Advice

Local Government Advice - Attachment

City of Marion

February 2024

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A The Commission's approach

In providing the Advice for the City of Marion (**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 (set out 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]

- 2023-24 Annual Business Plan (adopted June 2023)
- 2023-33 Long Term Financial Plan (adopted June 2023)
- 2022-23 Annual Business Plan (adopted June 2022)
- 2022-32 Long Term Financial Plan (adopted June 2022)
- 2021-22 Annual Report (adopted October 2022)
- 2020-30 Artwork Culture and Heritage Structures Asset Management Plan (adopted October 2020)
- 2020-30 Building and Structures Asset Management Plan (adopted October 2020)
- 2020-30 Coastal Walkway Asset Management Plan (adopted October 2020)
- 2020-30 Fleet, Plant and Equipment Asset Management Plan (adopted August 2020)
- 2020-30 Open Space Asset Management Plan (adopted October 2020)
- 2020-30 Stormwater Asset Management Plan (adopted October 2020)
- 2020-30 Transport Asset Management Plan (adopted October 2020)
- 2020-30 Water Treatment and Resources Asset management Plan (adopted October 2020)
- 2019-28 Asset Management Strategy (adopted October 2019)
- 2022-32 City of Marion Building Asset Strategy (adopted June 2023)
- 2023-24 Asset Management Plan Financial schedules update

The Commission notes that most of the Council's asset base is covered by its existing asset management plans (**AMPs**), and asset valuations for most of those assets have been carried out within the last five years.

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*. 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.

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

The Commission has also reviewed the Council's template data which contains its 2023-24 LTFP forecasts for 2023-24 to 2032-33, as well as its 2022-23 LTFP forecasts, and historical financial data and number of rateable properties and council staff (Full Time Equivalent (FTE)) numbers from 2012-13 onwards.[6] [7] All charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council audit committee reports, and other public information, as appropriate.

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 2012-13, and then projections of this series from 2023-24 based on the Reserve Bank of Australia (RBA) (Australia-wide) inflation forecasts (to the December 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 Marion, including its location as a metropolitan fringe council, its income level ($104.4 million) and the size of its rates base (more than 44,000 ratepayers[8]).

4 *Local Government Act 1999* (LG Act) s122(1g)(a)(i).
5 As required under s122(1b) of the LG Act.
6 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.
7 The Council's estimates for the 2022-23 financial year, relied on at the time of preparing this advice, were unaudited.
8 Based on the estimated number of property assessments in 2021-22.

Summary of the City of Marion’s financial sustainability performance and the Commission’s risk assessment

Financial sustainability indicators:	Last 10 years from 2012-13 (Actual performance)	2022-23 estimate	Next 10 years from 2023-24 (Council forecasts)
Operating surplus ratio (target 0-10%)	Surpluses within target ---------------------------------->		Surpluses projected to 2032-33 -------->
Net financial liabilities ratio (target 0-100%)	Ratio between zero and negative 35% ----------->		Ratio within target range ----------------->
Asset renewal funding ratio (target 90-110%)	Spending on renewal works below target range (based on depreciation method) ------>	Spending on renewal works below target range (based on net)	Projected asset renewal in LTFP to align with AMP - required spending (ratio 100%)
Identified Risks:			
Cost control risk	Operating expenses per property average growth 3.4% pa to 2021-22 (CPI 2.0%) --------------------------------->	Low cost growth	Projected operating expense per property average growth 2.1% to 2032-33 (CPI 2.6%)
Affordability risk	Low rates revenue per property average growth of 2.4% pa to 2021-22 (CPI 2.0%)	High rates increase	Projected rate revenue per property average growth 3.3% to 2032-33 (CPI 2.6%) --->

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

B Material plan amendments in 2023-24

The City of Marion has made various amendments to its 2023-24 budget and forward projections relative to its 2022-23 LTFP, 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).[9] To ensure a comparable analysis of estimates between the 2022-23 and 2023-24 LTFPs, the Commission has reviewed the nine overlapping years' statistics, 2023-24 to 2031-32, and identified material amendments accordingly.

Selected Financial Item	Sum of 2023-24 to 2031-32 estimates in 2022-23 LTFP ($ million)	Sum of 2023-24 to 2031-32 estimates in 2023-24 LTFP ($ million)	Change in 2023-24 estimates ($ million)	Change in 2023-24 estimates (percent)
Grants, subsidies and contributions operating income	61.4	69.1	7.6	12.5
Rates	879.9	966.9	87.0	9.9
Total Income	1,014.7	1,119.2	104.4	10.3
Materials, contracts and other expenses	351.4	423.3	71.9	20.5
Total Expenses	974.4	1,077.2	102.8	10.6
Capital expenditure on new and upgraded assets[10]	74.5	181.1	106.6	143
Cumulative borrowings	82.1	388.9	306.8	373.8

B.1 Changes to operating performance

The Council's estimated total operating income to 2030-31 has increased by $104.4 million or 10.3 percent in its 2023-24 LTFP estimates, compared with its 2022-23 LTFP estimates. 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. Based on the Council's assumptions in its 2023-24 LTFP,[11] an increase in its operating revenue and cost estimates by up to around 10 percent to 2031-32 would be reasonable for higher inflation (compared with its estimates in 2022-23). The impact on current and projected rate levels are discussed more in section D.

