Advice

Local Government Advice

City of Marion

February 2024

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City of Marion

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the City of Marion's current and projected financial performance **sustainable** taking into account the council's forecast moderate expense growth increase over the next 10 years and the planned average rate increases of 3.3% p.a. per property over this period

RISKS IMPACTING SUSTAINABILITY

- If moderate growth in forecasted expenses is not realised and the Council maintains the current cost trajectory, ratepayers risk shouldering the burden through unexpected higher rate increases
- Asset renewal expenditure in line with the LGA target range of between 90% and 110% is not met

CONTINUE

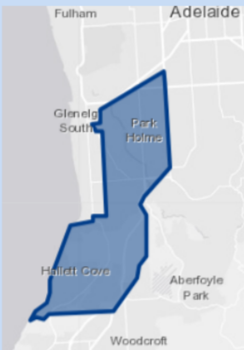
- Reviewing inflation forecasts in the budget and forward projections from 2024-25
- Adhering to a robust strategic planning process

COMMISSION'S RECOMMENDATIONS

- Consider better clarity concerning assumptions for the cost and revenue estimates
- Report any actual and projected cost savings in the annual budget and long-term financial plan
- Report in the annual business plan the estimated average annual change for all of the nine categories of general rates
- Consider a comprehensive revaluation of the depreciable assets by an external valuer at least every four years.

KEY FACTS

- Population in 2021 was **94,721**
- Council covers **55 square kilometres**
- **44,902** rateable properties in 2022-23
- **$84.3 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$1.20 billion**



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Glossary of terms

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

Legend: ✅ Low-risk ⚠ Moderate-risk 🛑 High-risk

1 The Commission's key advice findings for the City of Marion

The Essential Services Commission (**Commission**) considers the City of Marion (**Council**) to be in a **sustainable** financial position with historical and projected operating surpluses. The projected strong ongoing financial performance should enable it to accommodate asset renewal as required to maintain service levels without the need for further significant rate increases.

Current financial performance:

Unsustainable	Potentially Unsustainable	Mostly Sustainable	**Sustainable**

Projected financial performance (future):

Unsustainable	Potentially Unsustainable	Mostly Sustainable	**Sustainable**

Previous financial performance (past ten years):

Unsustainable	Potentially Unsustainable	Mostly Sustainable	**Sustainable**

Looking ahead, the Commission suggests the following steps to help ensure the Council budgets transparently, reports its cost savings and efficiencies, ensures the assumptions underpinning its financial and asset management planning are clear and sets rate levels more transparently.

Budgeting considerations

1. **Continue** to review its inflation forecasts in its budget and forward projections from 2024-25, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.
2. **Consider** better clarity in its forward estimates in its long-term financial plan concerning the assumptions for its cost and revenue estimates.

Continuing to provide evidence of ongoing cost efficiencies

3. **Report** any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Refinements to asset management planning

4. **Consider** undertaking a comprehensive revaluation of its depreciable assets by an external valuer at least every four years to ensure the forecast rate of asset consumption (and depreciation expense) in the long-term financial plan reflects recent macro-economic conditions.

Reporting and containing rate levels

5. **Report** in its annual business plan the estimated average annual change for all of its nine categories of general rates, together with the quantum of annual revenue it expects to collect from these distinct categories of rates (with minimum rate revenue reported separately), providing greater clarity and transparency to its ratepayers.

2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by State Parliament 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 17 councils for advice in the second scheme year (2023-24), including the Council (**Council**).

This report provides the Local Government Advice for the Council in 2023-24.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2024-25 annual business plan (including any draft annual business plan) and subsequent plans until the next cycle of the scheme.[8] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[9]), nor is it compelled under the LG Act to follow the advice.

The Commission thanks the Council for meeting with the Commission and for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

In general, the Commission finds the Council's current and projected financial position and outlook strong and sustainable with operating surpluses achieved historically, and continued surpluses forecast in the medium to longer term.

The Council will continue to rely on rate contributions, as well as grants income growth, to achieve this performance, but the Commission notes that historically the Council's rate levels were relatively low.[10]

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1 Amendments to the *Local Government Act 1999* (**LG Act**) (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).
10 Refer to council rates data for 2021-22 available at https://councilsinfocus.sa.gov.au/home. The Commission is not relying on these rate comparisons for its advice: the data source provides just one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

Looking ahead, the Council has forecast an increase in its borrowings to finance infrastructure projects drawn from its City of Marion Building Asset Strategy (**CoMBAS**). As a result, its level of net financial liabilities is forecast to increase from $18.7 million in 2023-24 to $41.0 million in 2032-33 (within acceptable limits for a council of its size). This reduces the pressure on its rates base to fund the annual capital spending as it occurs, which in turn supports intergenerational equity.

