

OFFICIAL



Advice

Local Government Advice

City of West Torrens

February 2023

OFFICIAL

Enquiries concerning this advice should be addressed to:

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: advice@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

Table of contents

Glossary of terms	ii
1 The Commission's key advice findings for the City of West Torrens.....	3
2 About the advice.....	4
2.1 Summary of advice	4
2.2 Detailed advice findings	7
2.2.1 Advice on material plan amendments in 2022-23	7
2.2.2 Advice on financial sustainability	8
2.2.3 Advice on current and projected rate levels	11
2.3 The Commission's next advice and focus areas	12

Glossary of terms

ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
Commission	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
CPI	Consumer Price Index (Adelaide, All Groups)
Council	City of West Torrens
CWMS	Community Wastewater Management System
ESC Act	<i>Essential Services Commission Act 2002</i>
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	<i>Local Government Act 1999</i>
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	<i>Local Government (Financial Management) Regulations 2011</i>
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 West Torrens

The Essential Services Commission (**Commission**) considers the City of West Torrens (**Council**) to be in a sustainable financial position with projected operating surpluses and the forecast renewal of its infrastructure assets to continue to underpin its strong financial performance, without the need for further significant rate increases.

However, the Commission suggests the following steps for the City of West Torrens to ensure that it budgets transparently, reports its cost savings and efficiencies, manages its borrowing risk prudently, plans its asset needs appropriately and continues to limit the extent of further rate increases.

Budgeting considerations

1. **Provide** greater transparency in its long-term financial plan (and as necessary, its annual business plan and budget) by clearly identifying the annual inflation and other relevant assumptions as inputs to its projected revenue (including rates) and spending.
2. **Continue** to review its inflation assumptions in its forward projections from 2023-24 (but more transparently, as per **Finding 1**), given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

Providing evidence of ongoing cost efficiencies

3. **Continue** to report its cost savings and efficiencies in its future budgets, to demonstrate its commitment to achieving cost control and efficiency across its operations and service delivery.

Continuing to manage borrowing risk

4. **Continue** to monitor its borrowing liabilities, including the impact of any interest rate increases, to ensure that levels are sustainable with reference to the operating income (including rates income) and any grants for capital projects that it receives.

Refinements to asset management planning

5. **Review** the estimates of asset lives and valuations informing its forecast rate of asset consumption (and depreciation expenses) in its long-term financial plan and asset management plans, with a particular focus on the appropriateness of the estimated value of the depreciation expenses in the context of asset renewal expenditure requirements.

Containing rate levels

6. **Continue** to limit future increases on its average and minimum rates to help reduce any potential emerging affordability risk, in consultation with the community with reference to service levels and differential rate levels, as appropriate.

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 West Torrens (**Council**).

This report provides the Local Government Advice for the City of West Torrens 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 website⁹), nor is it compelled under the LG Act to follow the advice. The Commission thanks the City of West Torrens for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

The City of West Torrens has been in a strong and sustainable financial position with consistent operating surpluses funding a large share of its capital enhancement programs over the past 10 years.

The growth in its rates revenue, more than double the pace of inflation, has contributed to the surpluses but residential rate levels have remained comparatively low, with non-residential contributions

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).

accounting for a large share of the revenue growth (representing 35 percent of projected rates revenue in 2022-23).¹⁰

