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Advice

Local Government Advice - Attachment

City of West Torrens

February 2023

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A The Commission's approach

In providing the Advice for the City of West Torrens (**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 July 2022)
- ▶ 2021-22 Annual Business Plan and Budget (adopted July 2021)
- ▶ Asset Management Plans 2020-2030 Overview
- ▶ Buildings Asset Management Plan 2020 (adopted March 2021)
- ▶ Footpath Asset Management Plan 2020 (adopted March 2021)
- ▶ Recreation and Open Space Asset Management Plan 2020 (adopted March 2021)
- ▶ Roads Asset Management Plan 2020 (adopted March 2021)
- ▶ Stormwater Asset Management Plan 2020 (adopted March 2021)
- ▶ Vehicles (Fleet), Plant & Equipment Asset Management Plan 2020 (adopted March 2021)

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 asset management plans (**AMPs**)) and long-term financial plans (**LTFPs**),⁴ it has also considered the Council's performance in that context.

The City of West Torrens presents its LTFP projections as part of its Annual Business Plan and Budget, and findings regarding its projections are discussed in section B.2. The Council's AMP coverage and approach is comprehensive, but there is the potential for better alignment between its asset renewal expenditure projections and its depreciation expense forecasts, as 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

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).

onwards.⁵⁶ All charts and tables in the advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council's audit committee reports, and other public information, as appropriate.

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 West Torrens, including its location as a metropolitan council, its established residential base and significant non-residential ratepayers (such as the Adelaide Airport), its income level (\$73.0 million) and the size of its rates base (more than 31,000 ratepayers⁷).

⁵ Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.

⁶ The Council's estimates for the 2021-22 financial year, relied on at the time of preparing this advice, were unaudited.

⁷ Based on the estimated number of rateable property numbers in 2022-23.

B Material plan amendments in 2022-23

The City of West Torrens 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).⁸ 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) |
|--|--|--|--|---------------------------------------|
| Grants, subsidies and contributions operating income | 31.4 | 28.1 | -3.3 | -11 |
| Employee expenses | 248.9 | 263.3 | +14.4 | +6 |
| Materials, contracts and other expenses | 264.1 | 280.4 | +16.4 | +6 |
| Depreciation, amortisation and impairment expenses | 162.1 | 175.9 | +13.8 | +9 |
| Finance costs | 18.4 | 13.6 | -4.7 | -26 |
| Total operating expenses | 693.5 | 733.3 | +39.8 | +6 |
| Capital expenditure on renewal of assets | 143.3 | 132.7 | -10.6 | -7 |
| Capital expenditure on new and upgraded assets | 133.5 | 119.1 | -14.4 | -11 |
| Total liabilities | 963.7 | 895.5 | -68.2 | -7 |

B.1 Increase to operating income estimates

In its 2022-23 LTFP, the City of West Torrens has forecast small increases to its operating income projections to 2030-31, which have increased by 2 percent in total, compared with its 2021-22 LTFP estimates (from 2022-23). Rates income projections have increased similarly, by 2 percent in aggregate, which has been partially offset by a forecast decline in grant income (by \$3.3 million or 11 percent, as shown in the table above).

In 2022-23, the Council discontinued its participation in the Commonwealth Home Support Programme, which has reduced grant funding by around \$500,000 (noting that expenditure has also been reduced by an equivalent amount). The Council otherwise only includes grant funding in its projections that has

⁸ This table shows 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.

been confirmed through the receipt of a grant agreement. It has also continued to assume that it will receive Grants Commission payments in advance, as it has since 2017-18.⁹

B.2 Increase to operating expense estimates

The Council's projections for the sum of 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 over the same period. The variations to its expense estimates are as follows:

- ▶ Estimates of employee expenses increased by \$14.4 million or 6 percent in total due to the negotiated enterprise bargaining increase for wages (2.5 percent), a net increase in staffing numbers (by 1.1 FTE) and a superannuation guarantee increase to 10.5 percent.¹⁰
- ▶ Estimates of 'materials, contracts and other' expenses increased by \$16.4 million or 6 percent in total due to a 12 percent increase in waste collection costs associated with the provision of additional services and inflationary impacts, a 27 percent increase in COVID-related cleaning costs, and an 18 percent increase in professional fees, including for the local government election. These increases were partially offset by a 7 percent reduction in electricity costs (from LED street lighting and solar panel savings and a contracted rate reduction).¹¹
- ▶ Estimates for depreciation expenses increased by \$13.8 million or 9 percent, largely due to new sporting facilities and community hubs coming online throughout 2021-22.¹²
- ▶ Estimates for the costs of financing the Council activities through borrowings and any other bank related charges declined by \$4.7 million or 26 percent, with associated revisions to its borrowing forecasts.¹³