Although the Council has forecast higher expenditure on new assets and asset renewals than what it has achieved historically, its forward projections indicate a slight decrease in the value of assets per property (to $27,829 in 2032-33 from $27,843 in 2023-24). These projections (in asset values per property), as they stand, would contribute to the Council's sustainability into the future and reflect a period of asset and service consolidation. By implication, this also indicates the Council's asset stock will decline in real terms. At the same time, the Council's LTFP also shows its continued commitment to maintaining community service levels by spending adequately on the renewal of its existing asset base.

In recent years, the Council has run small operating surpluses, indicating that the operating income it collects is generally exceeding its operating expenses by a small margin. The Commission notes that the Council is continuing to forecast small operating surpluses in the short term. If its total operating expenses (including deprecation) do not reflect current macro-economic conditions, the Council risks understating its total operating expenses and overstating its operating surplus ratio.

The Commission also considers that there may be opportunities to achieve greater savings and efficiencies in the Council's recurrent budget and encourages it to review and report on this. In general, a focus on managing its growth-related assumptions and consulting with its community about rate contributions and service levels should help the Council to identify and act upon opportunities to reduce affordability risk to the community.

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the Council's material changes to its 2023-24 plans (compared with the previous year's plans), its financial sustainability (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure), and its current and projected rate levels.

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

2.2.1 Advice on material plan amendments in 2023-24

Key Points:

- ✅ An additional improvement of $104.4 million or 10.3 percent in total operating income on the 2022-23 estimates (for the period 2023-24 to 2031-32) mostly driven by higher rates, grants and subsidies and user charges.
- ⚠ An additional $102.8 million or 10.6 percent in total operating expenses on the 2022-23 estimates (for the period 2023-24 to 2031-32) mostly driven by 'materials, contracts and other' expenses, finance costs and depreciation expenses.
- ✅ The long-term financial plan is based on forecast expenditure levels indexed to reflect current cost pressures and future anticipated costs, factoring indexation at the higher end of the RBA target over the coming two years before reverting to a longer-term forecast of 2.5 percent from 2025-26 onwards.

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

The Council's 2023-24 LTFP includes an improvement to its projected operating performance and increases to its projected capital expenditure estimates, compared with the 2022-23 forecasts,[12] as follows:

- An additional improvement of $104.4 million or 10.3 percent in total operating income. Most of this increase is due to higher rates, which increased by $87 million or 9.9 percent on the 2022-23 estimates (for the period 2023-24 to 2031-32). Grants, subsidies and contributions have also increased by $7.6 million or 12.5 percent, and user charges have increased by $7.9 million or 31.8 percent.
- An additional $102.8 million or 10.6 percent in total operating expenses. This includes an additional $71.9 million or 20.5 percent for 'materials, contracts and other' expenses, and an additional $13 million or 309 percent in 'finance costs'. Depreciation has also increased by $8.2 million or 4.5 percent.

The Council's LTFP is based on forecast expenditure levels indexed to reflect current cost pressures and future anticipated costs.[13] The Council's LTFP has factored indexation at the higher end of the RBA target over the coming two years before reverting to a longer-term forecast of 2.5 percent from 2025-26 onwards. Given the current high inflationary environment and the degree of uncertainty in future events that may impact inflation, the Commission considers that it would be appropriate for the Council to:

1. Continue to review its inflation forecasts in its budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

Based on updated inflation assumptions in its 2023-24 LTFP, an increase in its cost and revenue estimates (excluding employee costs) by up to 10 percent over the 2023-24 to 2031-32 forecast period,[14] compared with the same estimates in its 2022-23 LTFP, could be accounted for by higher inflation forecasts. The Council has not adjusted its operating income and expense forecasts by higher amounts than its adjusted inflation forecasts (both with increases of 10.3 percent and 10.6 percent on 2022-23 estimates[15]). This suggests that there are not higher forecasts in real terms.

