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Advice

Local Government Advice - Attachment

City of Port Lincoln

February 2023

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A The Commission's approach

In providing the Advice for the City of Port Lincoln (**Council**), the Essential Services Commission (**Commission**) has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**).¹

The Commission has considered the Council's strategic management plan (**SMP**) documents (as in the box below), with a particular focus on its performance and outlook against three financial indicators: the operating surplus ratio, the net financial liabilities ratio and the asset renewal funding ratio.² Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.³

- ▶ 2022-23 Annual Business Plan and Budget (adopted June 2022) and 2021-22 Annual Business Plan and Budget (adopted June 2021)
- ▶ Long Term Financial Plan 2022-23 to 2031-32 (adopted June 2022) and Long Term Financial Plan 2021-22 to 2030-31 (adopted June 2021)
- ▶ Strategic Asset Management Plan (adopted August 2022)
- ▶ Footpath Strategy (last updated March 2018)
- ▶ Open Space Strategy (last updated September 2021)
- ▶ Stormwater Asset Management Plan (last updated July 2017)

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and LTFPs,⁴ it has also considered the Council's performance in that context. Findings regarding the content of the City of Port Lincoln's AMPs, and the alignment between its LTFP and AMPs,⁵ are discussed in section C.3.

The Commission has also reviewed the Council's template data which contains its 2022-23 LTFP forecasts for 2022-23 to 2031-32, as well as its 2021-22 LTFP forecasts, and historical financial data and number of rateable properties and council staff (Full Time Equivalent (**FTE**)) numbers from 2011-12 onwards.^{6,7} All charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council audit committee reports, and other public information, as appropriate.

¹ Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

² The indicators are specified in the *Local Government (Financial Management) Regulations 2011 (Regulations)*. Since 2011, each council has been required to refer to these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. The councils can adopt their own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

³ The F&A listed 29 analytical questions that the Commission has answered in assessing the Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

⁴ *Local Government Act 1999 (LG Act)* s122(1g) (a)(i).

⁵ As required under s122(1b) of the LG Act.

⁶ Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and Council's data.

⁷ The Council's estimates for the 2021-22 financial year, relied on at the time of preparing this advice were unaudited.

The Commission has reported estimates in nominal terms, for consistency with the Council's plans and actual rate levels, but it has compared estimated inflation impacts to these trends as a guide to identify 'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (**CPI**) line shows the cumulative growth in the CPI (Adelaide) series from 2011-12, and then projections of this series from 2022-23 based on Reserve Bank of Australia (**RBA**) (Australia-wide) inflation forecasts (to the June quarter 2025), and the midpoint of the RBA target range (2.5 percent) thereafter.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the City of Port Lincoln Council, including its location as a regional council, its income level (\$23.7 million⁸) and the size of its rates base (more than 8,500 ratepayers⁹).

⁸ Based on the annual budget income in 2022-23. City of Port Lincoln, *Annual Business Plan & Budget 2022/2023*, June 2022, p. 24, 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.

⁹ Based on the estimated number of property assessments in 2022-23.

B Material plan amendments in 2022-23

The City of Port Lincoln has made various amendments to its 2022-23 budget and forward projections, partly for inflation and partly for other revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).¹⁰ To ensure a comparable analysis of estimates between the 2021-22 and 2022-23 LTFPs, the Commission has reviewed the nine overlapping years' statistics: 2022-23 to 2030-31 and identified material amendments accordingly.

Selected Financial Item	Sum of 2022-23 to 2030-31 estimates in 2021-22 LTFP (\$ million)	Sum of 2022-23 to 2030-31 estimates in 2022-23 LTFP (\$ million)	Change in 2022-23 estimates (\$ million)	Change in 2022-23 estimates (percent)
Rates and statutory charges income	168.8	176.7	7.9	+5
Total operating income	229.5	244.7	15.2	+7
Employee expenses	68.9	75.4	6.4	+9
Total operating expenses	228.3	242.8	14.6	+6
Capital expenditure on renewal of assets ¹¹	23.0	22.6	-0.4	-2
Capital expenditure on new and upgraded assets ¹²	14.3	19.0	4.6	+32
Total borrowings	71.7	89.6	17.9	+25

B.1 Increase to income estimates

The Council's estimated operating income to 2030-31 has increased by \$15.2 million or 7 percent in its 2022-23 LTFP estimates.¹³ Most of this increase is due to higher rates and statutory charges which increased by \$7.9 million or 5 percent on the 2021-22 estimates (for the period 2022-23 to 2030-31). The impact on current and projected rate levels are discussed more in section D.

