Advice

Local Government Advice - Attachment

Rural City of Murray Bridge

February 2023

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A The Commission's approach

In providing the Advice for the Rural City of Murray Bridge (**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)
- LTFP 2022-23 to 2031-32 projections (based on an annual update to its existing LTFP projections in September 2022) and LTFP 2021-22 to 2030-31 projections (based on annual update in September 2021)
- Building Asset Management Plan 2020 - 2024 (adopted August 2020)
- Civil & Transport Infrastructure Asset Management Plan 2019-2024 (adopted September 2019)
- Plant and Fleet Asset Management Plan 2019-2024 (updated December 2020)
- Recreational Facilities Asset Management Plan 2016 - 2020 (adopted December 2015)
- Stormwater Asset Management Plan 2021 - 2026 (adopted July 2021)
- Water Supply and Wastewater Asset Management Plan 2017 - 2021 (adopted February 2017)
- Information Technology Asset Management Plan 2021-2025 (adopted January 2021)

The Council has indicated that it will review its asset management plans (**AMPs**), for completion by 30 November 2022, to inform the development of the 2023-24 Annual Business Plan and Budget. In addition, it will develop new AMPs and/or Renewal Program Plans for the Lerwin Aged Care Facility, Murray Bridge Swimming Centre, Storm Water Harvesting and Reuse Scheme and its 10-year Building Renewal Program, estimated to be completed by November 2022.[4]

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

[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] Rural City of Murray Bridge, *Audit and Risk Committee Meeting - 4 May 2022, Asset Management Plans Status Report*, p. 56, available at https://www.murraybridge.sa.gov.au/__data/assets/pdf_file/0021/1140384/Public-Audit-and-Risk-Committee-agenda-14-May-2022.pdf.

termed AMPs) and long-term financial plan (LTFPs),[5] it has also considered the Council's performance in that context.

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 rateable property and staffing (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'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 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 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 Rural City of Murray Bridge, including its positioning as a regional city, its income level ($41.9 million) and the size of its rates base (more than 12,300 ratepayers[8]). The Commission notes that the advice is based on the Council's 2022-23 projections and that the Council might need to reprioritise some of its spending plans to respond to the recent flooding and high river event.

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

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.

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

B Material plan amendments in 2022-23

The Rural City of Murray Bridge has made various amendments to its 2022-23 budget and forward projections, partly for inflation and partly for other borrowing activity. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[9] 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 income	299.3	318.3	+18.9	+6.1
'Grants, subsidies and contributions' income	102.1	111.6	+9.5	+9.3
Total operating income	440.8	473.9	+33.0	+7.5
Employee expenses	186.0	207.3	+21.3	+11.5
'Materials, contracts and other' expenses	141.1	150.9	+9.8	+7.0
Finance costs	3.2	7.6	+4.4	+139
Total operating expenses	416.0	451.9	+35.9	+8.6
Total liabilities	320.8	351.8	+31.0	+9.7

B.1 Indexation adjustments

To account for the current inflationary environment, the Council's 2022-23 LTFP updates its previous year's Consumer Price Index (**CPI**) forecasts of an average annual increase of 1.5 percent to:

- 4.0 percent in 2022-23, 3.5 percent in 2023-24 and 2.0 percent annually thereafter.

Based on the updated assumptions, an increase in its cost and revenue estimates by up to around 6 percent over the 2022-23 to 2030-31 forecast period[10], would be appropriate for the higher inflation, compared with the same estimates (aggregated) in its 2021-22 LTFP.

The Reserve Bank of Australia (**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 and by 3.0 percent in the

9 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.

10 The set of nine years (2022-23 to 2030-31) forecast in both the 2021-22 and 2022-23 LTFP projections.

year to the June 2025 quarter.[11] Beyond June 2025, the RBA has not published inflation forecasts, but a return to the long-term average of 2.5 percent[12] from 2024-25 is not unreasonable.

The Commission notes that the Council's stated assumptions for indexation in its 2022-23 LTFP are reasonable, albeit potentially low in the current inflationary environment, but uncertainty around the forecasts remains. Notwithstanding the need for the Council to endeavour to find savings in real terms to reduce any inflationary impact on its community, it would be appropriate for it to:

1. Continue to review its inflation forecasts in its budget and forward projections each year.

B.2 Increase to income and expenditure estimates

The Rural City of Murray Bridge has increased its forecast operating income in total by $33.0 million or 7.5 percent compared with its 2021-22 LTFP estimates (in aggregate)[13], and most of the increase is due to adjusted inflation assumptions. It has also revised its estimates for 'grants, subsidies and contributions' by 9.3 percent, to cater for additional grant income for key infrastructure projects. The rates revenue revisions (with aggregate estimates increasing by 6.1 percent) are also due to the assumed inflation revisions.