The Commission notes that the Council's stated assumptions for indexation in its 2023-24 LTFP are based on its annual review of these forecasts. Notwithstanding the need for the Council to find savings and reduce any inflationary impact on its community, the Commission has found that it would be appropriate for it to:

2. Consider better clarity in its forward estimates in its long-term financial plan concerning the assumptions for its cost and revenue estimates.

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

- ✅ Operating surpluses consistently achieved between 2012-13 and 2021-22, with the operating surplus ratio averaging 8.1 percent in that time.
- ✅ The operating surplus ratio is forecast to average 4 percent per annum between 2023-24 and 2032-33.

12 The overlapping forecast period in both LTFPs (2022-23 to 2031-32 and 2023-24 to 2032-33).
13 City of Marion, *2023-2033 long-term financial plan*, June 2023, p. 6.
14 The set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections.
15 Based on the overlapping forecast period in both LTFPs (2022-23 to 2031-32 and 2023-24 to 2032-33).

Over the past 10 years, operating expenses increased annually on average by 4.5 percent (compared with CPI of 2 percent) primarily driven by increases in 'Materials, contracts and other' expenses (6.3 percent), and employee costs (3.2 percent).
'Materials, contracts and other' projected expenses and costs for depreciation are forecast to increase by an average of 2.6 percent and 4.0 percent per annum respectively, from 2022-23 to 2031-32.
Forecast modest expenses growth over the next 10 years, combined with higher rate increases, will likely assist the Council's operating performance to remain in surplus. Nonetheless, should the Council not achieve the moderate expense projections it could result in further rate increases.

For the past 10 years, the Council's operating surplus ratio[16] generally displayed an underlying decreasing trend from 7.1 percent in 2012-13, to 0.5 percent in 2021-22 (8.1 percent on average). Looking ahead, it is forecast to meet the lower end of the suggested target range in each year to 203233 (4 percent on average).

The Commission notes that the Council's operating surplus ratio decreased sharply in the three years to 2021-22. The decrease largely coincided with the average rate revenue per property growing at only 0.8% over the same period as the Council sought to minimise rate increases on its community. At the same time the Council's operating expenses grew at 6.8 percent in the three years to 2021-22 which is mostly attributable to materials, contracts and other expenses increasing at 10.8 percent for the same period. The operating surplus ratio is forecast to gradually improve as operating income grows at a faster rate than operating expenses in the ten years to 2032-33.

The Council's operating expense growth (from 2012-13 to 2021-22) was primarily due to an average annual increase in 'Materials, contracts and other' expenses of 6.3 percent and a 3.2 percent increase in employee costs.[17]

The depreciation expense measured as a percentage of the Council's total expense was around 17 percent in 2012-13 and in 2022-23. The Commission notes that typically the depreciation expense when measured as a percentage of total expenses is around 20 percent for Councils in South Australia suggesting the Council's depreciation expense could be lower than what is required to reflect the current cost of the Council's assets. This could also cause an overstatement of the Council's operating surplus ratio. The depreciation expense is discussed in further in the asset renewal expenditure section.

Looking forward, the Council is projecting average annual rates revenue growth of 3.3 percent to 2032-33, which is above the forecast long-term inflation[18] and represents a real term increase in rates. This average growth in annual rates revenue is also higher than expected expense growth (rates are discussed in more detail in section D).

Higher forecast average expense growth of 3.1 percent per annum is slightly above the RBA-based forecast inflation growth and is also lower than the Council's past performance (with average annual growth of 4.5 percent in the 10 years to 2021-22).

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

17 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).

18 The forecast average annual growth in the CPI from 2023-24 to 2032-33 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to December 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.

The Council's data (provided to the Commission) shows that employee numbers increase negligibly (to 363 FTEs in 2032-33 from 362 in 2023-24), and its employee expenses are forecast to increase by an average of 2.7 percent per annum from 2023-24 to 2032-33. In addition, 'Materials, contracts and other' expenses and costs for depreciation are forecast to increase by an average of 2.6 percent and 4.0 percent per annum respectively, from 2022-23 to 2031-32. The estimated rate of growth in these expenses over the next 10 years, combined with higher rate increases, will likely assist the Council's operating performance to remain in surplus. Nonetheless, the Commission notes that, should the Council not be able to achieve these moderate expense projections (i.e., these assumptions are understated), it could result in further rate increases as a result of operating expenses growth outgrowing operating income growth.

