ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA

Advice

# Local Government Advice

## City of Port Lincoln

February 2023

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# Glossary of terms

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|---|---|
| ABS | Australian Bureau of Statistics |
| AMP | Asset management plan (also called an IAMP) |
| Commission | Essential Services Commission, established under the *Essential Services Commission Act 2002* |
| CPI | Consumer Price Index (Adelaide, All Groups) |
| Council | City of Port Lincoln |
| CWMS | Community Wastewater Management System |
| ESC Act | *Essential Services Commission Act 2002* |
| F&A | Local Government Advice: Framework and Approach – Final Report |
| FTE | Full Time Equivalent |
| IAMP | Infrastructure and asset management plan (also called an AMP) |
| LG Act | *Local Government Act 1999* |
| LGA SA Financial Indicators Paper | Local Government Association of South Australia, Financial Sustainability Information Paper 9 - Financial Indicators Revised May 2019 |
| LGGC | Local Government Grants Commission |
| LGPI | Local Government Price Index |
| LTFP | Long-term financial plan |
| Regulations | *Local Government (Financial Management) Regulations 2011* |
| RBA | Reserve Bank of Australia |
| SACES | The South Australian Centre for Economic Studies |
| SEIFA | Socio-Economic Indexes for Areas |
| SMP | Strategic management plan |
| SG | Superannuation Guarantee |
| The scheme or advice | Local Government Advice Scheme |

# 1 The Commission's key advice findings for the City of Port Lincoln

The Essential Services Commission (**Commission**) finds the City of Port Lincoln's (**Council's**) current financial position sustainable, on balance, with a small operating surplus achieved historically and growing surpluses and cash reserves forecast. However, the Council's projected improvement to its financial performance is reliant on continued rate increases above inflation. Further, there are some risks to its financial performance around its growth forecasts and the possibility of additional capital spending beyond what it has forecast. This could displace asset renewal spending or create further upward pressure on rate levels.

Acknowledging this outlook, the Commission considers that it would be appropriate for the Council to undertake the following steps to ensure that it budgets transparently, manages its cost base efficiently, renews its asset base to meet sustainable service levels, plans its asset needs appropriately and constrains the extent of further rate increases:

Budgeting considerations

1. **Review** its inflation assumptions related to wages and materials in its forward projections, given the potential for a return to long-term average inflation from 2024-25, and either remove or increase the transparency of the additional 'custom' allowance that it applies to some projections.
2. **Focus** on constraining cost growth in its budgeting, where possible, including related to 'employee' and 'materials, contracts, and other' expenses.

Providing evidence of ongoing cost efficiencies

3. **Report** its actual and projected cost savings in its annual budget, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Accumulation of cash reserves

4. **Review** the extent of cash reserves forecast in the context of its financial sustainability outlook and need for the accumulated funds.

Continuing to meet asset renewal needs

5. **Adhere** to the principles underpinning its long-term financial plan projections to continue to adequately fund the renewal of its assets, and to limit future expenditure on new or upgraded infrastructure as required, in consultation with its community about desired service levels and rate contributions.

Refinements to asset management planning

6. **Review** the assumptions underpinning its asset management plans, to ensure those plans incorporate a more accurate picture of required asset expenditure and better align with the allocations in its long-term financial plan as necessary, including the estimates of asset lives and valuations feeding into the forecast rates of asset consumption and depreciation expenses.


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Containing rate levels

7. **Review** the rateable property growth forecasts in its budget projections each year to ensure that they remain current and do not create a need for additional rate increases to generate the same level of projected revenue.
8. **Review** and **consider** limiting future increases on its average rates to help reduce any potential emerging affordability risk in the community, in consultation with the community with reference to service levels.

# 2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by the State Government to provide advice on material changes proposed by local councils in relation to elements of their strategic management plans (**SMPs**) and on the proposed revenue sources, including rates, which underpin those plans.[1]

One of the main purposes of the Local Government Advice Scheme (**advice** or **the scheme**) is to support councils to make 'financially sustainable' decisions relating to their annual business plans and budgets in the context of their long-term financial plans (**LTFPs**) and infrastructure and asset management plans (**IAMPs**)[2] – both required as part of a council's SMP.[3] Financial sustainability is considered to encompass intergenerational equity,[4] as well as program (service level) and rates stability in this context.[5] The other main purpose is for the Commission to consider ratepayer contributions in the context of revenue sources, outlined in the LTFP.[6] In addition, the Commission has discretion to provide advice on any other aspect of a council's LTFP or IAMP it considers appropriate, having regard to the circumstances of that council.[7]

The first cycle of the scheme extends over four years from 2022-23 to 2025-26, and the Commission has selected 15 councils for advice in the first scheme year (2022-23), including the City of Port Lincoln (**Council**).