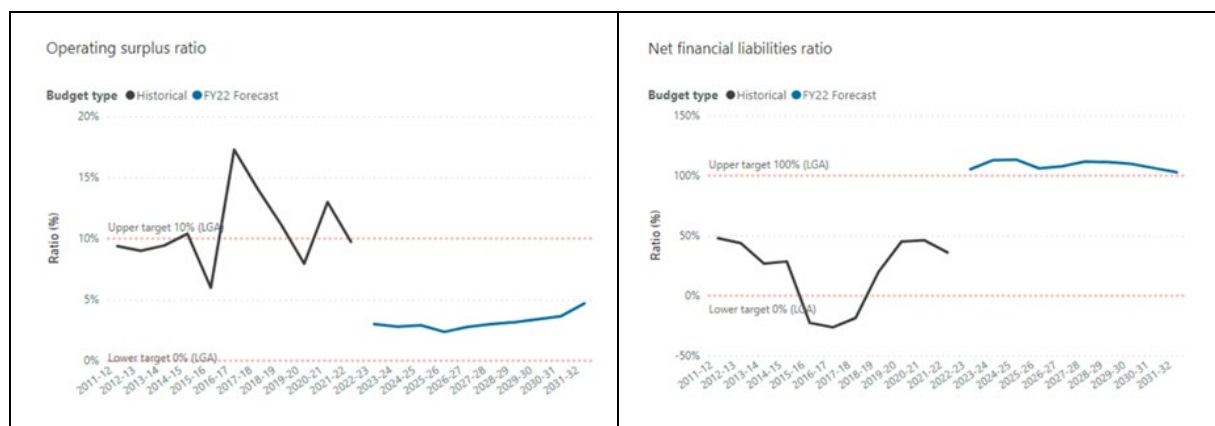
Looking ahead, the Council is projecting much higher borrowings and more conservative operating surplus levels. This reduces the pressure on its rates base to fund the annual capital spending as it occurs and better supports intergenerational equity. However, the extent of its borrowing needs to be managed prudently.

The Council's LTFP projections from 2022-23 forecast:

- ▶ lower average cost increases than it has experienced over the past 10 years (but still higher than it had forecast in 2021-22, primarily due to the impact of higher inflation)
- ▶ the continued prioritisation of its asset expenditure on renewal and rehabilitation works, and
- ▶ continued rate increases on the community, similar to the rate of inflation.

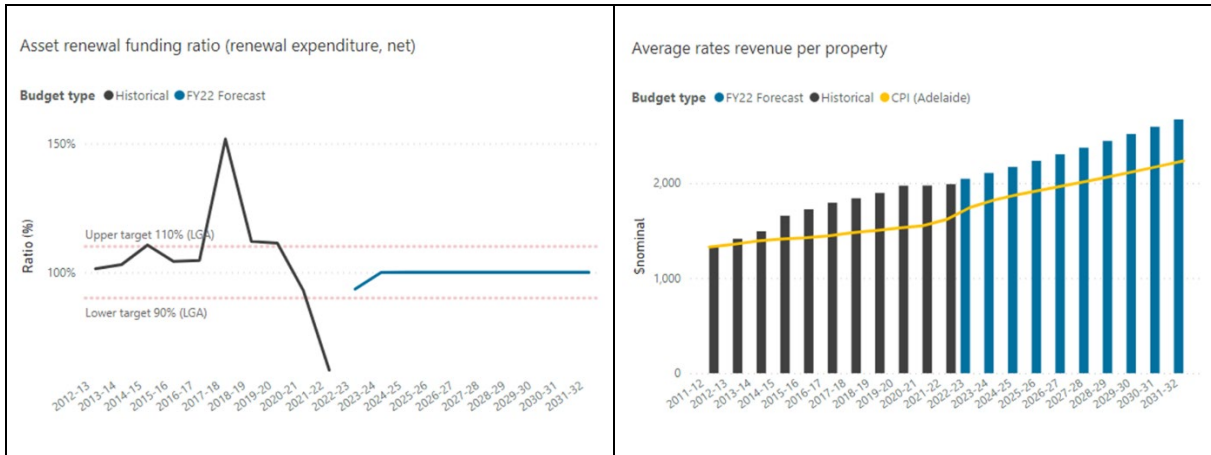
The Commission considers that there may be opportunities to continue to achieve savings and efficiencies in its recurrent budget and encourages the Council to review and report on this. This includes a review of the asset-related assumptions feeding into its estimated depreciation expenses. There are also opportunities for the Council to be more transparent about its price, service level and efficiency-related assumptions in its forward cost projections. In general, a transparent focus on cost constraint should help the Council to identify opportunities to reduce any affordability risk emerging for its ratepayers.

The charts below of the City of West Torrens' past and projected operating surplus ratio, net financial liabilities ratio, asset renewal funding ratio and 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 Local Government Association (LGA) target ranges for the three main financial sustainability indicators¹¹ and the level of cost control and affordability risk identified for the Council over time.