To assist the Council in achieving its forecast operating surpluses, the Council may need to find more savings and efficiencies in its budgets. To this end, the Commission has found that it would be appropriate for the Council to:

3. Report any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Net financial liabilities

Key Points:

- The net financial liabilities ratio has been negative each year from 2012-13 to 2021-22 averaging negative 20 percent, which is below the suggested LGA target range, however noting that borrowing levels were relatively low over this time.
- The annual average forecast for the net financial liabilities ratio from 2022-23 to 2031-32 is 30 percent.
- Total borrowings are forecast to increase from $21.1 million in 2023-24 to a peak in 2031-32 of $57.6 million. These additional forecast borrowings after 2023-24 relate to the Council's capital forecast expenditure to 2032-33 and its strategy to finance infrastructure projects.

The Council's net financial liabilities ratio[19] result was negative each year from 2012-13 to 2021-22, which is below the suggested LGA target range. Looking ahead, the Council has forecast that its net financial liabilities ratio will be positive throughout the forecast period to 2031-32 and remain within the suggested LGA target range. The annual average forecast for the net financial liabilities ratio from 2022-23 to 2031-32 is 30 percent.

The Council's borrowing levels were relatively low from 2012-13 to 2021-22 and its net financial liabilities ratio was negative (averaging negative 20 percent over these years). The Council's net financial liability is forecast to increase from $18.7 million in 2023-24 to $41.0 million in 2032-33. Accordingly, the net financial liabilities ratio is also forecast to increase from 18 percent in 2023-24 to 27 percent in 2032-33. The level of net financial liabilities and the ratio are driven by the total borrowings, which are forecast to increase from $21.1 million in 2023-24 to a peak in 2031-32 of $57.6 million. These additional forecast borrowings after 2023-24 relate to the Council's capital forecast expenditure to 2032-33[20] and its strategy to finance infrastructure projects articulated in its City of Marion Building asset Strategy report (CoMBAS).

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

20 City of Marion, *2023-24 annual business plan*, June 2023, p. 15.

The Council stated in its 2023-33 LTFP that it has a desirable target range is between zero and 50 percent for its net financial liabilities ratio.[21] Community concerns about the Council's level of debt also appear small, with the Commission noting that only one out of the 78 submissions received expressed concern about the forecast level of debt in 2032-33.[22]

Asset renewals expenditure

Key Points:

- Between 2012-13 and 2021-22 total capital expenditure averaged $25.3 million per annum including $14.7 million per annum on new or upgraded assets.
- From 2023-24 to 2032-33, the Council's asset renewal funding ratio (under the 'IAMP-based' approach) is forecast to be within the suggested LGA target range, with an average of 100 percent.
- Asset stock per property rose by 0.6 percent for each year over the 10 years to 2021-22, implying that the value of Council's asset stock, has declined in real terms (the increase is lower than historical inflation).
- The depreciation-based asset renewal ratio from 2012-13 to 2021-22 averaged 66 percent which is below the suggested LGA target range.
- The depreciation-based asset renewal ratio is forecast from 2023-24 to 2032-33 to be 85 percent which is slightly below the LGA target range lower band.
- Comprehensive asset management plans for all asset classes and condition assessments have been carried out on all assets within the last four years.

The Commission notes that prior to 2020-21, the Council reported the asset renewal funding ratio in its annual report using the depreciation based method.[23] While the Council had renewal expenditure targets in place prior to this, the depreciation-based method was considered the more reliable and suitable measure and retained comparability to previous years. Looking ahead, from 2023-24 to 2032-33, the Council's asset renewal funding ratio[24] (under the 'IAMP-based' approach) is forecast to be within the suggested LGA target range, with an average of 100 percent.

In the 10 years to 2021-22, the Council marginally grew its asset base with total capital expenditure averaging $25.3 million per annum (including $14.7 million per annum on new or upgraded assets). This has led to a small average increase in the value of the asset stock per property of $133 or 0.6 percent for each year over the 10 years to 2021-22. This implies that the value of Council's asset stock has declined in real terms (the increase is lower than historical inflation).

The Council's forward projections indicate that the value of assets per property will decrease slightly to $27,829 per property in 2032-33 (from $27,843 in 2023-24) – this represents a fall in real terms of 2.7 percent (the RBA-based forecast rate of inflation is 2.6 percent per annum). These projections, as they stand, would contribute to the Council's sustainability into the future and reflect a period of asset and service consolidation.