The Council stated that its budget for 2022-23 and forward projections incorporate a review of current economic conditions, including movements to the CPI, Local Government Price Index (LGPI) and interest rates.¹⁴ Its revisions to its expense forecasts incorporate significant inflation impacts and, in the current economic environment, inflation remains a significant risk moving forward. However, the Council does not identify the specific assumptions for inflation in its forward projections, and therefore, the inflationary impacts in its projections, distinct from any real impacts for efficiency or service-level related changes, are not shown.^{15 16}

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

⁹ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 62, available at <https://indd.adobe.com/view/170eba19-6f8d-4794-8a04-31e11d44355>.

¹⁰ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 40. 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.

¹¹ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 40.

¹² City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 41.

¹³ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 41.

¹⁴ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 59.

¹⁵ Therefore, the Commission cannot estimate the components of the amendments for additional inflation, 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 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.

¹⁶ The Council is required to provide a statement accompanying its LTFP that includes the key assumptions, on which it has been prepared (s5(2)(b) of the Regulations).

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.

B.3 Decline in capital expenditure estimates

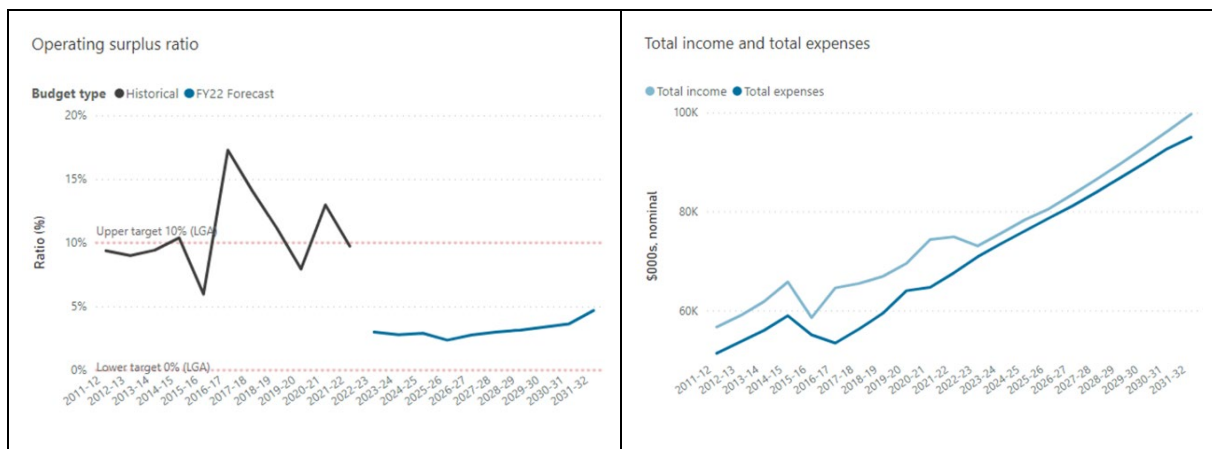
The Council's projections for capital expenditure on renewing assets (in total to 2030-31) have declined by \$10.6 million or 7 percent, compared with its 2021-22 LTFP projections. As a result of these amendments, the Council's forecast expenditure on asset renewals is more in line with its AMP-recommended expenditure requirements (as discussed more in section C.3). Its projected expenditure on new or upgraded assets also declined (by \$14.4 million or 11 percent), as did the estimated value of its 'infrastructure, property, plant and equipment' assets by \$245.7 million or 3 percent, presumably also due to asset disposals and valuation changes.

C Financial sustainability

C.1 Operating performance

The City of West Torrens has been in a strong financial position, running consistent operating surpluses since 2011-12 (see the left chart below). The operating surplus ratio¹⁷ averaged 10.8 percent in the 10 years to 2020-21, which marginally exceeds the upper limit of the suggested LGA target range (of between zero and 10 percent).

The continued operating surpluses over this period are the result of operating income growth of 3.1 percent per annum,¹⁸ exceeding average operating expense growth of 2.6 percent (see the right chart below in nominal terms). These trends compare with a period of low inflation (annual growth in the CPI averaged 1.7 percent)¹⁹ and against a backdrop of relatively static property numbers (annual growth averaged 0.1 percent).