The Council's operating expense estimates increased by $35.9 million or 8.6 percent in its 2022-23 LTFP estimates (compared with its 2021-22 LTFP estimates), which exceeds the impact of revised inflation forecasts, but incorporates recurrent savings of $0.2 million.[14] This increase includes an additional $21.3 million or 11.5 percent in employee expenses projected over this period (including an 11 percent increase in 2026-27). It also includes an increase of 7.0 percent or $9.8 million to 'materials, contracts and other' expenses in its 2022-23 LTFP projections, likely tied to the infrastructure works and higher waste management costs.

Given the extent of the increase in employee expense projections, the Commission considers that it would be appropriate for the Rural City of Murray Bridge to:

2. Review its employee expense projections and better explain the need for a projected peak in costs in 2026-27 in its long-term financial plan.

B.3 Annual long-term financial plan updates

For the past two years, the Council has updated its LTFP in September, after its adoption of its annual business plan and budget in July for the coming financial year. The updates to the LTFP form a Council agenda item (in an ordinary public meeting) and the Council then provides a link to the agenda item on its website after its consideration and endorsement.[15]

The projections over forward years include assumptions about rate revenue projections, and the Commission notes that these are not consulted on by the Council, given its exclusion from its annual business plan.[16] Although it is not a legislative requirement for the Council to include its long-term

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[11] RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html. CPI (Australia-wide). The 'through the year' forecasts in any one quarter are different to the average annual inflation assumptions usually applied to Council's financial estimates.

[12] As per the midpoint of the RBA target range of 2 and 3 percent.

[13] 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.

[14] Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, pp. 14 and 20, available at https://www.murraybridge.sa.gov.au/__data/assets/pdf_file/0023/1161518/2022-23-ABP.pdf.

[15] Noting, at the time of preparing this advice, this had not occurred for the September 2022 LTFP update.

[16] The draft annual business plan must be consulted on in accordance with LG Act s123 (3)(b) and (4).

financial projections with its annual business plan, nor consult annually on the projections, the Commission notes that doing so would allow the Council to better integrate its assumptions and consult with its community more effectively about the long-term impacts of the annual financial decisions. Other councils do include their 10-year LTFP projections in their annual budgets. For this reason, the Commission considers that it would be appropriate for the Council to:

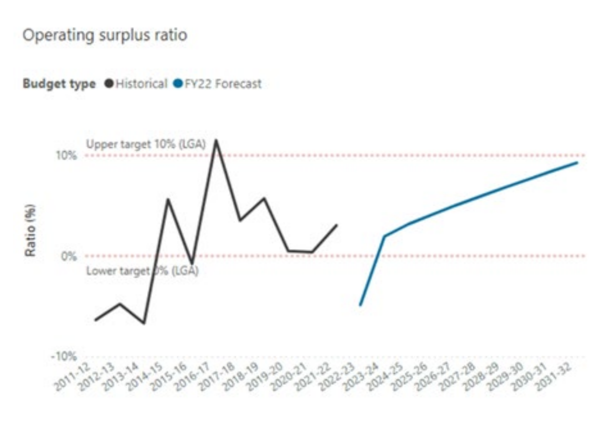
3. Consider coordination of annual updates to long-term financial plan projections with annual business plan and budget preparation to provide more transparency to the community about changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

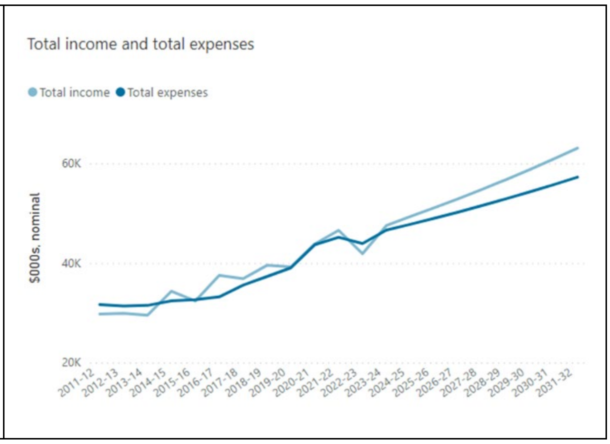
C Financial sustainability

C.1 Operating performance

The Rural City of Murray Bridge has been in a financially sustainable position with operating surpluses since 2014-15 (see the left chart below). Accordingly, the operating surplus ratio[17] has generally been within the suggested LGA target range (of between zero and 10 percent) to 2021-22. It averaged 0.9 percent between 2011-12 and 2020-21, demonstrating a relatively conservative average surplus position over this period.