Based on the Council's assumptions in its 2022-23 LTFP, an increase in its operating revenue and expenses estimates by around 6 to 7 percent to 2030-31 would be appropriate for higher inflation (compared with its estimates in 2021-22). The RBA has since increased its inflation forecasts further to mid-2025.¹⁴ from the key drivers and assumptions assumed by the City of Port Lincoln in its 2022-23 plans (1.5 percent CPI growth, 2.5 percent wages increase, and 1.5 percent materials increase). Beyond

¹⁰ This table shows only selected financial items to demonstrate the material amendments made by the Council in its 2022-23 estimates. It excludes various financial items and individual items do not sum to totals.

¹¹ The capital expenditure estimates are based on the 2022-23 LTFP estimates provided by the Council to the Commission (in an Excel template).

¹² Footnote 11 applies.

¹³ The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.

¹⁴ 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.

June 2025, the RBA has not published its inflation forecasts, but the Council has assumed its key cost drivers (materials and wages) will increase by at least 3 percent annually from 2023-24 to 2031-32.

The Council 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.¹⁵ 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 forecasts are not unreasonable in the current inflationary environment (with 2.5 percent as the midpoint of the RBA's 2-3 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.

Acknowledging the broader need for the City of Port Lincoln to seek to achieve greater efficiencies, where possible, to reduce its costs in real terms, the Commission considers 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.

B.2 Increase to expenditure estimates

The City of Port Lincoln's estimated operating expenses have increased by a total of \$14.6 million or 6 percent from 2022-23 to 2030-31, compared with its 2021-22 LTFP estimates.¹⁶

More than half of the City of Port Lincoln's higher operating expenses are due to higher 'materials, contracts, and other' expenses, with an increase of \$11.0 million or 10 percent on the 2021-22 LTFP estimates (from 2022-23 to 2030-31). Notably, the waste management contract expenses contributed almost 25 percent of the materials, contracts and other expenses in 2020 and 2021.¹⁷ ¹⁸ To ease any rates pressure, it would be appropriate for City of Port Lincoln to continue to seek out value for money through competitive tender processes in its contracts and other procurement activities.

'Employee costs' are forecast to increase year-on-year by 3.5 percent in 2022-23 (in the 2022-23 LTFP), partly due to higher inflation and partly due to the annual increases to the superannuation charges on wages to 2025, which together account for a 9.4 percent increase or \$6.4 million, compared with 2021-22.¹⁹ Although some of the forecast increase in expenses is not unreasonable in the context of the current cost environment (noting that the Adelaide CPI increased by 6.2 percent in the year to June 2022), the Commission advises that the Council should consider the need for greater cost constraints in its operations, where possible, to reduce the pressure on rate levels.

¹⁵ City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 8, 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.

¹⁶ This compares the LTFP estimates aggregated over the nine years from 2022-23 to 2030-31. The 2022-23 LTFP estimates for 2031-32 are not included in the comparison.

¹⁷ City of Port Lincoln, *Annual Report 2020 -2021*, p. 70, available at https://www.portlincoln.sa.gov.au/_data/assets/pdf_file/0019/1066510/18.68.1.1-FINAL2135-Annual-Report-2020-2021-Adopted-by-Council-20211115-resized.pdf.

¹⁸ 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.

¹⁹ The Superannuation Guarantee Levy is the amount that an employer is required to pay into a superannuation account on behalf of an employee. From 1 July 2021, the Superannuation Guarantee was legislated to rise in half per cent increments from 9.5 percent each year, until it reaches 12 percent of wages in 2025.

In terms of capital expenditure, the Council's latest (2022-23) LTFP has factored in a total of \$4.6 million additional new and upgraded capital works and a \$0.4 million reduction in capital renewal and replacement works between 2022-23 to 2030-31, compared with the previous year's LTFP.²⁰ The net increase is \$4.2 million or 11 percent more expenditure on the 2021-22 estimates across these years. The Council's capital expenditure outlook is discussed further in section C.3, including the difference between the Council's estimated annual depreciation expenses and asset renewal expenditure.

In examining all the City of Port Lincoln's changes to its LTFPs, the Commission has found that it would be appropriate for it to:

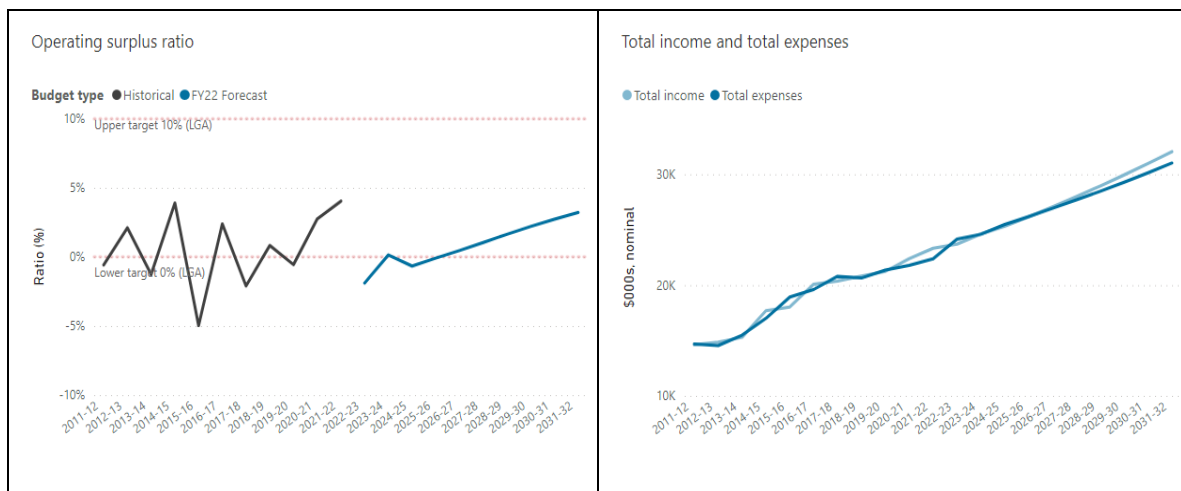
2. **Focus** on constraining cost growth in its budgeting, where possible, including related to 'employee costs' and 'materials, contracts, and other' expenses.

²⁰ Based on the Council's Excel template (with the 2022-23 forecasts) it provided to the Commission.

C Financial sustainability

C.1 Operating Performance

Historically, the City of Port Lincoln's operating performance has been quite volatile but on average, it has generated a small operating surplus, as indicated by its average operating surplus ratio²¹ of 0.2 percent, from 2011-12 to 2020-21 (see the left chart below). The Council has forecast the ratio to be negative in three of the four years between 2022-23 and 2025-26, largely due to higher 'employee' expenses growth (averaging 5.0 percent from 2021-22 to 2025-26) when employee expenses account for 30 percent of the Council's operating expenses in 2022-23). The improvement to its projected operating performance over the medium-term is attributable to the budgeting for continued rate income increases and slower expense growth than has been achieved historically (see the right chart below).



The Council's growth in its operating income in the 10 years to 2020-21 averaged 4.9 percent per annum, compared with average growth in operating expenses of 4.5 percent per annum. This coincided with a period of low property growth in the area and low inflation (rateable property number growth averaged 0.1 percent per annum and CPI growth averaged 1.7 percent per annum).²²

Rates revenue led the growth in income and increased by an average of 5.0 percent per annum from 2011-12 to 2020-21²³ while revenue from 'grants, subsidies and contributions' grew at a lower rate (2.1 percent per annum over the same period). Grants income has been 'lumpy' from year to year²⁴ but the three-year annual average of \$290 per ratepayer in 2020-21 compares with the three-year annual average of \$202 in 2013-14 which reflects an increase in value in real terms (since it is slightly higher than inflation growth over this period).

²¹ 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).

²² 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>.

²³ 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).

²⁴ Due to the timing of different grants and sometimes advance grant payments (as for the 2022-23 grant allocation).

The high operating expense growth (from 2011-12 to 2020-21) was primarily due to an average annual increase of 7.7 percent in ‘employee’ expenses and 4.4 percent in ‘materials, contract and other’ expenses (see the changes by expense type in specific time periods in the left chart on the next page).²⁵ The Council increased its number of full-time employees over the same period by an average of 4.3 percent each year (to 66 FTE). Notably, the waste management contract expenses contributed almost 25 percent of the materials, contracts and other expenses category in 2019-20 and 2020-21.

Looking forward, the Council is projecting average annual rates revenue growth of 3.4 percent to 2031-32, which is set to outpace inflation²⁶ and expense growth (rate levels and associated affordability risk are discussed in more detail in section D).

Lower average expense growth of 2.8 percent per annum is aligned to forecast inflation growth²⁷ and marks a shift from the Council’s past performance concerning its cost management.

Expenses per property (a metric which also accounts for growth²⁸) are expected to increase by an average of 2.3 percent per annum over this period, which would represent a cost reduction in real terms (based on RBA-based inflation projections) (see the right chart below).



‘Employee’ expenses are now forecast to increase by an average of 3.5 percent per annum from 2022-23 to 2031-32 (including the period of high growth, as stated above, to 2025-26), which again is above projected inflation growth.²⁹

‘Materials, contracts and other’ expenses are forecast to increase by an average of 3.0 percent per annum, which would also reflect much more contained growth and is relatively aligned with the Council’s forecast inflation for these costs.³⁰

As a result of these forecasts, the operating surplus ratio is estimated to average 0.9 percent between 2022-23 to 2031-32, which is within the suggested LGA target range.

The Commission notes that the Council has not factored any explicit savings into its 2022-23 annual business plan and budget. It has indicated its focus on further investment in various capital projects

²⁵ The Commission notes the impact of the increase in the solid waste levy on councils’ waste management costs over this period.