¹⁰ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 74, available at <https://indd.adobe.com/view/170eba19-6f8d-4794-8a04-31e11d443557> and the Commission's calculations.

¹¹ The suggested LGA target range for the ratios are discussed in more detail in the attachment.



Summary of the City of West Torrens’ 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 within ratio target range →	Excessive surpluses from 2016-17	Conservative surpluses forecast within ratio target range from 2021-22 →
Net financial liabilities ratio (target 0-100%)	Ratio met to 2014-15 →	Negative ratio following asset sale	Ratio met next 4 years
Asset renewal funding ratio (target 90-110%)	Spending on renewal works just above target range, on average	Low ratio reduces 10-year average	Ratio forecast to exceed 100% for forecast period (inc. lease liabilities) →
Identified Risks:			
Cost control risk	Operating expenses per property average growth 2.5% p.a. to 2021-22 (CPI 2.0% p.a.)		Operating expense per property forecast average growth 2.6% p.a., lower than projected CPI
Affordability risk	Rates revenue growth average 4.4% p.a. to 2021-22 but with relatively low residential rates & higher contributions from ‘other’ commercial ratepayers →		Projected rate revenue increases to average 3.7% p.a. but 3.0% per property, marginally above forecast average CPI (2.8%) →

- Ratio outside suggested LGA target range or higher risk
- Ratio close to suggested LGA target range or medium risk
- Ratio within suggested LGA target range or lower risk

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the City of West Torrens' 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.¹²

2.2.1 Advice on material plan amendments in 2022-23

The Commission has compared the City of West Torrens' projections in its 2022-23 LTFP with those from its 2021-22 LTFP and focused on the aggregate of the nine overlapping years' statistics: 2022-23 to 2030-31 to ensure a comparable analysis of material amendments.

The City of West Torrens has forecast small increases to its operating income projections in its 2022-23 LTFP, which have increased by 2 percent in aggregate compared with the 2021-22 LTFP estimates. Rates revenue projections have increased similarly by 2 percent in aggregate, which is partially offset by a forecast decline in revenue from grants. In 2022-23, the Council discontinued its participation in the Commonwealth Home Support Programme, which resulted in a reduction of around \$500,000 of grant funding and otherwise has only included grant funding in its projections that has been confirmed through the receipt of a grant agreement.

The Council's projections for its operating expenses from 2022-23 to 2030-31 have increased by more than its income forecasts – by a total of \$39.8 million or 6 percent, compared with its 2021-22 LTFP estimates. This includes a 6 percent increase in both its employee expenses and 'materials, contracts and other' expenses for various offsetting cost impacts, and a 9 percent increase in 'depreciation, amortisation and impairment' expenses, largely due to new sporting facilities and community hubs coming online throughout 2021-22.

The Council stated that its budget for 2022-23 and forward projections incorporate a review of current economic conditions, including movements to the Consumer Price Index (CPI), Local Government Price Index (LGPI) and interest rates. Its revisions to its expense forecasts do appear to incorporate additional inflation impacts. However, the Council does not identify the specific assumptions for inflation (as annual percentages) in its forward projections, which means that the inflationary impacts, distinct from any real impacts for efficiency or service-level related changes, are not shown.¹³

For these reasons, the Commission has found that it would be appropriate for the City of West Torrens to:

1. **Provide** greater transparency in its long-term financial plan (and as necessary, its annual business plan and budget) by clearly identifying the annual inflation and other relevant assumptions as inputs to its projected revenue (including rates) and spending.

¹² The attachment will be available on the Commission's website with the advice.

¹³ The Commission cannot estimate the components of the amendments for additional inflation only, without the Council's annual inflation assumptions stated in either LTFP update. As referenced in section C.1, the Commission's assumed average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.8 percent based on Reserve Bank of Australia (RBA) forecasts for the CPI (Australia-wide) to June 2025 and the midpoint of the RBA's target range (2.5 percent) from 2025-26 (RBA, Forecast Table – February 2023, available at <https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html>)

2. **Continue** to review its inflation assumptions in its forward projections from 2023-24 (but more transparently, as per **Finding 1**), given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

2.2.2 Advice on financial sustainability

Operating performance

The City of West Torrens has run consistent operating surpluses since 2011-12. The operating surplus ratio¹⁴ averaged 10.8 percent in the 10 years to 2020-21, which exceeds the upper limit of the suggested LGA target range (of between zero and 10 percent). The community, through its rate contributions, has effectively been funding a combination of cash surpluses and capital enhancement programs over this period (as well as regular service delivery).