This report provides the Local Government Advice for the City of Port Lincoln in 2022-23.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2023-24 Annual Business Plan (including any draft Annual Business Plan) and subsequent plans until the next cycle of the scheme.[8] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[9]), nor is it compelled under the LG Act to follow the advice. The Commission thanks the City of Port Lincoln for providing relevant information to assist the Commission in preparing this advice.

## 2.1 Summary of advice

In general, the Commission finds the City of Port Lincoln's current financial position sustainable, on balance, with a small operating surplus achieved historically and growing surpluses forecast. The Council will continue to rely on rate increases, generally above the rate of inflation, to achieve this performance.

The Council also forecast an accumulation of cash with declining borrowings over the forecast period, following a period of high capital spending on key projects such as the Council depot upgrade and foreshore redevelopment, and higher short-term debt levels. This should provide it with leverage to

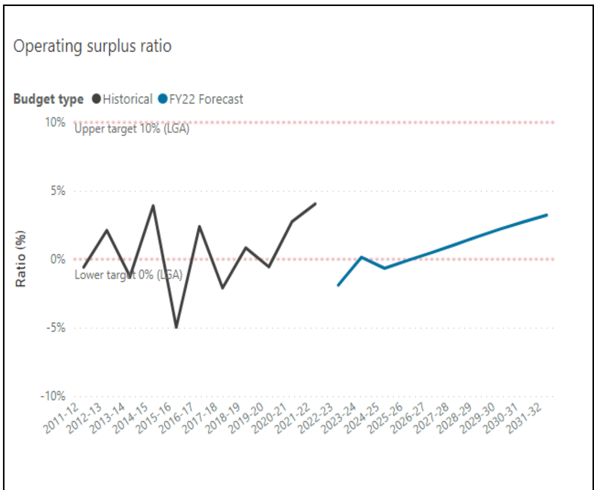
1 Amendments to the *Local Government Act 1999* (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).
2 Commonly referred to as asset management plans.
3 The objectives of the advice with reference to a council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMPs.
4 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.
5 Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
6 LG Act s122(1f)(a) and (1g)(a)(ii).
7 LG Act s122(1f)(b) and (1g)(b).
8 LG Act s122(1h).
9 The Commission must publish its advice under LG Act s122(1i)(a).

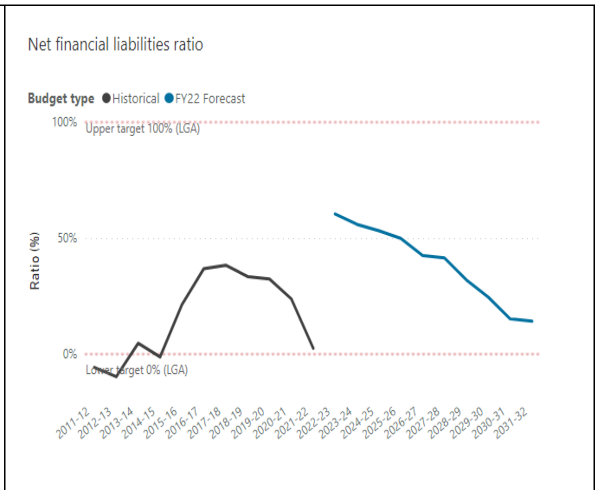
consider reducing further rate increases, as well as other spending initiatives, in consultation with its community.

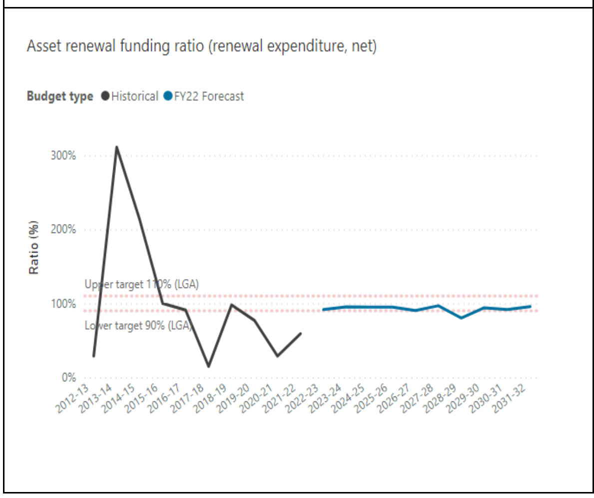
The Council has a history of incurring high growth in employee costs and, to a lesser extent, contract-related costs, with the rate base funding much of that growth. The Commission encourages the Council to identify and report efficiencies and recurrent savings in its annual business plan, including related to its staffing and contracts.