²⁶ 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.

²⁷ See footnote 26.

²⁸ The Council has forecast average annual property number growth of 0.5 percent from 2022-23 to 2031-32.

²⁹ Including the Council’s forecast wage inflation (3 percent per annum from 2023-24).

³⁰ City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, Appendix B.

and its staffing capacity,³¹ but there is no mention of efficiency gains to be achieved in its forward budget.

In general, it would be appropriate for the City of Port Lincoln to find savings, where possible, that can be directly factored into its future budgets. As one example, it would be appropriate for City of Port Lincoln to continue focusing on employee costs. The Council forecasts increases in salary and wage expenses of an average of 3.5 percent per annum for 2023-24 to 2031-32, including superannuation increases.³² Given that the incremental increases to superannuation charges on wages finishes in 2025, the Commission notes the need for greater 'cost control' across the forward estimates between 2026-27 and 2031-32.

Based on the outcomes from these approaches, it would be appropriate for the Council to:

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.

C.2 Net financial liabilities

The Council's net financial liabilities ratio has trended downward from 21.3 to 2.5 percent between 2015-16 and 2021-22 (see the bottom left chart over the page). This is mostly within the suggested LGA target range for the indicator of between zero and 100 percent and is at a level which demonstrates that the Council is accumulating relatively modest liabilities that its operating income can reasonably service (see top right chart over page).³³

The Council has estimated that the ratio will be 60.4 percent in 2022-23 with additional borrowings of almost \$3.8 million to help fund the forecast peak in new and upgraded asset works expenditure (see bottom right chart over page). The Council's level of net financial liabilities is forecast to steadily reduce from \$14.3 million in 2022-23 to \$4.5 million in 2031-32 while the net financial liabilities ratio is forecast to decline to 14 percent in 2031-32. Continued forecast rate increases on the community above the rate inflation, with accompanying growth in operating income, have partially helped to achieve this forecast.

The Commission notes that four submissions out of 22 from the community expressed concerns in the 2022-23 budget process over the levels of debt and/or the need to reconsider or delay certain spending initiatives by the Council.³⁴

The Council stated in its 2022-23 LTFP that it plans to maintain its cash and cash equivalents figure each year at a level that will fund all foreseeable operating requirements.³⁵ 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, which reflects an annual average growth rate of 19.5 percent (see top left chart below over page). This forecast accumulation of cash would suggest that there is strong capacity to meet borrowing costs projected by the Council and more opportunity for it to reconsider its projected rate increases, without compromising its financial sustainability.

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

³¹ City of Port Lincoln, *Annual Business Plan & Budget 2022/2023*, June 2022, p. 1.

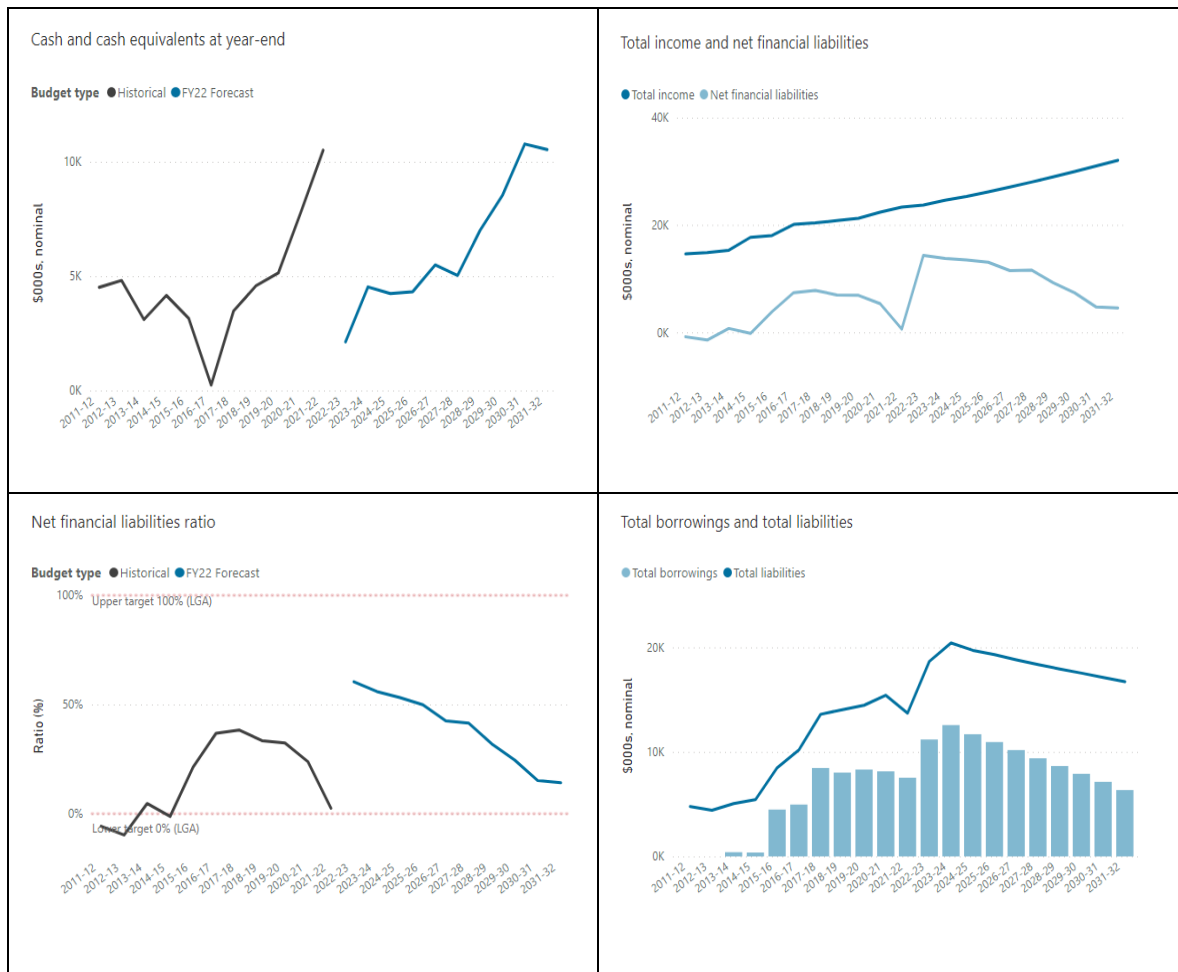
³² City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 20.