The financially sustainable performance of the Council has been the result of average operating income growth of 4.4 percent per annum[18] exceeding operating expense growth of 3.6 percent over 2011-12 to 2020-21 (see the right chart below).





Rates income has led the income growth, increasing by an average of 5.7 percent per annum over this period, compared with 1.7 percent in the CPI and 0.6 percent growth in rateable property numbers. The rate increases and affordability risk for the community are discussed in section D.

'Grants, subsidies and contributions' income has been relatively flat (declining by 0.3 percent), noting grants income can be more volatile from year to year. The three-year average for grants income per property was $720 in 2011-12, which increased to $805 in 2020-21, and is then projected to increase to $879 in 2022-23 and $977 in 2031-32. Over 20 years, this is an average annual increase below the rate of inflation – 1.5 percent, demonstrating a shift away from non-rate revenue sources for the Council's service and growth needs.

Operating expense growth has been led by average annual 'employee expenses' growth of 4.6 percent and 'materials, contracts and other' expense growth of 4.1 percent. Despite the relatively high capital expenditure over this period, average depreciation expense growth has been 1.7 percent per annum, in line with average CPI growth (see the left chart on the next page for nominal expense growth by category in 10-year intervals).

In 2022-23, the Council has forecast an operating surplus ratio of negative 4.9 percent, before it returns to surpluses over the remainder of the 10-year forecast period. However, it has reported an underlying

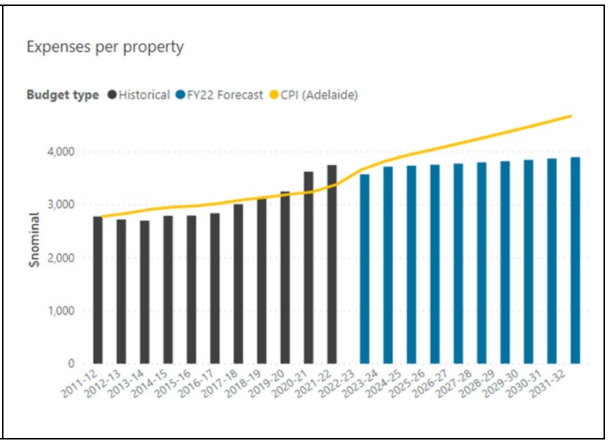
17 The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income. The general target for councils is to achieve, on average over time, an operating surplus ratio of between zero and 10 percent (Local Government Association of South Australia, *Financial Sustainability 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).

surplus of $1.2 million in 2022-23, rather than a deficit, the difference being due largely to material distortion caused by the early receipt (in 2021-22) of Federal Government grants payments otherwise due in 2022-23.[19]

In 2031-32, the operating surplus ratio is projected to peak at 9.3 percent. The increasing surpluses are the result of operating income exceeding operating expense growth over the forward estimates (i.e., average annual growth of 4.7 percent compared with 3.0 percent from 2022-23 to 2031-32).

The Council has forecast average growth in 'rates' and 'grants, subsidies and contributions' income of 4.2 and 6.9 percent per annum respectively over the forecast period. This incorporates strong growth in property numbers forecast by the Council of an average of 2.0 percent per annum (or an average of 267 new properties each year) and the funding of major projects by grant funding.



Operating expenses per property have increased in line with the rate of CPI growth[20] to 2019-20 (1.7 percent between 2011-12 and 2018-19), but then increased significantly in 2020-21 and 2021-22 by 4.0 and 12.0 percent respectively. The increase was due to a spike in 'materials, contracts and other' expenses associated with the delivery of the Thomas Foods International's supporting roadworks. In 2022-23, operating expenses per property are forecast to decline from the peak (as major works contracts are completed) and, from 2023-24, growth is forecast at a rate lower than inflation– at an average of 0.6 percent per annum (the RBA-based forecast for average annual inflation from 2022-23 to 2031-32 is 2.8 percent.[21] This lower cost growth appears to be predicated on the assumption that Council will achieve increased scale efficiencies with higher growth.