Rates income led the income growth, which increased by an average of 4.6 percent per annum from 2011-12 to 2020-21. As discussed in section C.2, this contributed to a build-up of cash during these years, which rendered the extent of rate increases potentially unnecessary for sustainability purposes. Rates income growth was offset by a decline in user charges income (by 17.0 percent), owing to the Council's sale of St Martins aged care facility at the end of 2014-15, which provided an injection of funds to the Council at that time.²⁰ The quantum of grants also declined in real terms, noting grant funding can be volatile from year to year. Grants per property was \$162 in 2011-12, compared with \$123 in 2020-21.

¹⁷ 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).

¹⁸ 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).

¹⁹ 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>.

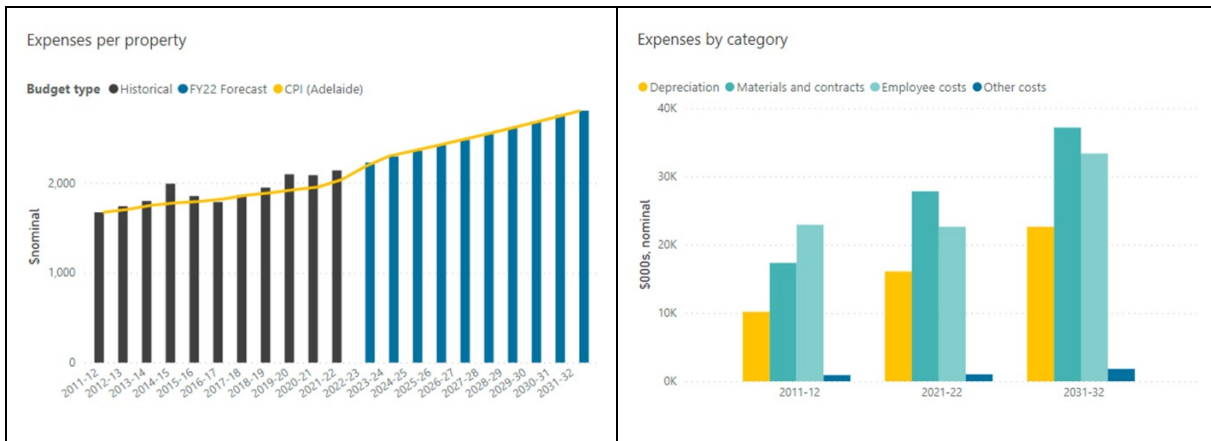
²⁰ City of West Torrens, *Annual Report 2015-16*, available at www.westtorrens.sa.gov.au/files/sharedassets/public/objective-digitalpublications/external-website/publications/annual-report-2015-16.pdf.

Operating expense growth was led by the average annual growth in ‘depreciation, amortisation and impairment’ expenses (5.2 percent) and in ‘materials, contracts and other’ expenses (4.1 percent).²¹ Over the same period,²² employee expense growth was flat; employee expenses declined by an average of 0.2 percent. Refer to the right chart below for 10-year comparisons of expense trends.

From 2022-23 to 2031-32 the operating surplus ratio is projected to average 3.2 percent with a forecast peak at 4.7 percent in 2031-32. The smaller, albeit still significant, surpluses are the result of operating income exceeding operating expense growth over the forward estimates by a smaller amount (ie, projected average growth of 3.5 percent per annum in operating expenses, compared with 3.3 percent in operating revenue). These projections reflect little change in real terms, with RBA-based forecast inflation growth to average 2.8 percent per annum over this period,²³ and forecast property growth to average 0.7 percent per annum.

Average annual growth in rates income is forecast to be 3.0 percent per property, marginally higher than inflation, and is discussed further in section D.

Average growth in operating expenses per property is forecast to be relatively flat in real terms over the forecast period (2.6 percent in nominal terms between 2022-23 and 2031-32, as shown in the left chart below).



The Council indicated that it would achieve savings of more than \$100,000 in 2022-23 from various energy savings initiatives.²⁴ Its Customer Improvement team also developed a three-year plan to support the Council in delivering efficiencies to the community.²⁵ The Commission supports the City of West Torrens in its efforts to continually find savings and restrain cost growth, consistent with its forecasts, and that it would be appropriate for 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.

²¹ The Commission notes the impact of the increase in the solid waste levy on councils’ waste management costs over this period.

²² 2011-12 to 2020-21.