³³ 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 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).

³⁴ 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>.

³⁵ City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 9.

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



C.3 Asset renewals expenditure

The City of Port Lincoln’s asset renewal funding ratio (under the ‘IAMP-based’ approach)³⁶ has performed within the suggested LGA target range³⁷ 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 asset management plans.

Between 2015-16 and 2020-21, the ratio averaged 68.3 percent,³⁸ which could potentially signify an underspend on the renewal and rehabilitation needs of its asset stock over this period. However, it also followed high levels of spending on asset renewals in the preceding years. The Council’s spending on renewal or rehabilitation of assets averaged \$2.1 million each year (over this period).

From 2022-23 to 2031-32, the ratio is forecast to average 92.7 percent and remain consistently within the suggested LGA target range. Average annual spending on renewal of assets is projected to increase

³⁶ 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 target range for the ratio is 90 to 110 percent (LGA SA Financial Indicators Paper, p. 9).

³⁷ Between 90 and 110 percent.

³⁸ The quoted averages for the ratio are based on ‘net asset renewal expenditure’ (after the sale of replaced assets) rather than ‘gross asset renewal expenditure’.

to \$2.7 million (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). While acknowledging the reasonable focus on asset renewal projects by the Council, the Commission notes that expenditure on new or upgraded assets remains a strong focus.

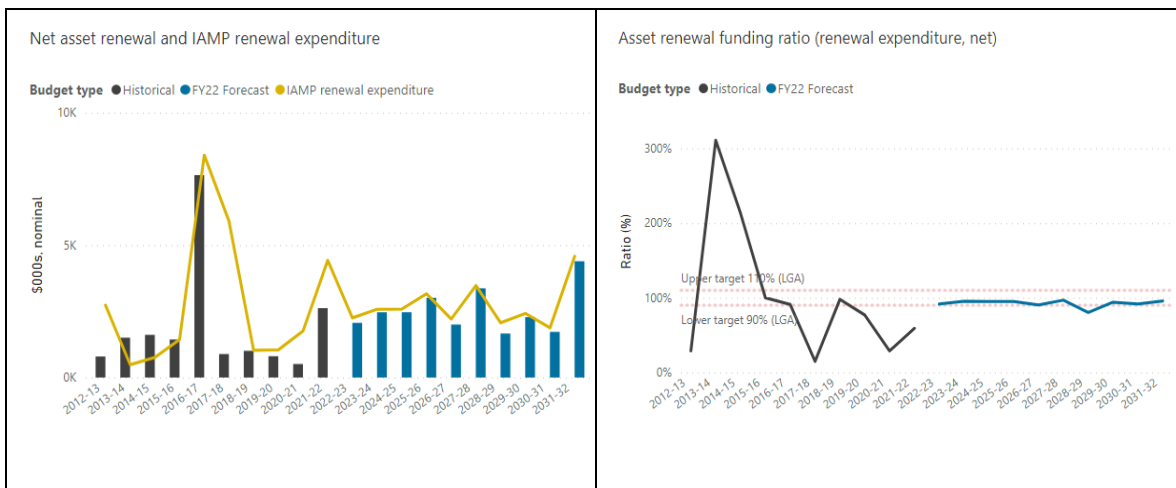
The City of Port Lincoln has grown its asset base over the past 10 years with expenditure on new or upgraded assets averaging \$3.3 million per annum between 2011-12 and 2020-21 (see the bottom right chart below), which includes a portion of grant funding for certain projects, including the Port Lincoln foreshore project. This has led to an average annual growth in the value of the asset stock per property of \$845, or 4.7 percent per annum, in the 10 years to 2020-21 (see the bottom left below).