From 2011-12 to 2020-21, operating income growth averaged 3.1 percent per annum,¹⁵ exceeding average annual operating expense growth of 2.6 percent. These trends compare with a period of low inflation (annual growth in the CPI averaged 1.7 percent over this period¹⁶), and against a backdrop of relatively static property numbers (annual growth in property assessments averaged 0.1 percent). Rates and statutory charges revenue led the income growth and increased by an average of 4.6 percent per annum. This growth was partially offset by a decline in user charges income and grants.

Operating expense growth included growth in 'depreciation, amortisation and impairment' expenses (which averaged 5.2 percent per annum, reflecting the growth in the value of the asset stock) and in 'materials, contracts and other' expenses (which averaged 4.1 percent per annum).¹⁷ In contrast, employee expenses growth was relatively flat (with employee expenses in fact declining by an average of 0.2 percent per annum in nominal terms).

The Council has projected smaller operating surpluses to 2031-32, averaging 3.2 percent. Growth in operating expenses per property is forecast to be relatively flat in real terms over the forecast period (an average of 2.6 percent between 2022-23 and 2031-32, compared with 2.8 percent RBA-based forecast inflation¹⁸), while operating income per property is forecast to increase by an average of 2.8 percent per annum.

The Council noted that it had achieved more than \$100,000 in energy-related savings in its 2022-23 budget¹⁹ and its Customer Improvement team has now developed a three-year plan to support it to deliver efficiencies to the community.²⁰ The Commission supports the City of West Torrens in its

¹⁴ The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income. The general target for councils 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).

¹⁵ 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).

¹⁶ CPI Adelaide (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was 1.9 percent over this period. Available at <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index>.

¹⁷ The Commission notes the impact of the increase in the solid waste levy on councils' waste management costs over this period.

¹⁸ 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 midpoint of the RBA's target range (2.5 percent) from 2025-26. See footnote 13.

¹⁹ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 26. The Commission notes that this result would likely exclude the impact of recent bulk purchasing arrangements for local councils in South Australia for electricity.

²⁰ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 43.

efforts to continually find savings and restrain cost growth, consistent with its forecasts, and encourages it to:

3. **Continue** to report its cost savings and efficiencies in its future budgets, to demonstrate its commitment to achieving cost control and efficiency across its operations and service delivery.

Net financial liabilities

With such a strong operating position over the past 10 years, the Council has not needed to rely on external financing and its net financial liabilities ratio²¹ has averaged a relatively low level of 19 percent.²² This is within the suggested sector benchmark (between zero and 100 percent).²³

In the three years to 2017-18, the net financial liabilities ratio was negative (averaging negative 23 percent) owing to the strong cash position of the Council with zero borrowings. The Council sold St Martins aged care facility in late 2014-15, which provided a significant injection of funds.²⁴ However, the extent of rate increases during this period (averaging 5.6 percent or \$85 per property per annum from 2011-12 to 2017-18) contributed to the build-up of cash holdings and did not appear to be essential for financial sustainability for the Council at this time.

The Council has since taken on substantially higher borrowing levels to meet a '*structured long-term asset renewal and replacement program*'.²⁵ As a result, its net financial liabilities ratio is forecast to average 109 percent from 2022-23 to 2031-32, marginally above the suggested LGA target range.

The Council noted that one of the reasons that its ratio will exceed the target range is because it must now include certain leases with 'right of use' assets in the liabilities aggregate.²⁶ The Council calculated an adjusted ratio, without the lease liabilities, and this is forecast to be generally between 90 and 100 percent.²⁷

The Commission notes that the suggested target range for the net financial liabilities ratio is a guide only and that there can be reasonable circumstances where the upper limit is exceeded and borrowing levels are still managed prudently, particularly if the ratio is only exceeded by a relatively small margin.