The Council indicated that it has incorporated $0.2 million in savings into its recurrent budget (each year) from forward planning and continuous improvements.[22] Continued operating sustainability relies on its continued fiscal constraint and increased efficiencies, and the Commission encourages the Council to:

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

[19] Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 14.

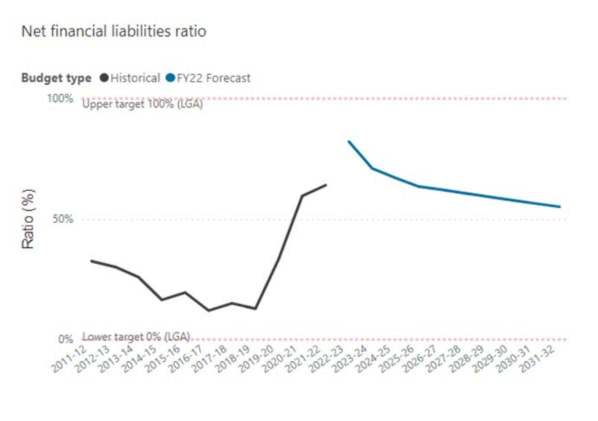
[20] The CPI forecasts in the chart are year-averages based on RBA forecasts and a return to long term averages (2.5 percent per annum) from 2025-26. See footnote 11.

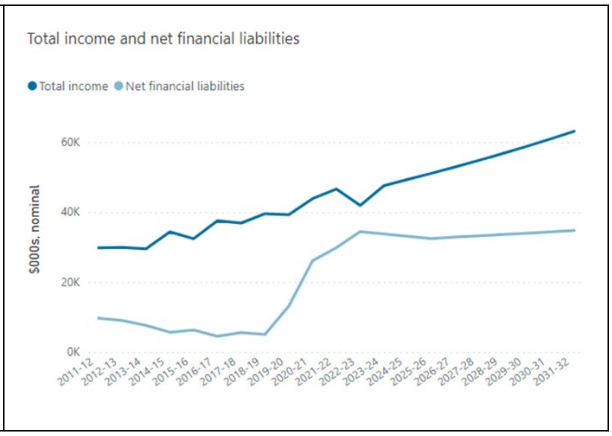
[21] Based on the RBA forecasts for the CPI (Australia wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26. See footnote 11.

[22] Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, pp. 14 and 20.

C.2 Net financial liabilities

The Council's net financial liabilities ratio[23] has comfortably met the sector benchmark (between zero and 100 percent) [24] over the past 10 years, demonstrating that the Council has been incurring borrowings and other liabilities that its operating income can reasonably service (see both charts below).





The ratio trended between 12 and 34 percent between 2011-12 and 2019-20, and then was estimated to increase to 64 and 82 percent in 2021-22 and 2022-23 respectively, with much higher borrowing levels for major infrastructure projects, which coincided with expanded operating capacity through rates increases.

The Council has forecast relatively stable borrowings of $19.2 million over the forecast period. Over the next 10 years, the Council has forecast its net financial liabilities ratio to average 64 percent, with a slight downward trend, reflective of stable net liabilities and forecast operating income growth.

The Council noted that it can utilise the Lerwin aged-care facility deposits to help fund the planned expansion and refurbishment of that facility over the forecast period (rather than relying solely on borrowings), but that non-restricted cash will be kept to a minimum to enable borrowings to be paid off sooner.[25]

C.3 Asset renewals expenditure

The Rural City of Murray Bridge has been meeting its asset renewal needs in line with AMP over the past 10 years with its asset renewal funding ratio[26] averaging 103 percent from 2011-12 to 2020-21; and then 110 percent in the five years to 2021-22 (see left chart below). The Council is forecast to continue to meet the ratio in the 10 years to 2031-32, with a consistent ratio of 100 percent.

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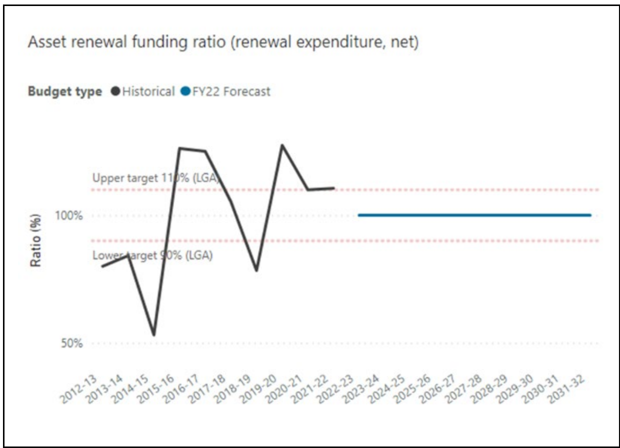
23 The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities.