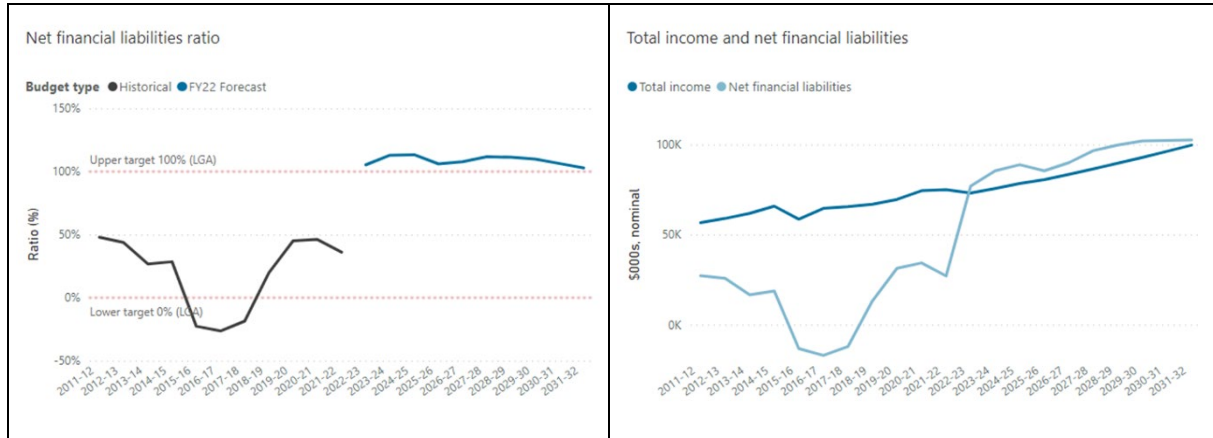
²³ The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.8 percent based on RBA forecasts for the CPI (Australia-wide) to June 2025 (and the Commission’s calculations of average annual percentage growth) and the midpoint of the RBA’s target range (2.5 percent) from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

²⁴ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 26.

²⁵ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 43.

C.2 Net financial liabilities

With such a strong operating performance over the past 10 years, the City of West Torrens has not needed to rely heavily on external financing for its capital-related spending. The Council's net financial liabilities ratio²⁶ averaged 19 percent over the 10 years to 2020-21, which is relatively low, and well within the suggested sector benchmark (between zero and 100 percent).²⁷ The performance of the ratio suggests that the Council's operating income has been able to comfortably service its net financial liabilities over this period (see the charts below).



As can be seen from the left chart above, in the three years to 2017-18, the net financial liabilities ratio was negative (averaging negative 22.6 percent), due to the strong cash position of the Council with zero borrowings. 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 (see the left chart below).

The Council has since taken on substantially higher borrowing levels (see the right chart below). In its Annual Business Plan, it stated that to meet a 'structured long-term asset renewal and replacement program, we will need to commit to a loan program that will result in loan liabilities increasing to \$90.25 million in 2031-32.'²⁸ This includes loan borrowings for the drainage works for the Brown Hill Keswick Creeks project to fund \$14.3 million in capital works.²⁹ It has assumed borrowing interest rates of 2.2 percent and 15-year fixed interest rate borrowing terms.³⁰

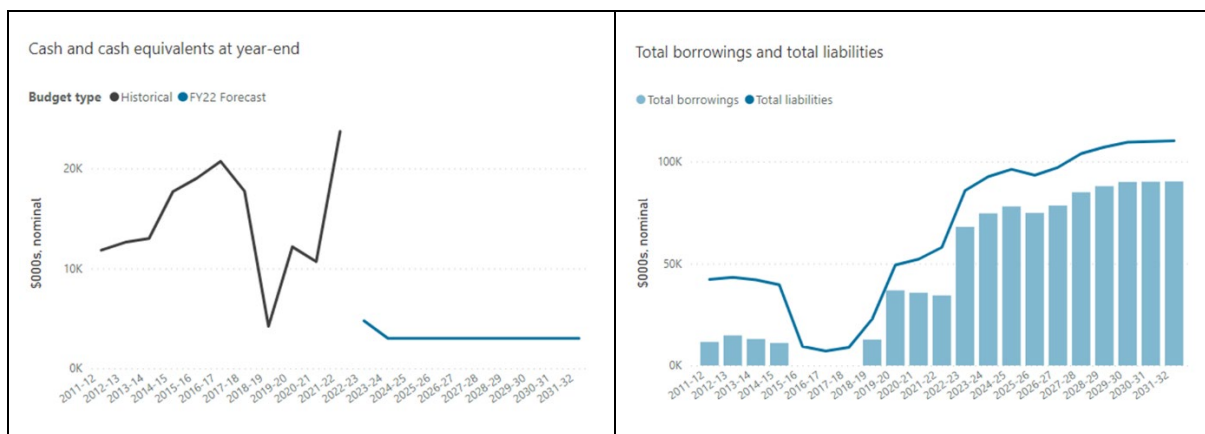
²⁶ The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities.