The Council stated in its Annual Business Plan that its loan program will be closely monitored so as not to put the Council in an unsustainable financial position.²⁸ The Commission acknowledges the importance of managing the borrowing risk prudently to prevent any need for additional rate contributions for higher loan repayments, and supports the City of West Torrens efforts to:

4. **Continue** to monitor its borrowing liabilities, including the impact of any interest rate increases, to ensure that levels are sustainable with reference to the operating income (including rates income) and any grants for capital projects that it receives.

²¹ 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.

²² 2011-12 to 2020-21.

²³ 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).

²⁴ City of West Torrens, *Annual Report 2015-16*, available at www.westtorrens.sa.gov.au/files/sharedassets/public/objective-digitalpublications/external-website/publications/annual-report-2015-16.pdf.

²⁵ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 64.

²⁶ Based on a 2019 update to Australian Accounting Standards Board (AASB) standard for leases (AASB 16).

²⁷ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 66.

²⁸ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 66.

Asset renewals expenditure

The City of West Torrens has been meeting its asset renewal needs in line with its AMPs over the past 10 years with its asset renewal funding ratio²⁹ averaging 111 percent (to 2021-22). It was otherwise 117 percent until 2020-21 but declined to 62 percent in 2021-22. The Council is forecast to consistently meet the suggested target for the ratio in the 10 years to 2031-32 (averaging 100 percent).

Its spending on the renewal of assets averaged \$13.5 million per annum between 2012-13 and 2021-22. Average annual spending is projected to increase to \$14.9 million (in nominal terms) to 2031-32 with a peak in spending of \$16.8 million in 2023-24. This compares with projected capital spending on new and upgraded assets averaging \$13.0 million annually to 2031-32, and a projected decline in the value of assets per property over this period.³⁰

The Council has a comprehensive suite of AMPs covering most of its assets, dated 2020 and adopted in March 2021. The recommended asset priorities in the plans are informed by the Council's *2019 Community Needs Analysis Community Survey* which asked respondents (numbering 410) about the importance of services in addressing its future needs.³¹ Its AMPs also identify areas for continuous improvement, including the need for the Council to undertake a review of the current method for determining useful lives of assets, and to undertake further investigations to allow asset renewal forecasting over a longer period. The Council further proposes a review of plans at least every four years.³²

When the asset renewal funding ratio is instead calculated by the depreciation-based method,³³ it is forecast to average 75 percent over the forecast period (2022-23 to 2031-32). This projected performance would suggest that the Council's forecast renewal expenditure, while consistent with the level of spending recommended by the AMPs, would not meet the average rate of asset consumption (incorporating asset valuations and useful life assumptions) based on its projected depreciation expenses.

One area that might be leading to higher depreciation expense forecasts, relative to annual asset renewal expenditure needs, is the Council's growth in the value of its asset stock 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. Therefore, in accordance with the Council's planned reviews, it would be appropriate for it to:

²⁹ The IAMP-based method is the current industry standard whereby net asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). The suggested LGA target range for local councils is between 90 and 110 percent (LGA SA Financial Indicators Paper, p. 9).

³⁰ This assumes that the Council's projected value of 'infrastructure, property, plant and equipment' does not require further revision by the Council (see section C.3 of the attachment for more information).

³¹ City of West Torrens, *Roads Asset Management Plan 2020*, March 2021, p. 12, available at <https://www.westtorrens.sa.gov.au/files/sharedassets/public/objective-digitalpublications/external-website/management-plans/cwt-roads-asset-management-plan-2021.pdf>. The survey is also mentioned in the Council's other AMPs.

³² City of West Torrens, *Asset Management Plans 2020-2030 Overview*, December 2020, pp. 3-8, available at <https://www.westtorrens.sa.gov.au/files/sharedassets/public/objective-digitalpublications/external-website/management-plans/asset-management-plans-2021-overview.pdf>.

³³ Where asset renewal/replacement expenditure is divided by depreciation expenses.

5. **Review** the estimates of asset lives and valuations informing its forecast rate of asset consumption (and depreciation expenses) in its long-term financial plan and asset management plans, with a particular focus on the appropriateness of the estimated value of the depreciation expenses in the context of asset renewal expenditure requirements.