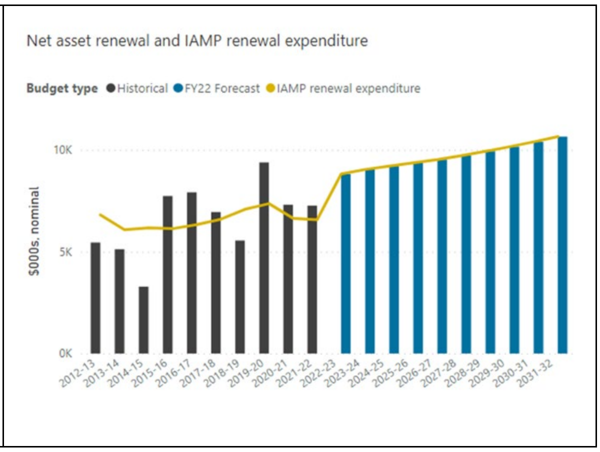
24 The suggested LGA target range is between zero and 100 percent of total operating income, but possibly higher in some circumstances (LGA SA Financial Indicators Paper, pp. 7-8). The Council has adopted a target range of between 80 and 100 percent for its "adjusted" net financial liabilities ratio (Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 21).

25 Rural City of Murray Bridge, *Public Council Meeting Agenda - 13 September 2021, Item 148.1 - Long Term Financial Plan Update*, p. 4, available at https://www.murraybridge.sa.gov.au/__data/assets/pdf_file/0035/968651/Public-Council-Agenda-13-September-2021.pdf.

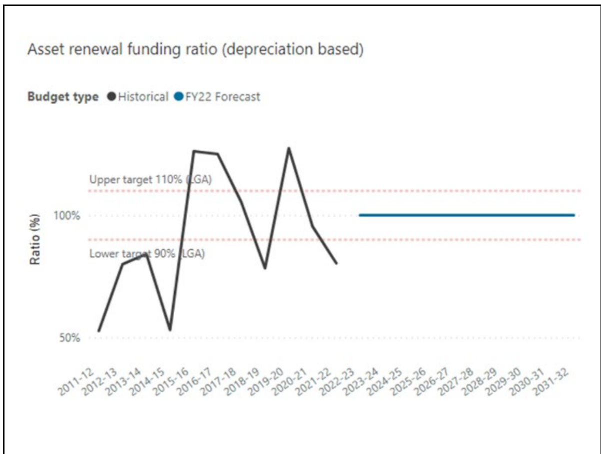
26 The IAMP-based method is the current industry standard whereby net asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). The suggested LGA target range for local councils is between 90 and 110 percent (LGA SA Financial Indicators Paper, p. 9).

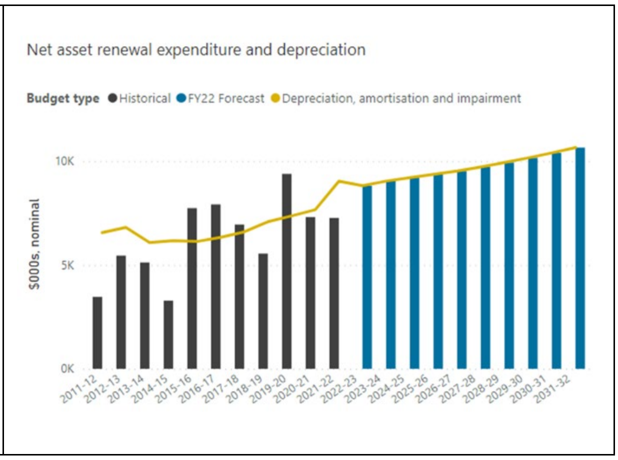
Overall, the Council's expenditure on the renewal of assets averaged $6.4 million per annum between 2011-12 and 2020-21 and peaked at $9.8 million in 2019-20. Average annual spending is projected to increase to $9.8 million (in nominal terms) from 2022-23 to 2031-32 (see right chart below[27]).