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21 City of Marion, *2023-33 long-term financial plan*, June 2023, p. 11.
22 City of Marion, *General Council Meeting Agenda -13 June 2023, Attachment 11.5.4 Draft 2023/2024 annual business plan, Making Marion– Public Consultation,* available at https://cdn.marion.sa.gov.au/meetings/agendas/GC230613-Final-AgendaV2_2023-06-08-050047_lpcj.pdf
23 City of Marion, *2020 annual report*, October 2021, p. 82.
24 The IAMP-based method is the current industry standard whereby asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). Ideally, this will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan. The suggested LGA target range for the ratio is 90 to 110 percent (LGA SA Financial Indicators Paper, p. 9).

The Commission notes that the small growth in asset stock per property could also be a result of the frequency of asset valuations undertaken by the Council. For all infrastructure assets the council has a program to undertake an independent desktop revaluation process annually and a full comprehensive revaluation for infrastructure (81 percent of its depreciable assets) every 5 years.[25]

For land, buildings, site improvements and other assets (19 percent of depreciable assets) a comprehensive external valuation is undertaken every 5 years. For interim years additions and adjustments are recorded at cost and not indexed.[26]

Notwithstanding the Council's annual desktop revaluation and the indexing of depreciation,[27] the Commission notes that undertaking a comprehensive revaluation every five years could present a risk in the current macroeconomic environment. Inflation and the upward impact to asset prices could result in depreciation charges not reflecting recent asset valuations. As previously mentioned in the operating performance section this could cause the Council's depreciation expense to be lower than what is required to reflect the current cost of the Council's assets. In addition, it could also cause an overstatement of the Council's operating surplus ratio. For these reasons the Commission considers it appropriate for the Council to:

4. Consider undertaking a comprehensive revaluation of its depreciable assets by an external valuer at least every four years to ensure the forecast rate of asset consumption (and depreciation expense) in the long-term financial plan reflects recent macro-economic conditions.

When the asset renewal funding ratio is instead calculated by the depreciation-based method,[28] it is forecast to average 85 percent over the forecast period (2023-24 to 2032-33). This is slightly below the suggested LGA target range and follows an average performance of 66 percent for the ratio from 2012-13 to 2021-22. Nevertheless, this could indicate the total depreciation expenses is higher than the required expenditure on capital renewals under its various AMPs. Alternatively, it could also indicate that the Council's capital renewal expenditure is below the appropriate level.

According to the Council's 2022-23 annual report a comprehensive revaluation was carried out by independent valuation for the period ending 30 June 2023 for the Council's infrastructure assets (roads, footpaths, kerbs, drains, bridges, traffic devices and traffic signs) and its buildings and other structures.[29]

Other infrastructure assets such as car parks, lighting, walking trails and reserve pathways as well as land and land improvements and all other assets (excluding plant, equipment that are recognised at cost) had a comprehensive revaluation carried out by independent valuation for the reporting period, 30 June 2018.[30]

The Council currently has individual AMPs for transport, buildings, water resources, open space, coastal walkway, fleet and technology. It also undertakes an annual review of its forecast asset management expenditure. The revised forecast annual funding requirements are updated in Appendix A of each asset management plan and incorporated into the Council's adopted ABP and LTFP.[31] The Council's 'Refresh of Budgeted Expenditures Accommodated in the LTFP' document outlines the revised forecast expenditure for each AMP.

In addition the Commission also notes that the Council's annual 'state of the assets' report that covers

[25] Submissions to the Essential Services Commission of South Australia – Response to follow up questions – City of Marion. November 2023, p. 3.
[26] Submissions to the Essential Services Commission of South Australia – Response to follow up questions – City of Marion. November 2023, p. 3.
[27] Based on the Council's Excel template (with material amendment reasons) it provided to the Commission.
[28] Where asset renewal/replacement expenditure is divided by depreciation expenses.
[29] City of Marion, *2022-23 annual report*, June 2023, p. 24.
[30] City of Marion, *2022-23 annual report*, June 2023, p. 24.
[31] City of Marion, *refresh of budgeted expenditures accommodated in the LTFP*, August 2023, p. 1

asset valuation, condition, asset performance, risk, intervention levels, level of service monitoring and future financial sustainability options and consequences.[32]

These matters (among others) have informed the Council's planned operating and maintenance budgets, and asset renewal needs. The Commission's review of the AMPs has found that, on balance, the Council's strategic planning processes aligns with good practice for a council of its size and complexity.