2.2.3 Advice on current and projected rate levels

The City of West Torrens' rate revenue growth averaged 4.5 percent or \$72 per annum per property over the past 10 years,³⁴ to reach an estimated \$1,975 in 2020-21. This was more than double average CPI growth of 1.7 percent per annum over this period³⁵ and coincided with relatively static property growth (with 0.1 percent average annual growth in property numbers).³⁶

The Council budgeted for an average rate increase of 3.1 percent or \$57 for its existing ratepayers in 2022-23.³⁷ Ratepayers, other than residential, are being charged an average range of varied percentage increases from 0.6 to 6.0 percent, depending on the sub-category. In total, the Council projected total 'general rates' revenue growth of 4.1 percent in 2022-23, including growth of 0.9 percent in property numbers, as well as mandatory rebate adjustments.³⁸

Over the forward years of its LTFP, the Council is projecting average rates increases for its existing ratepayers of 3.0 percent per annum from 2023-24 to 2031-32, compared with RBA-based forecast CPI inflation averaging 2.8 percent annually over this period.³⁹ In total, the LTFP effectively projects a cumulative increase of \$625 per ratepayer (to \$2,671) by 2031-32, an increase of \$48 above assumed inflation growth over this period.⁴⁰

The Commission notes the relatively low economic resources ranking for the area⁴¹ and that in the current economic environment, there can be potentially less capacity to pay for higher rates for many communities, including the City of West Torrens. The City of West Torrens levies higher differential rates on non-residential ratepayers (compared with the rate in the dollar for residential ratepayers).⁴² The Council does levy relatively low residential rates,⁴³ and there was only a minimal response to the

³⁴ From 2011-12 to 2020-21.

³⁵ See footnote 16.

³⁶ CPI (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 1.9 percent) as the Commission's estimated average annual CPI growth over this period. Available at <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index>.

³⁷ Individual rate level changes may be higher or lower depending on the rates category and property value.

³⁸ City of West Torrens, *Budget and Annual Business Plan 2022-23*, p. 74 and the Commission's calculations.

³⁹ See footnote 13.

⁴⁰ The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum), which are different to the Council's inflation forecasts (as was discussed in section B1).

⁴¹ The City of West Torrens area is ranked 18 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 Socio-Economic Indexes for Areas) Index of Economic Resources (2016), where a lower score (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-%20Iga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest>.

⁴² City of West Torrens, *Budget and Annual Business Plan 2022-23*, p. 69 and the Council's rate calculation information available at <https://www.westtorrens.sa.gov.au/Council/Rates-and-charges/Rate-calculations>.

⁴³ As indicated by the low differential rates. Refer also to Councils in Focus rates data by rate category and property numbers for 2019-20 available at: https://councilsinfocus.sa.gov.au/councils/city_of_west_torrens. The Commission is not relying on these rate comparisons for its advice.

Council's draft budget (for 2022-23), incorporating rate contributions. The Council received only one submission on the budget, 'somewhat supporting' it.⁴⁴

Nonetheless, to ensure that the Council minimises the potential for any emerging affordability risk for its ratepayers, it would be appropriate for it to:

6. **Continue** to limit future increases on its average and minimum rates to help reduce any potential emerging affordability risk, in consultation with the community with reference to service levels and differential rate levels, as appropriate.

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 West Torrens':

- ▶ ongoing performance against its LTFP estimates, and transparency of its inflation assumptions in its LTFP and Annual Business Plan
- ▶ achievement of cost savings and efficiencies (including operational savings and any asset disposal or rationalisation savings), and its reporting of these achievements
- ▶ continued management of borrowing risk
- ▶ actions to address any misalignment between the capital expenditure, asset live assumptions and depreciation estimates in its LTFP and various AMPs, and
- ▶ how it has sought to limit any affordability risks emerging among its rates base.

⁴⁴ City of West Torrens, *Council and City Services and Climate Adaptation Standing Committee Meeting Agenda – 5 July 2022, Item 17.5 Adoption of the Budget and Annual Business Plan and Declaration of the Rates for 2022/23*, available at <https://www.westtorrens.sa.gov.au/files/sharedassets/public/objective-digitalmeetings/2022/agendas-2022/agenda-council-and-standing-committee-5-july-2022.pdf>.



The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444

E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au