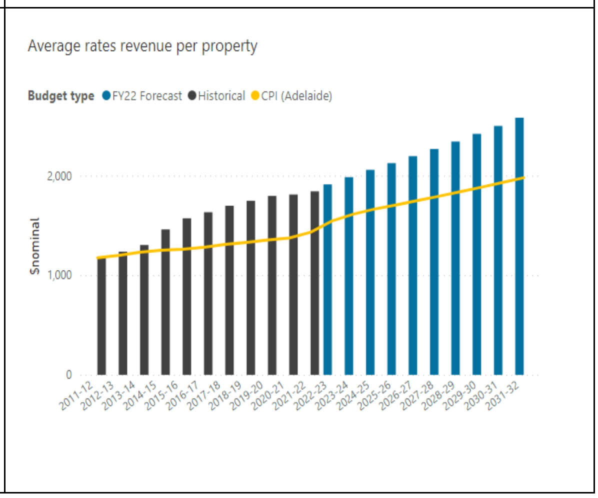
Its projections for lower capital spending on new and upgraded assets will help to reduce the potential of higher than projected rate increases for its community, avoid any emerging affordability risk and support its ongoing asset and service sustainability. The Council has prioritised adequate spending on its asset renewal needs but the Commission has identified potential areas for further review by the Council in relation to asset management planning and consequential depreciation expenses.

The charts below of the City of Port Lincoln's past and projected operating surplus ratio, net financial liabilities ratio, asset renewal funding ratio and average rate revenue per property, together support these findings. The 'heat map' diagram over the page summarises the Commission's findings with reference to whether the Council has met the suggested LGA target ranges for the three main financial sustainability indicators[10] and the level of cost control and affordability risk identified for the Council over time.

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10 The suggested LGA target range for the ratios are discussed in more detail in the attachment.

Summary of the City of Port Lincoln's financial sustainability performance and the Commission's risk assessment

| Financial sustainability indicators: | Last 10 years from 2011-12 (Actual performance) | 2021-22 estimate | Next 10 years from 2022-23 (Council forecasts) |
|---|---|---|---|
| Operating surplus ratio (target 0-10%) | Operating surpluses but ratio target not consistently achieved | Ratio within target range from 2020-21 and throughout forecast period ——> | |
| Net financial liabilities ratio (target 0-100%) | Negative ratio to 2014-15; Ratio within target range from 2015-16 and throughout forecast period ——> | | |
| Asset renewal funding ratio (target 90-110%) | Spending on renewal works within target range, on average ——> | | Ratio target range met in forecasts with higher projected spending on asset renewal works ——> |
| Identified Risks: | | | |
| Cost control risk | Operating expenses per property average growth 4.3% p.a. to 2020-21 (CPI 1.7%.) ——> | | Operating expenses per property forecast average growth 2.3% p.a.to 2031-32, lower than projected average CPI (2.8%) ——> |
| Affordability risk | Rate revenue per property average growth 4.6% p.a. to 2021-22 (CPI 2.0%) | | Projected rate revenue per property average growth 3.4% p.a. to 2031-32, above forecast average CPI (2.8%) ——> |

Ratio outside suggested LGA target range or higher risk within

Ratio close to suggested LGA target range or medium risk

Ratio within suggested LGA target range or lower risk

The higher rate levels for the Council's community from 2022-23 present an emerging affordability risk, which could be partially addressed through reducing new or upgraded capital expenditure in the short-term (to 2023-24). Furthermore, the Council could investigate reducing the level of its operating surpluses that it has forecast from 2025-26 to avoid rates increases in real terms from 2025-26 onwards.

## 2.2 Detailed advice findings

The next sections summarise the Commission's more detailed advice findings regarding the City of Port Lincoln's material changes to its 2022-23 plans (compared with the previous year's plans), its financial sustainability (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure) and its current and projected rate levels.

