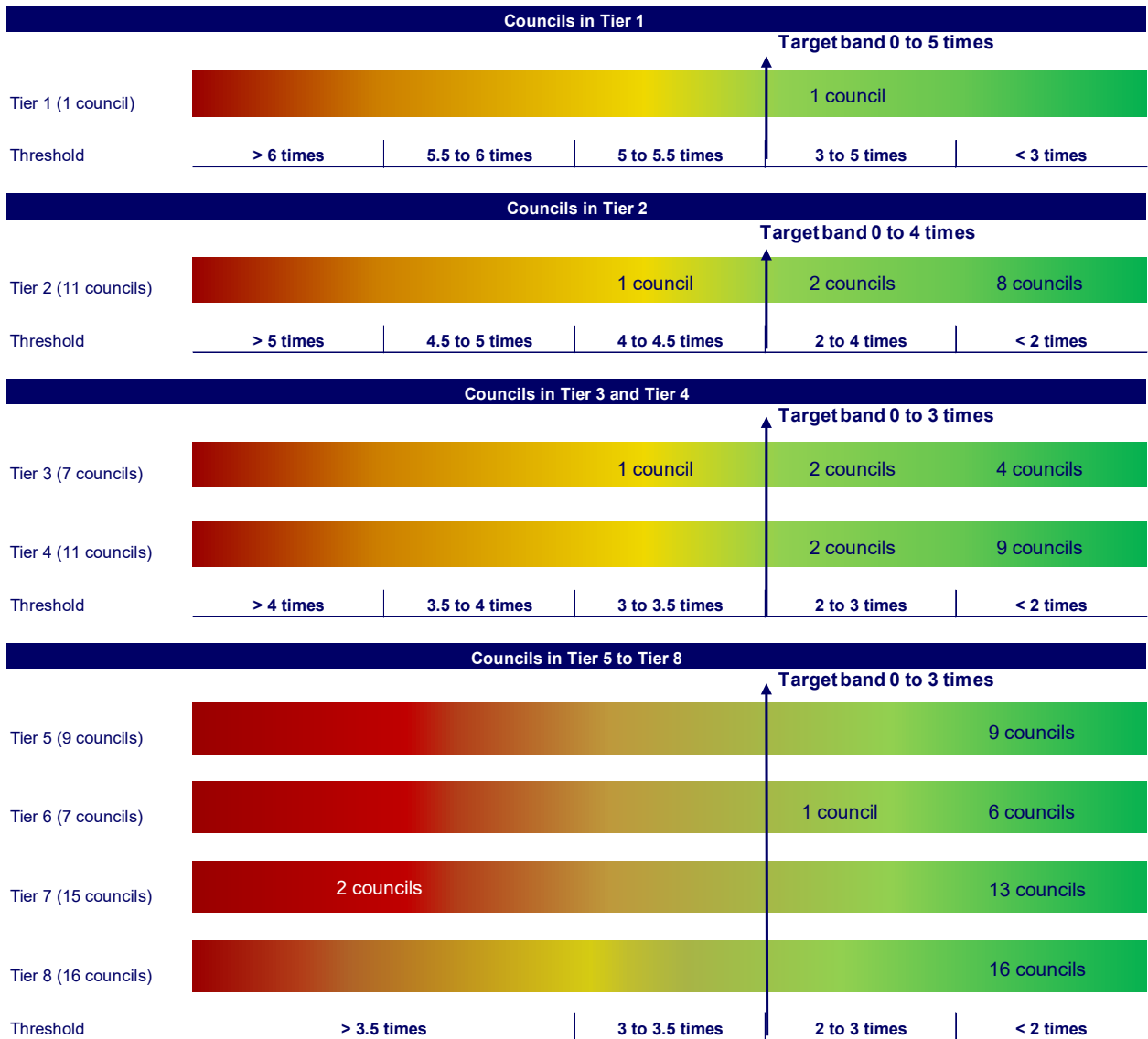


Source: Compiled by the Queensland Audit Office, from councils’ certified financial statements available 31 October 2023 – refer to [Appendix C](#) for further information.





**Figure L8  
Leverage ratio**



Source: Compiled by the Queensland Audit Office, from councils' certified financial statements available 31 October 2023 – refer to [Appendix C](#) for further information.