2.2.3 Advice on current and projected rate levels

Key Points:

⚠ Rate revenue per property growth has averaged 2.4 percent or $39 per annum for each property in the period between 2012-13 and 2021-22 which is 0.4 percent above CPI for the same period.

✔ Budgeted for an average rate increase of 5.2 percent or $100 per property for its existing ratepayers in 2023-24 and represents a fall in real terms as the increase is below CPI for the same period.

⚠ Between 2023-24 and 2032-33 the average rate increase across all categories is forecast to be 3.3 percent, from $1,980 to $2,645 per property, and is 0.8 percent above the RBA-based forecast average inflation of 2.6 percent per annum in the same period.

The Council's rate revenue per property growth has averaged 2.4 percent or $39 per annum for each property over the past 10 years,[33] to reach an estimated $1,834 per property in 2021-22. This has slightly exceeded CPI growth of an average of 2.0 percent per annum over this period, but also encompasses 1.0 percent average annual growth in rateable property numbers.[34] Current rate levels partially reflect its recent history of constrained spending growth, predominantly on capital expenditure (on renewals, and new and upgraded assets), material costs, and employee related costs.

The Council has budgeted for an average rate increase of 5.2 percent or $100 per property for its existing ratepayers in 2023-24,[35] representing a reduction in real terms as the increase is below the level of inflation.[36] This was higher than it had anticipated charging for this year in its 2022-23 long-term financial plan projections (2.4 percent for existing rateable properties). The rate increase reflects higher short-term inflation (anticipated by the Council through its indexation of rates in its long-term financial plan). In 2022-23, the Council had 44,902 rateable properties and expects this to increase to 49,401 in 2032-33, representing modest growth of 1 percent per annum in rateable properties.[37]

Looking forward, between 2023-24 and 2032-33 the average rate across all categories is forecast to increase from $1,980 to $2,645[38], a cumulative increase of $665 per property. This equates to a 3.3 percent average annual increase (between 2023-24 and 2032-33), above the RBA-based forecast

32 City of Marion, *2019-28 asset management strategy*, March 2019, p. 6.
33 From 2012-13 to 2021-22.
34 CPI Adelaide (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 2.0 percent). Available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.
35 Based on the Council's 2023-24 annual business plan and its Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $89.438 million (in 2023-24 budgeted rates revenue) compared to unaudited 2022-23 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.
36 CPI Adelaide (all groups) increased by 7.9 percent in the year to March 2023 quarter and has reduced in the year to June 2023 and September 2023 quarters to 6.9 percent and 5.9 percent, respectively. Available at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023.
37 Based on the Council's 2023-24 annual business plan and its Excel template (with the 2023-24 forecasts) provided to the Commission
38 This includes rates growth of 4.3 percent expected each year of which 1 percent is for property growth.

average inflation of 2.6 percent per annum and representing a real increase in rates over that period.[39]

The Council uses a differential rating system to raise revenue based upon land use. This option was adopted following a review of the rating options in 2002-03, which involved the Council consulting extensively with the community and concluding that the differential rating system would ensure a fair and equitable distribution of rates within the Council.[40] As a result, different rate categories are subject to varying changes, with residential ratepayers to pay an average increase of $80 per property on 2022-23 levels. Vacant land, commercial and industrial are subject to average increases of $262, $755 and $862 per property, respectively.[41]

The *Local Government (Financial Management) Regulations 2011* (Regulations) require, at a minimum, that the annual business plan provides a statement on the average change in the expected rates for each land use category.[42] While the Council has complied with this obligation,[43] the Commission considers that it would be appropriate for the Council to also:

5. Report in its annual business plan the estimated average annual change for all of its nine categories of general rates, together with the quantum of annual revenue it expects to collect from these distinct categories of rates, providing greater clarity and transparency to its ratepayers.

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 Council's:

- ongoing performance against its LTFP estimates (including depreciation), and
- achievement of cost savings and efficiencies and its continued reporting of these in its plans.

39 The forecast average annual growth in the CPI from 2023-24 to 2032-33 is estimated to be 2.6 percent based on Reserve Bank of Australia (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.
40 City of Marion, *2023-24 annual business plan*, June 2023, p. 44
41 City of Marion, *2023-24 annual business plan*, June 2023, p. 23
42 Under Regulations s6(ec) Local Government (Financial Management) Regulations 2011.
43 City of Marion, *2023-24 annual business plan*, June 2023, p. 23

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