²⁷ 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).

²⁸ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 64.

²⁹ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 62.

³⁰ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 64. The Commission notes that the Council does also use the Local Government Finance Authority's (LGFA's) debenture facility with more flexible arrangements.



As a result of the increased borrowing, the Council’s net financial liabilities ratio is forecast to average 108.7 percent from 2022-23 to 2031-32, marginally above the suggested LGA target range.

The Council noted that one of the reasons that its net liabilities will exceed the suggested LGA target range is because it must now include certain leases in the liabilities aggregate. In 2019, there was an update to the Australian Accounting Standards Board (AASB) standard for leases (AASB 16) whereby leases that contain right of use assets must be treated as an asset and a liability on the statement of financial position. As a result, the amount of liabilities increased by approximately \$10 million (with on offset of an additional asset of the same amount), and the ratio is higher accordingly. The Council calculated an adjusted ratio, without the lease liabilities, and this is forecast to be generally between 90 and 100 percent.³¹

The Commission notes that the suggested LGA target range for the net financial liabilities ratio is a guide 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 exceeded by a relatively small margin.

The Council also 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.³² The Commission notes the importance of managing the borrowing risk prudently to prevent any need for additional rate contributions for higher 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.

C.3 Asset renewals expenditure

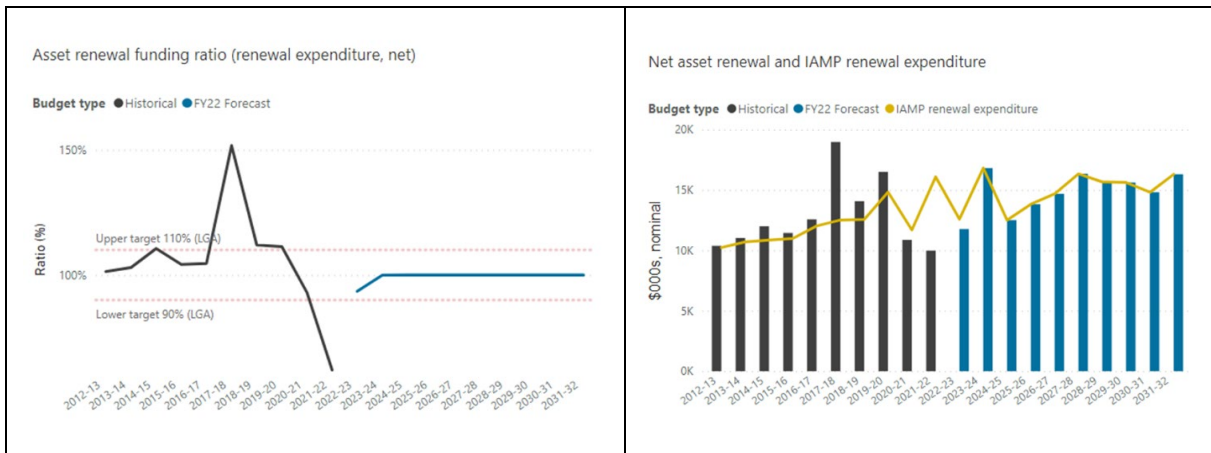
The City of West Torrens has been meeting its asset renewal needs in line with its AMPs over the past 10 years, with its asset renewal funding ratio³³ averaging 111 percent to 2021-22 (see left chart below). It was otherwise 117 percent until 2020-21 but declined to 62 percent in 2021-22 (coinciding with COVID). The Council has forecast to continue to meet the ratio in the 10 years to 2031-32 (averaging exactly 100 percent).

³¹ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 66.