Based on the depreciation-based asset renewal funding ratio,[28] the Council's performance has averaged 93 percent from 2011-12 to 2019-20 (see left chart below). It is also forecast to be 100 percent over the forecast period, suggesting that the LTFP is forecasting renewal expenditure aligned with asset valuations and the rate of asset consumption, which together determine annual depreciation expenses (see right chart below).





In general, the Council's AMPs provide reasonable coverage of asset conditions and service level determination, which feed into the expenditure needs for renewal of assets. However, not all the individual AMPs include projected funding requirements for asset renewals over 10 years.[29] The Plant and Fleet Asset Management Plan 2019-2024 provides five years, rather than 10 years, of funding projections.[30] The Council's other AMPs are also titled over similar time periods, consistent with its SMP documents, but they do also include 10 years of funding projections.

27 The chart excludes asset sales from capital expenditure on renewal or rehabilitation of assets.

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

29 As required under LG Act s122(1a)(b).

30 Rural City of Murray Bridge, *Plant and Fleet Asset Management Plan 2019-2024*, December 2020, pp. 17-18, available at https://www.murraybridge.sa.gov.au/__data/assets/pdf_file/0021/534414/RCMB-2019-24-Plant-and-Fleet-AMP-2020-Annual-Review-v2.pdf.

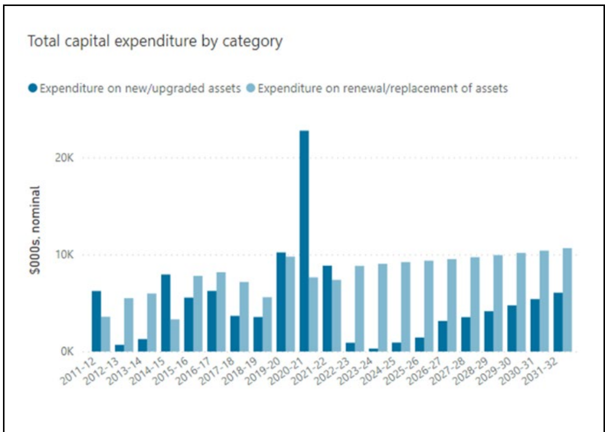
The Commission has identified some further areas for continuous improvement, mainly to ensure robust and accurate asset management approaches and meaningful alignment between its asset management and financial planning outputs. Specifically, it would be appropriate for the Council to:

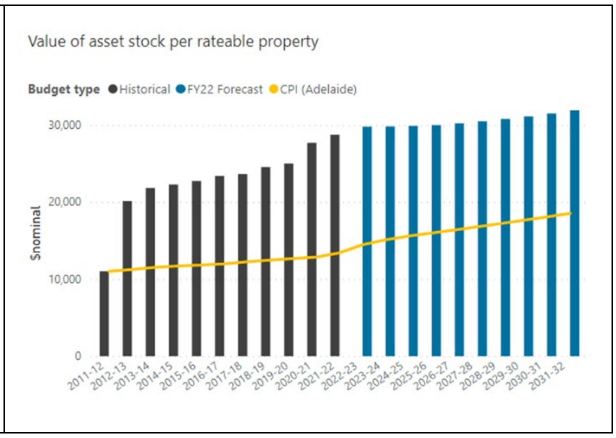
5. **Review** its asset management plans (in particular, for plant and fleet assets) to ensure they cover a period of 10 years.
6. **Update** its asset condition assessments, valuations and useful life estimates where necessary in its asset management plans (noting its carpark and bridge condition assessments and recreation facility valuations are dated 2019 and 2015).
7. **Include** more detail in updates to long-term financial plan projections about the renewal and new or upgraded capital expenditure by infrastructure category (including for key projects), to provide better alignment and transparency between its asset management plans and long-term financial plan projections.
8. **Continue** to update existing asset management plans and to complete new asset management plans as indicated in the forward program (and in accordance with **Finding 5**), with a focus on consideration of the community's desired service levels, the resultant capital expenditure requirements, and alignment with long-term financial plan projections.

New and upgraded asset expenditure

The Council's expenditure on new or upgraded assets averaged $5.0 million from 2011-12 to 2019-20 (see the left chart below). In 2020-21, its spending spiked to $22.8 million with various large infrastructure projects either completed or underway. These included the upgrade to the Sturt Reserve Master Plan - Recreation Precinct and Rowing Facility, the upgrade to the Lerwin Aged Care Facility in Murray Bridge, Adelaide Road Linear Park (Stage 5 & 6), the creation of a Secondary Freight Route, the Murray Bridge swimming centre works, the access road for the new Thomas Foods International meat-processing facility and the Swanport Road Masterplan.[31]

The increase in the value of the Council's asset stock per property in the five years to 2021-22 emphasises the service expansion for the community over this period; it increased by an average of 4.2 percent or $1,068 per property each year (see the right chart below). The accompanying impact on rate levels is discussed in the next section.