In providing this advice, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (F&A). The attachment explores these matters further.[11]

[11] The attachment will be available on the Commission's website with the advice.

### 2.2.1 Advice on material plan amendments in 2022-23

The City of Port Lincoln's 2022-23 budget includes increases to both its projected income and expenditure items to 2030-31, compared with the 2021-22 forecasts,[12] as follows:

- An additional $15.2 million or 6.6 percent in total operating income. This includes an additional $7.1 million or 4.3 percent in rates revenue and $3.7 million or 21.5 percent in 'grants, subsidies and contributions'.
- An additional $14.6 million or 6.4 percent in total operating expenses and $4.2 million or 11.3 percent in total capital expenditure. More than half of the City of Port Lincoln's higher operating expenses are due to an increase of $11.0 million or 9.8 percent in materials, contracts, and other expenses.[13] Employee expenses have also increased by $6.4 million or 9.4 percent. This is due to an increase in certain cost inputs as assumed by the Council from 2023-24 to 2031-32.

Based on the Council's inflation assumptions,[14] an increase in total revenue and expenditure estimates by around 6 to 7 percent over the nine years to 2030-31,[15] compared with its 2021-22 estimates, would reflect higher inflation alone.

The Council has assumed different cost drivers in its forward projections based on different Consumer Price Index (CPI), wages and material cost assumptions. In general, it assumes that wages and material cost inflation will exceed CPI inflation by 0.5 percent per annum. It has also included an annual 'custom' allowance of 1 percent for its '*use when appropriate for individual revenue or expense lines*' in all years except 2024-25, when it is 1.5 percent.[16] This means that the Council could assume in its current budgeting that its costs increase by up to 4 percent annually to 2031-32 (and 4.5 percent in 2024-25).

The Commission considers that the Council's CPI inflation forecasts are not unreasonable in the current inflationary environment (with 2.5 percent as the midpoint of the Reserve Bank of Australia's (RBA's) 2 and 3 percent target band) but that there is the risk that its longer-term cost index forecasts for wages, materials and potentially other series are high. [17]

In examining the Council's changes to its 2022-23 plans, the Commission has found that it would be appropriate for it to:

1. Review its inflation assumptions related to wages and materials in its forward projections, given the potential for a return to long-term average inflation from 2024-25, and either remove or increase the transparency of the additional 'custom' allowance that it applies to some projections.

[12] The overlapping forecast period in both LTFPs (2021-22 to 2030-31 and 2022-23 to 2031-32).

[13] City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 15, available at https://www.portlincoln.sa.gov.au/__data/assets/pdf_file/0021/1170732/18.80.1.7-FINAL228-Long-Term-Financial-Plan-2023-2032.pdf.

[14] The Council has increased its CPI growth forecast for 2022-23 from 1.5 percent to 3 percent from 2023-24 (which is lower than current RBA CPI forecasts in February 2023) and thereafter, from 1.5 to 2.5 percent (which is aligned to the midpoint of the RBA's target band of 2 and 3 percent).

[15] The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.

[16] City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 8.

[17] The RBA forecast for CPI is to increase by 6.7 percent in the year to the June 2023 quarter, by 3.6 percent in the year to the June 2024 quarter and by 3.0 percent in the year to the June 2025 quarter. Beyond June 2025 the RBA has not published inflation forecasts, but a return to the long-term average (of 2.5 percent based on the midpoint of the RBA's target range of 2 and 3 percent) is a reasonable assumption.

2. **Focus** on constraining cost growth in its budgeting, where possible, including related to 'employee' and 'materials, contracts, and other' expenses.

### 2.2.2 Advice on financial sustainability

**Operating performance**

The City of Port Lincoln has run five operating deficits[18] within the period 2011-12 to 2020-21 however it has generated a small operating surplus, as indicated by its average operating surplus ratio[19] of 0.2 percent over these years.

The Council's growth in its operating expenses in the 10 years to 2020-21 averaged 4.5 percent per annum, compared with average growth in operating income of 4.9 percent per annum.

The ratio is forecast to meet the suggested Local Government Association (**LGA**) target range, with a surplus, in 2023-24 (when it will be 0.1 percent). To 3031-32, the Council's average ratio is forecast to be 0.9 percent, which is also within the target range.