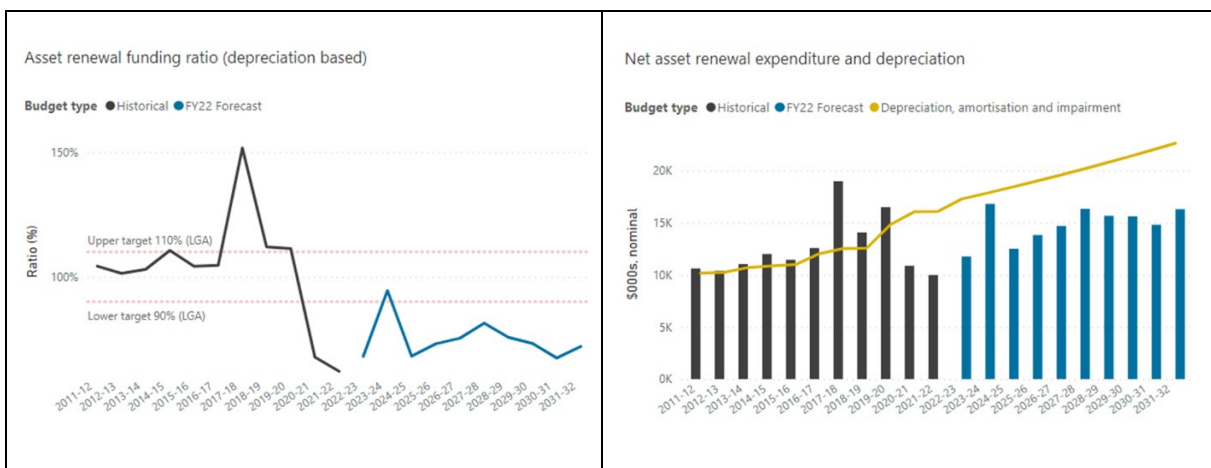
³² City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 66.

³³ 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).

Spending on the renewal of assets averaged \$13.5 million between 2012-13 and 2021-22 but fell to \$10.0 million in 2021-22. The Council’s average annual capital spending on renewal needs is projected to increase to \$14.9 million (in nominal terms) from 2022-23 to 2031-32 (see right chart below) with a peak in spending of \$16.8 million in 2023-24.



Under the depreciation-based method,³⁴ the performance of the ratio has averaged 107 percent from 2011-12 to 2020-21 (see left chart below).



The depreciation-based ratio is forecast to fall considerably, to average 75 percent over the forecast period. This indicates that the Council’s forecast renewal expenditure will not meet the rate of asset consumption (incorporating asset valuations and useful life assumptions) based on its projected depreciation expenses (see the right chart above). One area that might be leading to higher depreciation forecasts by the Council relative to actual aggregate asset renewal is the assumption of shorter asset lives than the Council’s planned asset renewals expenditure (because the assets can, in practice, last longer than assumed). The implication of projecting higher than necessary depreciation expenses, is that higher operating income (and potentially higher rates income) is required to generate an operating surplus for the Council in future years.

The Council has a comprehensive suite of AMPs (as listed in section A) for which the recommended asset priorities are informed by the Council’s 2019 Community Needs Analysis Community Survey. This survey asked respondents (numbering 410) about the importance of services in addressing future

³⁴ Where asset renewal and replacement expenditure is divided by depreciation expenses.

needs in West Torrens.³⁵ 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 time period. The Council also proposes a review of plans at least every four years.³⁶

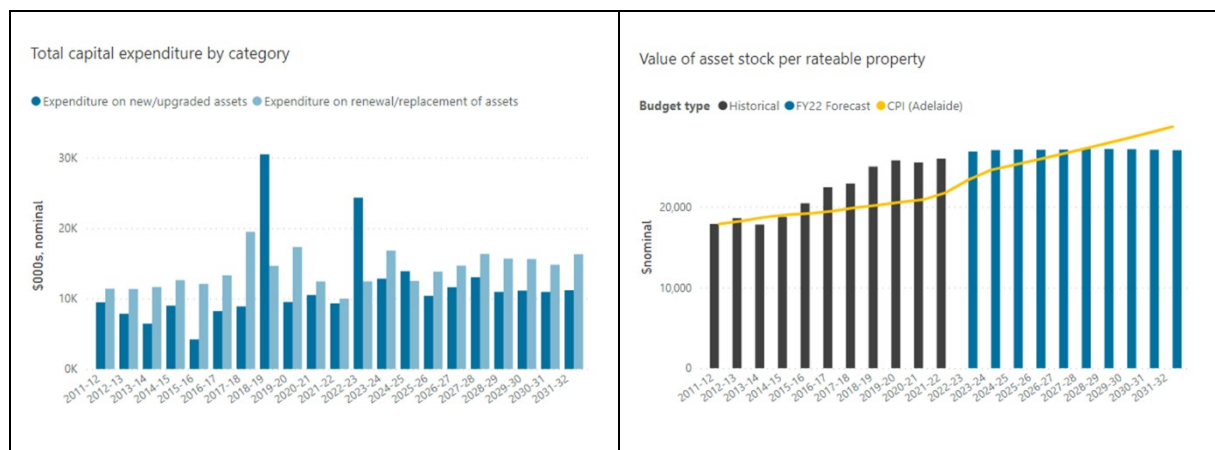
In accordance with the Council's planned reviews, and noting some variation between depreciation expenses and planned renewal expenditure, it would be appropriate for the City of West Torrens to:

5. **Review** the estimates of asset lives and valuations feeding into the forecast rate of asset consumption (and depreciation expense) 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.

New and upgraded asset expenditure

The Council is also forecasting a peak in capital expenditure on new and upgraded assets in 2022-23 of \$24.3 million (see the left chart below) with major projects including the Thebarton Theatre redevelopment (staged), the Kesmond Reserve new facilities redevelopment and the Plympton stormwater upgrade.³⁷ Thereafter, its spending on new and upgraded assets is forecast to average \$13.0 million (in nominal terms) to 2031-32.

The value of its asset stock per property increased by 5.3 percent or \$1,125 per annum from 2014-15 to 2020-21, to reach \$25,501 per property (see the right chart below). An increase in service levels for the community has followed.



Despite the peak in capital spending on new and upgraded assets in 2022-23, the value of asset stock per property is forecast to increase by an average of 0.1 percent in nominal terms from 2022-23 to 2031-32, which would represent a material decline in real terms (based on RBA-based projected CPI

³⁵ 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 Council's other AMPs.

³⁶ 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>. Under the LG Act s122(4)(b), the Council must undertake a comprehensive review of its strategic management plans (which incorporate asset management requirements) within two years of the general election of the Council.

³⁷ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, pp. 56-57.

inflation of 2.8 percent over this period).³⁸ Assuming that the projected value of its asset base is accurate (as these estimates might warrant further revision by the Council), the projections appear to suggest a consolidation in service levels across the forecast period.

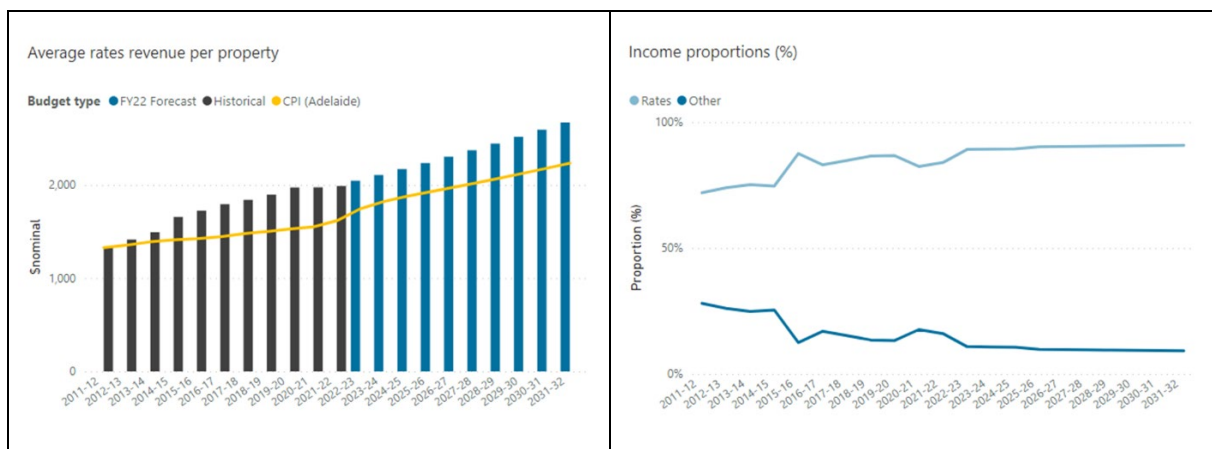
³⁸ See footnote 23.

D Current and projected rate levels

D.1 Historical rates growth

The City of West Torrens' rate revenue growth has averaged 4.5 percent or \$72 per annum for each property over the past 10 years,³⁹ to reach an estimated \$1,975 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 encompasses 0.1 percent average annual growth in rateable property numbers.⁴⁰

The Council has become increasingly reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates income is forecast to account for 89 percent of budgeted operating income in 2022-23, compared with 72 percent of income in 2011-12. This is largely because of the sale of the St Martins aged-care facility in late 2014-15,⁴¹ and subsequent decline in the associated annual user charges income. The rates share of operating income was 88 percent in 2015-16, after the sale.