In the short-term (to 2023-24), the City of Port Lincoln is estimating that its new or upgraded capital expenditure will significantly increase with annual operating deficits accordingly. The increase in buildings works is due to the depot refurbishment for \$2.3 million.³⁹ There is also the ongoing foreshore redevelopment project which incorporates new expenditure of \$5.8 million (including \$2.2 million from grants).⁴⁰

The Council's longer-term projections from 2024-25, comprise a significant decline in new or upgraded capital expenditure and an improving financial sustainability outlook with the rate of operating revenue growth set to outpace expense growth. As can be seen from the top left chart on the next page, the Council is projecting an eventual decline in the value of its asset stock per property in real terms.

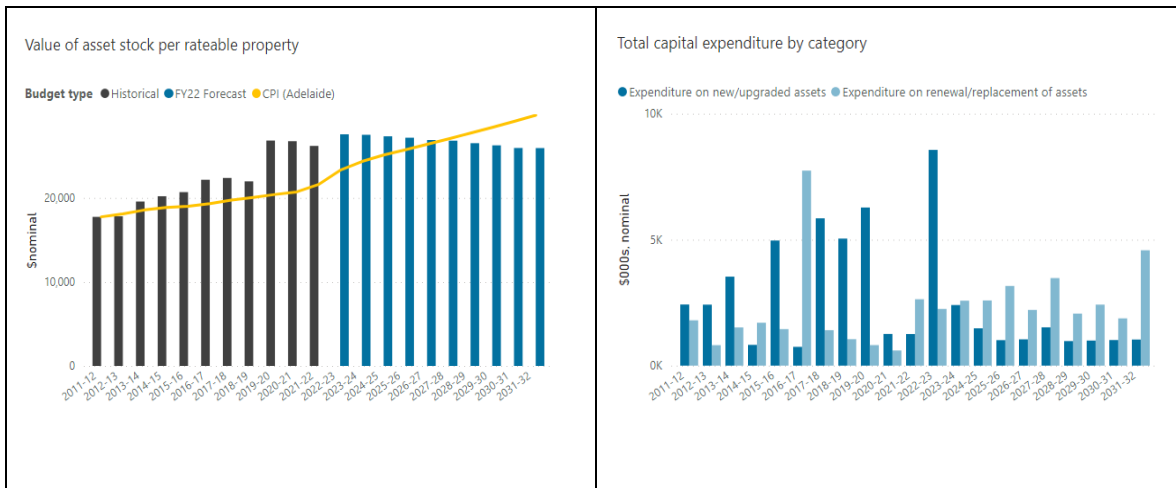
For these reasons, the Commission considers that it would be appropriate for it to:

- 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.



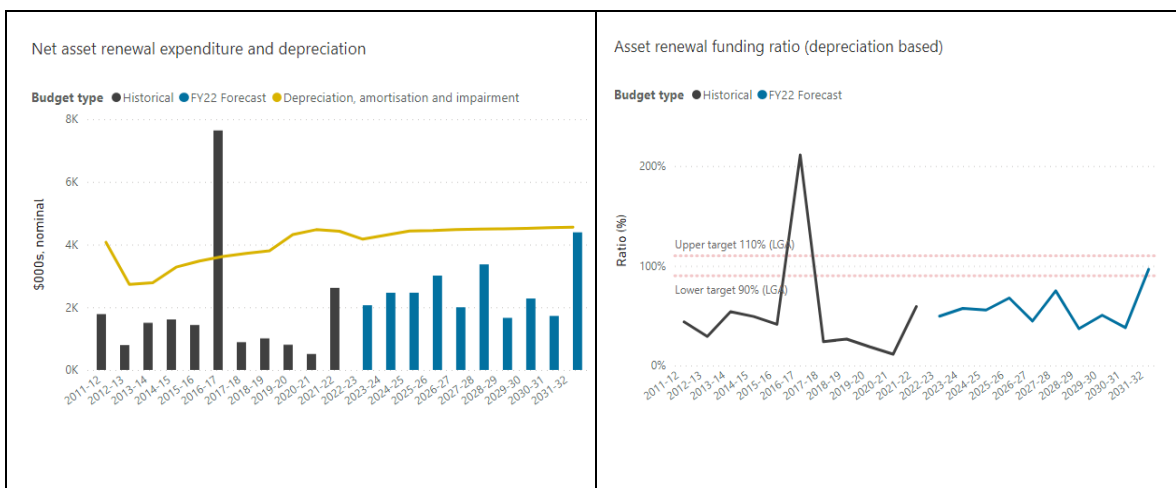
³⁹ City of Port Lincoln, *Annual Business Plan & Budget, 2022/2023*, June 2022, p. 18.