The past deficits are partly due to higher 'employee' expenses growth. Employee expenses account for 30 percent of the Council's operating expenses in 2022-23 and increased by an average of 7.7 percent each year from 2011-12 to 2020-21. This was due largely to the Council increasing the number of employees over the same period by an average of 4.3 percent each year (to 66 Full Time Equivalents). This compares with average annual CPI growth of 1.7 percent[20] and growth in property numbers averaging 0.1 percent annually over the same period.[21] The Council's 'materials, contracts and other' expenses also increased by an average of 4.4 percent per annum each year from 2011-12 to 2020-21.[22]

The estimated reduction in the rate of growth in operating expenses projected over the next 10 years (to an average of 2.8 percent per annum, which is aligned to the forecast inflation[23]), combined with higher rates increases, is expected to slowly improve the Council's operating performance. The impact of higher rate levels for the community are discussed more below.

In general, despite the Council's forecasts, the Commission considers that there is limited evidence of cost constraint to date by the Council. It has indicated its focus on further investment in various capital projects and its staffing capacity,[24] but there is no mention of specific savings or the quantum of any efficiency gains to be achieved in its forward budget.

18 This means the Council's operating expenses (including depreciation) have exceeded operating income (including rates and other revenue sources but excluding capital grants, subsidies, and contributions).

19 The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income. The general target is to achieve, on average over time, an operating surplus ratio of between zero and 10 percent (Local Government Association of South Australia, *Financial Sustainability Information Paper 9 - Financial Indicators Revised,* May 2019 (**LGA SA Financial Indicators Paper**), p. 6).

20 CPI (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 1.9 percent), available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.

21 Based on the compound average annual growth rate formula (which is the adopted approach to calculating average annual growth rates throughout the Commission's advice).

22 The Commission notes the impact of the increase in the solid waste levy on councils' waste management costs over this period.

23 The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.8 percent based on RBA forecasts for the CPI (Australia wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

24 City of Port Lincoln, *Annual Business Plan & Budget 2022/2023*, June 2022, p. 1, available at https://www.portlincoln.sa.gov.au/__data/assets/pdf_file/0018/1170720/18.80.1.6-FINAL2210-ABP-and-Budget-2022_2023-V4.pdf.

To improve its operating position without the need for continued rate increases above inflation, the Council would need to find more savings and efficiencies in its budgets. To this end, the Commission has found that it would be appropriate for the City of Port Lincoln to:

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| 3. Report its actual and projected cost savings in its annual budget, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery. |

**Net financial liabilities**

The net financial liabilities ratio[25] result was negative in three of the first four years between 2011-12 and 2020-21 (that is, the level of cash, cash equivalents and financial investments exceeded the level of borrowings and other liabilities). In each of the following six years, a result within the suggested LGA target range was achieved, with an annual average over the six years of 31 percent. The City of Port Lincoln has forecast that its net financial liabilities ratio will remain within the suggested LGA target range between 2022-23 and 2031-32.[26]

The Council's level of net financial liabilities is forecast to steadily decline from $14.3 million in 2022-23 to $4.5 million in 2031-32 while the net financial liabilities ratio is forecast to fall from 60 percent in 2022-23 to 14 percent in 2031-32.

The Council's cash and cash equivalent balance is forecast to increase from $2.1 million in 2022-23 to $10.5 million in 2031-32, an annual average growth rate of 19.5 percent. This forecast accumulation of cash would suggest that there is strong capacity to meet borrowing costs projected by the Council and opportunity for it to reconsider its projected rate increases, without comprising its financial sustainability.

For this reason, it would be appropriate for the City of Port Lincoln to:

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| 4. Review the extent of cash reserves forecast in the context of its financial sustainability outlook and need for the accumulated funds. |

**Asset renewals expenditure**

The City of Port Lincoln's asset renewal funding ratio (under the 'IAMP-based' approach)[27] has performed within the suggested LGA target range[28] in the 9 years to 2020-21, with an average of 107 percent. This suggests that the Council has been renewing or rehabilitating its asset base, on average, in line with the requirements for such works specified in its Strategic Asset Management Plan (including its asset management plans).

In recent years, the City of Port Lincoln has spent more on new and upgraded assets than the renewal and rehabilitation of its existing stock. Between 2011-12 and 2020-21, its spending on new or upgraded assets averaged $3.3 million per annum, compared with $1.9 million on the renewal of its asset base.