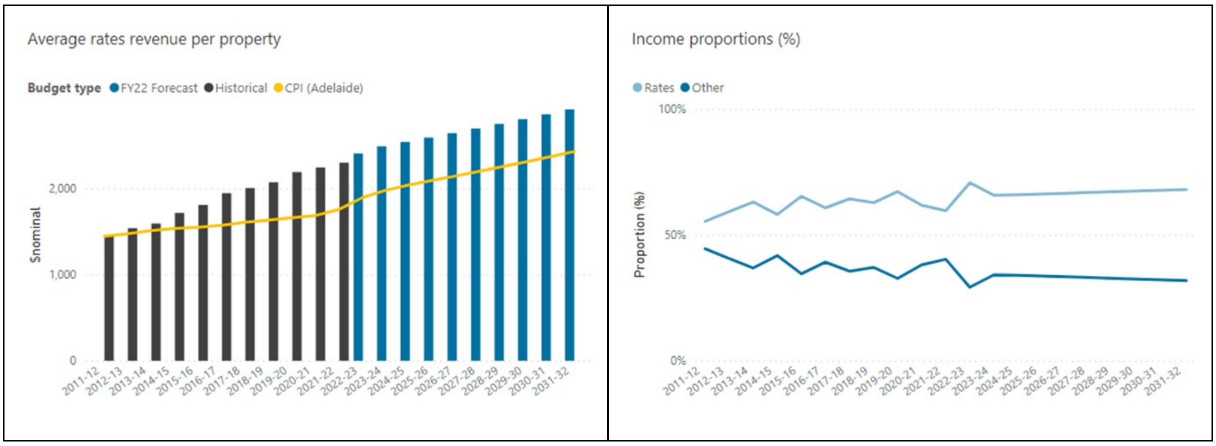
[31] Rural City of Murray Bridge, *Annual Report 2020-21*, pp. 12-17, available at https://www.murraybridge.sa.gov.au/__data/assets/pdf_file/0025/1244347/Annual-Report-Final-including-Attachment.pdf.

D Current and projected rate levels

D.1 Historical rates growth

The Rural City of Murray Bridge's historical rates growth has been high. Its rates revenue increased by an average of 5.7 percent over the past 10 years[32] or 5.0 percent per property to reach an average rate level of $2,244 in 2020-21 (see the left chart below). This compares with CPI growth of an average of 1.7 percent per annum, and property number growth of an average of 0.6 percent per annum, over this period.

A large share of the growth occurred in the three years to 2017-18, when rates revenue growth averaged 6.3 percent per annum. Relatively large rate increases coincided with peak expenditure on infrastructure projects in 2015-16.



The Council's share of revenue from rates income increased from 55 percent in 2011-12 to 62 percent in 2020-21(see the right chart above), coinciding with lower grants revenue when comparing these two years (32 to 21 percent). The Council is more reliant on grants income than many other councils, and 'grants, subsidies and contributions' amounted to around one third (32 percent) of its operating income in 2021-22. It then received $3.23 million in Financial Assistance Grants in advance, increasing its share of total income.[33] However, as was discussed in section C.1, while grants revenue has been relatively volatile from year to year, it continues to provide an important revenue source for the Council.

The Rural City of Murray Bridge has relatively high average rate levels across land use categories. This includes business-related rates which is likely linked to the Council's significant investments in infrastructure projects such as major freight routes which can bring significant economic stimulus benefits to industrial and commercial properties.[34]

[32] From 2011-12 to 2020-21.

[33] Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 14.

[34] Refer to the Councils in Focus website available at https://councilsinfocus.sa.gov.au/councils/the_rural_city_of_murray_bridge. The Commission is not relying on rates comparisons for its advice; it is one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

D.2 Proposed 2022-23 rate increases

The Council has increased its average rate levels from 2022-23, primarily for the impact of inflation. It implemented an average rate increase for existing ratepayers of 3.5 percent on 2021-22, noting how this was lower than the March 2022 CPI increase of 4.7 percent.[35]

The average increase for existing residential ratepayers levied was 3.2 percent, or $55, to $1,754 per property,[36] while the increase for minimum rates was 3.5 percent, or $35, to $1,023 per property.[37]

The Council indicated its differential rates (in terms of rates in the dollar) by category in its annual business plan[38] but it has not presented the individual average rates increase for non-residential categories of ratepayers. Given the average impact on all ratepayers, the percentage increase is likely to be higher, albeit marginally, for at least some non-residential ratepayers.