⁴⁰ City of Port Lincoln, *Annual Business Plan & Budget, 2022/2023*, June 2022, p. 19.



From 2022-23, the depreciation-based asset renewal funding ratio,⁴¹ is projected to continue to track below the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 57 percent per annum to 2031-32. This indicates depreciation expenses are generally higher than the required expenditure on capital renewals under its various AMPs (see charts below).

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 observed other differences in estimates between the City of Port Lincoln’s Strategic Asset Management Plan (adopted August 2022) and Long Term Financial Plan (adopted June 2022), for example:

⁴¹ 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.

- ▶ In the current 2022-23 to 2031-32 LTFP, the Council has stated that renewal and rehabilitation expenditure will be \$27.2 million between 2022-23 and 2031-32,⁴² while the Strategic Asset Management Plan states total expenditure on renewal and rehabilitation will be \$24.3 million for the same period.⁴³ Similarly, new and upgraded total expenditure in the 2022-23 LTFP is \$20.0 million between 2022-23 and 2031-32⁴⁴ while the Strategic Asset Management Plan has total expenditure for new and upgraded expenditure at \$11.3 million for the same period.⁴⁵ The discrepancy between the LTFP and AMPs is not clearly explained by the Council.

To improve the robustness and consistency of the Council's asset management planning, the Commission considers that it would be appropriate for it to:

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.

⁴² City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 9.

⁴³ 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 SMP is dated August 2022).

⁴⁴ City of Port Lincoln, *Long Term Financial Plan 2023-2032*, June 2022, p. 18.

⁴⁵ City of Port Lincoln, *Strategic Asset Management Plan 2023-2032*, August 2022, p. 9.

D Current and projected rate levels

D.1 Historical rates growth

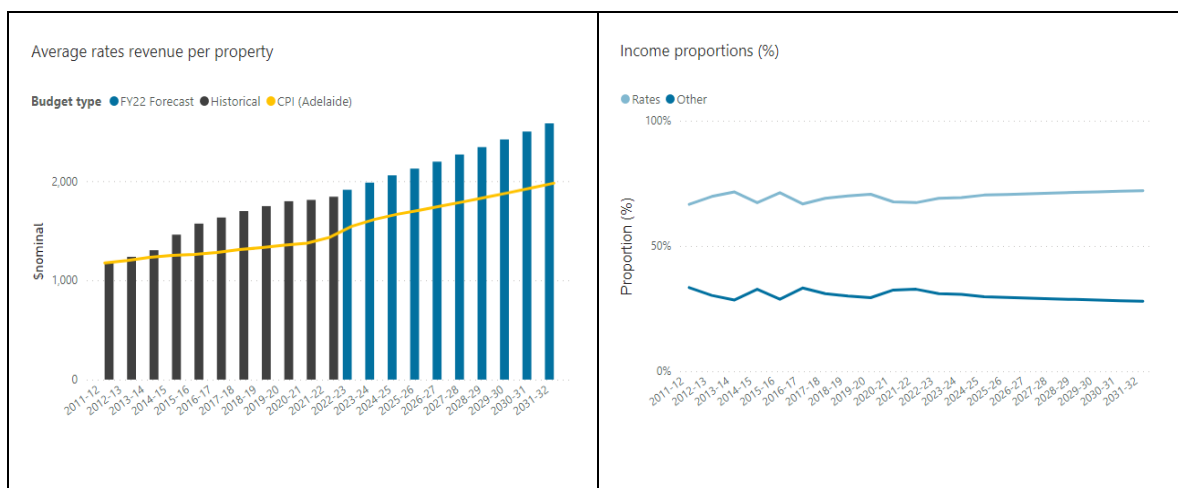
The City of Port Lincoln’s rate revenue per property growth has averaged 4.6 percent over the past 10 years,⁴⁶ to reach an estimated \$1,810 per property in 2020-21 (see the left chart below). This has exceeded CPI growth of an average of 1.7 percent per annum over this period and is accompanied by relatively low rateable property growth (with 0.1 percent average annual growth in rateable property numbers).⁴⁷ Current rate levels largely reflect its capital expenditure program, associated higher service levels and growth in employee and contract-related expenses.

The Council is reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 69 percent of budgeted operating income in 2022-23, compared with 67 percent of income in 2011-12.