[25] The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100 percent of total operating income, but possibly higher in some circumstances (LGA SA Financial Indicators Paper, pp. 7-8).

[26] City of Port Lincoln, *Long Term Financial Plan 2022-23 to 2031-32*, June 2022, p. 37.

[27] The IAMP-based method is the current industry standard whereby asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). Ideally, this will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan. The suggested LGA target range for the ratio is 90 to 110 percent (LGA SA Financial Indicators Paper, p. 9).

[28] Between 90 and 110 percent.

The Council has forecast continued performance within the suggested LGA target range for the asset renewal funding ratio (with an average of 92.7 percent) from 2022-23 with the Council's annual spending on renewal assets projected to average $2.7 million to 2031-32 (in nominal terms). This coincides with lower forecast spending by the Council on new or upgraded assets (estimated to average $1.1 million per annum between 2024-25 and 2031-32) (in nominal terms).

After a period of high asset value growth, the Council is projecting a decline in the value of its asset stock per property in real terms over the forward estimates.

As such the Commission considers that it would be appropriate for the Council to:

5. Adhere to the principles underpinning its long-term financial plan projections to continue to adequately fund the renewal of its assets, and to limit future expenditure on new or upgraded infrastructure as required, in consultation with its community about desired service levels and rate contributions.

From 2022-23, the depreciation-based asset renewal funding ratio,[29] will continue to track below the suggested LGA target range of 90 percent, averaging 57 percent per annum to 2031-32. This mimics historical trends when the ratio averaged 51 percent from 2011-12 to 2020-21. These trends indicate that the depreciation expense is generally higher than the required expenditure on capital renewals under the council's SMP (including its various AMPs).

One area that might be leading to higher depreciation expense forecasts, relative to annual asset renewal expenditure needs, is the Council's recent accumulation of new assets following its capital expenditure projects. Another risk that arises when depreciation expenses exceed spending on asset renewals is that the asset lives are assumed to be shorter (in the depreciation calculation) than occurs in practice. The implication of projecting higher than necessary depreciation expenses is that higher operating income (and potentially higher rates revenue) is required to generate an operating surplus for the Council.

The Commission has also identified anomalies between the estimates in the City of Port Lincoln's Strategic Asset Management Plan (adopted August 2022) and Long Term Financial Plan (adopted June 2022), for example:

- In the current 2022-23 to 2031-32 LTFP, the Council has stated that renewal rehabilitation expenditure will be $27.2 million between 2022-23 and 2031-32[30], while the Strategic Asset Management Plan states total expenditure on renewal and rehabilitation will be $24.3 million for the same period.[31] Similarly, new and upgraded total expenditure in the 2022-23 LTFP is $20.0 million between 2022-23 and 2031-32[32] while the Strategic Asset Management Plan has total expenditure for new and upgraded expenditure at $11.3 million for the same period. [33]

For these reasons, it would be appropriate for the City of Port Lincoln to:

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[29] The Council's asset renewal funding ratio by the depreciation-based method (where asset renewal/replacement expenditure is divided by depreciation expenses). This ratio shows the extent to which capital expenditure on the renewal and replacement of assets matches the estimated rate at which these assets are used or consumed.

[30] City of Port Lincoln, *Long Term Financial Plan 2022-23 to 2031-32*, June 2022, p. 9.

[31] City of Port Lincoln, *Strategic Asset Management Plan 2023-2032*, August 2022, p. 8, available at https://www.portlincoln.sa.gov.au/__data/assets/pdf_file/0015/1203612/FINAL2214-_-STRATEGIC-ASSET-MANAGEMENT-PLAN-2023_2032-ADOPTED-BY-COUNCIL-20220815.pdf. Inflation should not be a significant contributing factor to the differences in estimates given the timing of both forecasts (noting the Strategic Asset Management Plan is dated August 2022).

[32] City of Port Lincoln, *Long Term Financial Plan 2022-23 to 2031-32*, June 2022, p. 18.

[33] City of Port Lincoln, *Strategic Asset Management Plan 2023-2032*, August 2022, p. 9.

6. **Review** the assumptions underpinning its asset management plans, to ensure those plans incorporate a more accurate picture of required asset expenditure and better align with the allocations in its long-term financial plan as necessary, including the estimates of asset lives and valuations feeding into the forecast rates of asset consumption and depreciation expenses.