In addition to general rates, its waste management charges for garbage bin and recycling services have also increased to account for inflation – by 3.4 to 3.7 percent, depending on the service (amounting to an additional $2 to $5 per service).[39]

The Council also levies Community Water and Waste Management Systems (**CWMS**) charges at Riverglen and Woodlane to recover the cost of operating and maintaining the water and sewerage schemes. It identified the fixed charge components and differential rate components (rates in the dollar) but has not indicated how these have changed from 2021-22.[40]

In general, the Council's annual business plan could provide clearer information about the estimated change in the coming year across all its rates and charges. It does not show the proportion of revenue it collects from each category of ratepayers, nor for different levies or charges.

The *Local Government (Financial Management) Regulations 2011* (**Regulations**) requires that, at a minimum, the annual business plan provides a statement on the average change in the expected rates for each land use category.[41] For all these reasons, it would be appropriate for Council to:

9. **Report** in its annual business plan the estimated average annual change for all categories of rates and other charges, together with the quantum of annual revenue it expects to collect from the different categories of rates and charges, providing greater clarity and transparency to its ratepayers.

D.3 Projected further rate increases

The Rural City of Murray Bridge has not separately identified its forecast increases in its average rate levels as part of its 10-year LTFP projections, although it does not appear to be projecting any material changes to rate levels in real terms.

It has projected rate revenue growth of an average of 4.2 percent per annum between 2022-23 to 2031-32, incorporating assumed growth in property numbers of 2.0 percent per annum and 2.0 percent annual inflation (CPI) growth from 2024-25. Accordingly, its rates per property growth is forecast to average 2.2 percent per year (primarily for the impacts of inflation). Should lower growth eventuate, this

35 Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 15.
36 Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 14.
37 Rural City of Murray Bridge, *Annual Business Plan 2022-23,* June 2022, p. 17.
38 Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 15.
39 Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 18.
40 Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, p. 18.
41 Under Regulations s6(ec).

might be a catalyst for the Council to increase average rate levels by more than it has forecast. Therefore, it would be appropriate for it to:

10. **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.

D.4 Affordability risk

The Council appears to have considered the affordability of rate rises in its annual business plan and budget[42] and it has not proposed any increases to existing average rate levels in real terms. Around half of its projected revenue growth is due to projected development and property number growth, with the rest to account for the impact of inflation.

Affordability risk for higher rate levels among its community does exist based upon:

- the current rate levels in the area, as a legacy of historical rate increases and service growth (as was discussed in section D.1)[43]
- current risks to inflation forecasts
- the socio-economic indexes for areas (**SEIFA**) economic resources ranking for the Rural City of Murray Bridge area, which places the council area in the bottom fifth of South Australia council areas in terms of access to economic resources,[44] and
- some of the community comments received by the Council during its consultation on the annual budget, which were concerned about the rate increases, including increases to minimum rates.[45]

The strong projected operating performance does provide some flexibility for the Council to maintain a surplus position without further rate increases in real terms, even if property growth and the associated additional rates revenue does not eventuate as forecast. However, the surpluses are also predicated on significant cost constraint and given the Rural City of Murray Bridge's rate history and the likely sensitivity of the community to further rate increases, it would be appropriate for it to:

11. **Review** and consider limiting further average and minimum rate increases where possible, to reduce the affordability risk of higher rate levels in the community.

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42 Rural City of Murray Bridge, *Annual Business Plan 2022-23*, June 2022, pp. 7 and 22.

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

44 The Rural City of Murray Bridge area is ranked 12 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 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.

45 Rural City of Murray Bridge, *Special Council Meeting Agenda - 30 May 2022, Item S95.1 - Summary of Responses to Draft 2022-23 Annual Business Plan & Budget,* Attachment 1, pp. 8-17, available at https://www.murraybridge.sa.gov.au/__data/assets/pdf_file/0025/1153582/Special-Council-Meeting-Agenda-30-May-2022.pdf. Four of 10 submissions raised concern about rate increases.

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