The City of West Torrens has relatively low residential rates, with its differential rates for residential properties representing 34 percent of the rate in the dollar for all other land-use category properties. The Council's average rate levels for commercial and industrial properties are generally on par with other councils.⁴² Residential rate contributions made up an estimated 65 percent of total general rates revenue in 2022-23, while commercial and industrial contributions (together with 'other' category ratepayers) made up an estimated 33 percent.⁴³ The Commission understands that the Council collects 'rate equivalent' amounts from the Adelaide airport, which has contributed a large source of rates revenue in the past in the 'other' rates category.

³⁹ From 2011-12 to 2020-21.

⁴⁰ CPI Adelaide (All groups).

⁴¹ See footnote 19.

⁴² Refer to the Councils in Focus website available at

https://councilsinfocus.sa.gov.au/councils/city_of_west_torrens for 2019-20 rates data by council. The Commission is not relying on these rates comparisons for its advice; the data source is one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

⁴³ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 74 and the Commission's calculations.

D.2 Proposed 2022-23 rate increases

The City of West Torrens budgeted for an average rate increase of 3.1 percent or \$57 for its existing ratepayers in 2022-23.⁴⁴ Its projected total 'general rates' revenue growth is higher (4.1 percent) and includes growth of 0.9 percent in property numbers, as well as mandatory rebate adjustments.⁴⁵

Different rate categories are being levied varying changes, with residential ratepayers being charged an average of 3.1 percent or \$41 per property. Commercial office ratepayers are being charged the largest percentage increase (an average of 6.0 percent or \$367 more), whereas commercial shop ratepayers are being charged the smallest percentage increase, at 0.6 percent or \$33 more. Other commercial ratepayers are being charged 4.7 percent more,⁴⁶ industrial ratepayers are being charged between 3.3 and 4.5 percent more, and primary production ratepayers are being charged 4.0 percent more.⁴⁷

Ratepayers on the minimum rate, amounting to a third of all ratepayers and likely to include the more vulnerable members of the community, are being charged a slightly lower increase than the average for other ratepayers, at 2.9 percent or \$28 more (to \$989).⁴⁸

Other than 'general rates' income, the Council also collects the Regional Landscape Levy, on behalf of Green Adelaide and is expected to collect \$1.6 million in 2022-23.⁴⁹

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council projected an average increase in rates of 3.0 percent per annum from 2023-24 to 2031-32, slightly higher than forecast average inflation (2.8 percent⁵⁰). In total, the LTFP effectively projects a cumulative increase averaging \$625 per existing ratepayer (to \$2,671) by 2031-32, an increase of \$48 above assumed inflation growth over this period (refer to the previous chart on the left side).⁵¹

D.4 Affordability risk

In considering the affordability risk from current and projected rate levels for the West Torrens community, the Commission notes the relatively low economic resources ranking for the area.⁵² The current economic environment is reducing the capacity to pay for higher rates for many communities,

⁴⁴ Individual rate level changes may be higher or lower depending on the rates category and property value.

⁴⁵ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 74 and the Commission's calculations.

⁴⁶ Rate in the dollar applied to the capital value of the property in the Council area.

⁴⁷ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 74 and the Commission's calculations.

⁴⁸ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 74 and the Commission's calculations.

⁴⁹ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 41.

⁵⁰ See footnote 21 for inflation calculations.

⁵¹ See footnote 21 for inflation calculations.

⁵² 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-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest>.

potentially including the City of West Torrens. Further, non-residential ratepayers make a significant contribution to the revenue base and are charged higher differential rates than residential ratepayers.⁵³

On the other hand, affordability risk among the community for these further rate increases appears relatively low when considering the relatively low residential rates,⁵⁴ and the fact that there was minimal response to the Council's draft budget (for 2022-23), incorporating rate contributions. The Council received one submission on the budget, 'somewhat supporting' it.⁵⁵

Nonetheless, to ensure that the Council minimises the potential for any emerging affordability risk for 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.

⁵³ City of West Torrens, *Budget and Annual Business Plan 2022-23*, July 2022, p. 69 and the Council's rate calculation information available at <https://www.westtorrens.sa.gov.au/Council/Rates-and-charges/Rate-calculations>.

⁵⁴ See footnote 51. 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.

⁵⁵ 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>.



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