### 2.2.3 Advice on current and projected rate levels

The City of Port Lincoln has applied rate increases, with average growth in rates revenue per property of 4.6 percent, or $70, per annum for each property over the last 10 years.[34] As stated, the RBA's annual CPI growth averaged 1.7 percent over this same period. The Council has implemented a 4.5 percent increase to its rate revenue in 2022-23,[35] which is higher than previously forecast due to a higher inflation estimate for 2022-23 (4.0 percent).[36]

Its 2022-23 LTFP forecasts an average increase of $669 to existing rates in total to 2031-32 (to $2,581 average rate per property), which equates to a 3.4 percent average annual increase (between 2022-23 and 2031-32).[37] The RBA revised its inflation forecasts for CPI to increase by 6.7 percent in the year to the June 2023 quarter, by 3.6 percent in the year to the June 2024 quarter and by 3.0 percent in the year to June 2025 quarter.[38] Beyond the June 2025 quarter, the RBA has not published inflation forecasts, but a return to the long-term average of 2.5 percent[39] from 2025-26 is not unreasonable.

The City of Port Lincoln's consultation on its annual business plan, which incorporated the proposed rate increases for 2022-23, indicated that most community respondents were concerned about different spending priorities and service outcomes. Two of 22 respondents mentioned rate increases as a specific concern.[40]

On the other hand, affordability risk among the community for the further rate increases appears to be emerging when considering:

- the average annual rate increases over the past 10 years
- continued rate increases above forecast inflation for the next 10 years
- the relatively low Socio-Economic Indexes for Areas (**SEIFA**) economic resources ranking for the City of Port Lincoln area,[41] and

[34] From 2011-12 to 2020-21.
[35] City of Port Lincoln, *Long Term Financial Plan 2022-23 to 2031-32*, June 2022, p. 9.
[36] City of Port Lincoln, *Long Term Financial Plan 2021-22 to 2030-31*, June 2022, p. 9.
[37] This includes rates growth of 0.5 percent expected each year.
[38] RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html The CPI (Australia-wide) is forecast to increase by 6.7 percent in the year to the June 2023 quarter, by 3.6 in the year to the June 2024 quarter and by 3.0 percent in the year to the June 2025 quarter.
[39] As per the midpoint of the RBA target range of 2 and 3 percent.
[40] City of Port Lincoln, *Audit and Risk Meeting Attachments -22 June 2022, Report 5.3 Summary of Community Consultation Report, to Annual Business Plan and draft LTFP*, available at https://lgasa-web.squiz.cloud/?a=1163588.
[41] The City of Port Lincoln area is ranked 15 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2016), where a lower ranking (eg, 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

- the cumulative impact of the rates when the waste and recycling service charges[42] and landscape levy charges are also considered.

Projected rate revenue is also dependent on the Council's growth forecasts (for rateable properties), which are higher than it has achieved in the past 10 years (averaging 0.5 percent per annum rather than 0.1 percent). If growth does not eventuate as forecast, it might require an additional average rate increase by the Council to generate similar forecast revenue. The strong cash position forecast over the longer term, as was discussed above, might also provide the Council with more financial leverage to limit further rate increases.

For these reasons, it would be appropriate for the City of Port Lincoln to:

7. Review the rateable property growth forecasts in its budget projections each year to ensure that they remain current and do not create a need for additional rate increases to generate the same level of projected revenue.
8. Review and consider limiting future increases on its average rates to help reduce any potential emerging affordability risk in the community, in consultation with the community with reference to service levels.

## 2.3 The Commission's next advice and focus areas

In the next cycle of the scheme, the Commission will review and report upon the City of Port Lincoln's:

- ongoing performance against its LTFP estimates
- review and action concerning its inflation assumptions, including its ad hoc 'custom' allowance
- achievement of cost savings and efficiencies (including operational savings), and its reporting of these achievements
- actions to reduce the extent of its projected cash reserves in forward years (through lower projected rate increases, for example)
- actions to address any misalignment between the capital expenditure and depreciation estimates in its LTFP and the Strategic Asset Management Plan
- the level of expenditure on new or upgraded assets and renewal or rehabilitation assets, in the context of any further consultation on service level outcomes (as applicable) and rate levels, and
- review of its growth forecasts and how it has sought to limit any emerging affordability risks identified for its ratepayers.

[42] The Commission notes the increase in the solid waste levy over the last 10 years, which has impacted waste management costs in the local government sector.

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