

**Victorian Auditor General's Office  
Sustainability Indicators**

**SUNBURY OUT OF HUME CITY COUNCIL**

June 2014

Refer to the Victorian Auditor General's Office (VAGO) Local Government Results of the 2013-13 Audits for the following information.

The Panel considers the Victorian General's Office Financial sustainability Indicators appropriate for a new municipality.

The Victorian Auditor General's Report, Local Government Results of the 2012-13 Audits identifies indicators used in reflecting short and long-term sustainability and a measured by:

- ☐ **Underlying Result** (per cent) - generate enough revenue to cover operating costs (including the cost of replacing assets reflected in depreciation expense). This is demonstrated by comparing the adjusted net surplus to the total underlying revenue. A positive result indicates a surplus. The larger the percentage the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account non-cash developer contributions and other one-off non-recurring adjustments.
- ☐ **Liquidity** (ratio) - have sufficient working capital to meet short-term commitments. This is demonstrated by comparing current assets with current liabilities. Measures the ability to pay existing liabilities in the next 12 months. Ratio higher than 1:1 means there is more cash and liquid assets than short-term liabilities.
- ☐ **Indebtedness** (per cent) - are not overly reliant on debt to fund capital programs. This is demonstrated by comparing non-current liabilities to own sourced revenue. This is demonstrated by a comparison of non-current liabilities (mainly comprised of borrowings) to own sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues the entity generates itself. Own sourced revenue is used (rather than total revenue) because it does not include capital grants, which are usually tied to specific projects.
- ☐ **Self-financing** (per cent) - generate sufficient operating cash flows to invest in asset renewal and repay any debt it may have incurred in the past. This is demonstrated by comparing net operating cash flow to the underlying revenue. Measures the ability to replace assets using cash generated by the entities operations. The higher the percentage, the more effectively this can be done.
- ☐ **Capital Replacement** (ratio) - have been replacing assets to rate consistent with their consumption. This is demonstrated by comparing capital expenditure to depreciation. Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.
- ☐ **Renewal Gap** (ratio) - have been maintaining existing assets at a consistent rate. This is demonstrated by comparing renewal and upgrade expenditure and appreciation. Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate. Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.