The City of Port Lincoln has relatively low average general rates, reflecting its relatively low general rate levels for residential rates, but it also has relatively high general rural rates.⁴⁸ It does, however, levy a single discretionary rate (or rate in the dollar) across all categories of rates, and applies a fixed rate charge (without a minimum rate), which it considers:

- ▶ ensures that all rateable properties make a contribution to the cost of administering the Council’s services and maintaining the infrastructure that supports each property
- ▶ has a lower proportionate impact on lower income earners than a minimum rate system, and
- ▶ is easier to understand than a minimum rate system.⁴⁹

The Council’s general rate revenue comprises 30 percent fixed charges revenue and 70 percent from the rate in the dollar component.



⁴⁶ From 2011-12 to 2020-21.

⁴⁷ 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>.

⁴⁸ Refer to Councils in Focus website available at https://councilsinfocus.sa.gov.au/councils/city_of_port_lincoln. The Commission is not relying on these rate comparisons for its advice; the data source provides just one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

⁴⁹ City of Port Lincoln, *Annual Business Plan & Budget, 2022/2023*, June 2022, p. 34.

D.2 Proposed 2022-23 rate increases

The City of Port Lincoln has budgeted for an average rate increase of 4.5 percent for its existing ratepayers in 2022-23,⁵⁰ which was higher than it had anticipated charging for this year in its 2020-21 and 2021-22 LTFP projections (that is, 4.0 percent for existing assessments in the 2021-22 LTFP). The rates increase reflects higher short-term inflation (anticipated by the Council to be 3 percent in 2022-23).

The increase in the general rate revenue, which is inclusive of the rate in the dollar and fixed charge components, when applied across all rateable properties including new assessments averages a total increase of 4.07 percent per assessment.⁵¹ However, the impact on existing assessments is generally lower than 4.07 percent (once the fixed charge component and number of properties are considered).

Other than 'general rates' income (which represents around 64 percent of total rates revenue in 2022-23),⁵² the Council collects income from user charges, grants, subsidies, and contributions and statutory charges (around 11, 10 and 2 percent of total rates revenue respectively).^{53 54} The Council noted that its average rates per property increased to \$1,935 in 2022-23, which includes average general rates of \$1,520, combined waste and recycling service charge (\$334) and the landscape levy (\$81).⁵⁵

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average rates increases for its existing ratepayers of 3.4 percent per annum from 2023-24 to 2031-32. This is above forecast average inflation of 2.8 percent per annum.⁵⁶ In total, the LTFP effectively projects a cumulative increase of \$669 per existing ratepayer (to \$2,581) by 2031-32. 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 the June 2025 quarter.⁵⁷ Beyond June 2025 quarter, the RBA has not published inflation forecasts, but a return to the long-term average of 2.5 percent⁵⁸ from 2025-26 is not unreasonable.

The Commission acknowledges that rate revenues are a key driver for the Council's projected financial performance but notes that it also relies on additional sources of funding such as 'grants, subsidies and contributions', statutory charges and user charges. Over the long-term (in 2031-32), grant income and user charges are projected to account for a similar percentage of total operating income, at 8.1 percent (down from 9.6 percent in 2021-22) and 10.6 percent (down from 11.4 percent in 2021-22), respectively. By implication, the Council projects slightly higher contributions from rate revenue, at 72.1 percent (up from 69.1 percent in 2021-22) respectively.

⁵⁰ Individual rate level changes may be higher or lower depending on the rates category and property value.

⁵¹ City of Port Lincoln, *Annual Business Plan and Budget 2022/2023*, June 2022, p. 36.

⁵² Before discretionary rebates.

⁵³ City of Port Lincoln, *Annual Business Plan and Budget 2022/2023*, June 2022, p. 37.

⁵⁴ There are also other minor rates and service charges.

⁵⁵ City of Port Lincoln, *Annual Business Plan and Budget 2022/2023*, June 2022, p. 36.

⁵⁶ See footnote 24.

⁵⁷ 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.

⁵⁸ As per the midpoint of the RBA target range of 2 and 3 percent.

D.4 Affordability risk

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.⁵⁹ This could reflect the fact that the Council levies lower general rates⁶⁰ and displays via charts its comparative performance by average rates per property in its annual business plan.

However, affordability risk among the community for further projected 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,⁶¹ and
- ▶ the cumulative impact of the general rates when the waste and recycling service charges and landscape levy charges are also considered.

Projected rate revenue is also dependent on the Council's growth forecasts, 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 increases by the Council to generate similar forecast revenue. The strong cash position forecast over the longer term, as was discussed in section C.2, 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.

⁵⁹ 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>.

⁶⁰ Refer to Councils in Focus comparative rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/city_of_port_lincoln. The Commission is not relying on these rate comparisons for its advice; the data source provides just one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

⁶⁰ City of Port Lincoln, *Annual Business Plan and Budget 2022/2023*, June 2022, pp. 20-21.

⁶¹ 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>.



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