The City of Marion's LTFP is based on forecast expenditure levels indexed to reflect current cost pressures and future anticipated costs.[12] The Council's LTFP has factored indexation at the higher end of the RBA target over the coming years for 2 years, before reverting to a longer term forecast of 2.5 percent from 2025-26 onwards. The Commission considers that it would be appropriate for the Council to:

9 This table shows only selected financial items to demonstrate the material amendments made by the Council in its 2023-24 estimates. It excludes various financial items and individual items do not sum to totals.
10 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).
11 This compares the LTFP estimates aggregated over the nine years from 2023-24 to 2031-32. The 2023-24 LTFP estimates for 2031-32 are not included in the comparison.
12 City of Marion, *2023-2033 long-term financial plan*, June 2023, p. 6.

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.

The City of Marion's estimated operating expenses have increased by a total of $102.8 million or 10.6 percent from 2023-24 to 2031-32, compared with its 2022-23 LTFP estimates.

More than half of the higher operating costs in the Council's latest budget are due to higher costs for materials, contracts and other expenses, with an increase of $71.9 million or 20.5 percent on the 2022-23 LTFP estimates (from 2023-24 to 2031-32).[13] The Council's forecast expenditure levels were indexed to reflect current cost pressures and future anticipated costs, including the consideration of major contract price escalation and other market pressures. For known increases on contracts above CPI for electricity and waste contracts, anticipated rates of 21% and 7.41% respectively have been used.[14] Indexation beyond 2023-24 is aligned to the Reserve Bank's projected inflation estimates in the medium and longer term.[15]

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,[16] compared with the same estimates in its 2022-23 LTFP, is driven by for 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[17]). This suggests no anticipated increase in cost and revenue 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. Given the need for the Council to endeavour 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.

B.2 Increase to capital expenditure estimates

The Council's 2023-24 LTFP indicates an increase in capital expenditure for new and upgraded assets (by $106.6 million or 143 percent), compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). The Council's 2023-24 LTFP has been updated to reflect its indicative capital program for the delivery of the key recommendations drawn from the City of Marion Building Asset Strategy (CoMBAS, discussed further in section B.3 below).[18] The movement in new upgraded capital expenditure is primarily attributable to the inclusion of the CoMBAS projects, which were not reflected in Councils LTFP until the completion of this body of work in 2023.

The increase in new capital expenditure has implications for the Council's level of borrowings which are discussed in section B.3.

B.3 Increase in total liabilities

The Council's 2023-24 LTFP indicates an increase in total cumulative liabilities by $335.4 million or 155.1 percent, compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). The Council's current liabilities increased by $63 million or 44.7 percent, mostly due to an increase in trade

13 The Commission notes the increase in the solid waste levy over the last 10 years, which has impacted waste management costs in the local government sector.
14 Based on the Council's Excel template (with material amendment reasons) it provided to the Commission.
15 See footnote 14.
16 The common set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections.
17 Based on the overlapping forecast period in both LTFPs (2022-23 to 2031-32 and 2023-24 to 2032-33).
18 Based on the Council's Excel template (with material amendment reasons) it provided to the Commission.

and other payables and borrowings of $39.5 million and $32.9 million (for the period from 2023-24 to 2031-32).

The Council's non-current liabilities have increased by $272.3 million or 363.1 percent, compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). Long-term borrowings have increased by $273.9 million or 404.6 percent to fund increased capital works (for the period from 2023-24 to 2031-32).

The increase in total borrowings is a result of the council adopting CoMBAS, a 10-year forward-looking strategy that uses evidence, service level benchmarks and local context to inform future decision making and prioritisation to maximise the value and quality of assets and service delivery to the Marion community.[19] The Council's 2023-24 LTFP has been updated to reflect the indicative funding for this strategy which involves the use of debt and potential grant funding. The Commission notes that the nine year expenditure for CoMBAS is $117 million of which $74.4 million is expected to be funded using debt with the remainder from grants.[20]

The Council's borrowings and net financial liabilities are forecast to be higher in the 2023-24 LTFP than the previous year's LTFP (for the period from 2023-24 to 2031-32). As a result, the City of Marion's net financial liabilities ratio is forecast to achieve a higher average rate of 30.6 percent (for the period from 2023-24 to 2031-32) (still well within acceptable limits). This compares to the 2022-23 LTFP which forecast the net financial liabilities ratio to achieve an average rate of only 1.6 percent (for the period from 2023-24 to 2031-32).

The Council's net financial liabilities outlook is discussed further in section C.2.

[19] Based on the Council's Excel template (with material amendment reasons) it provided to the Commission.
[20] Submission to ESCOSA – Local Government Advice – Response to follow up questions – City of Marion p.1

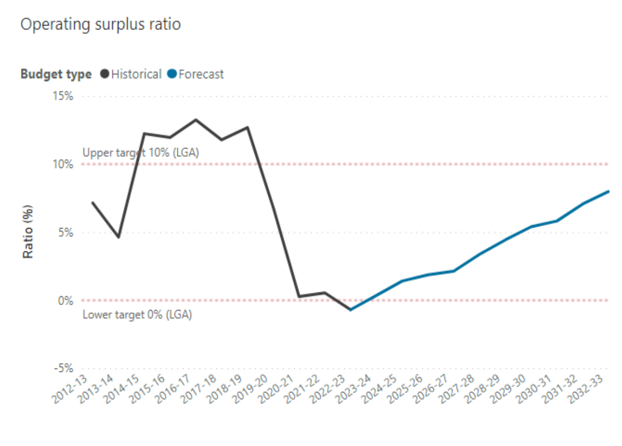
C Financial sustainability

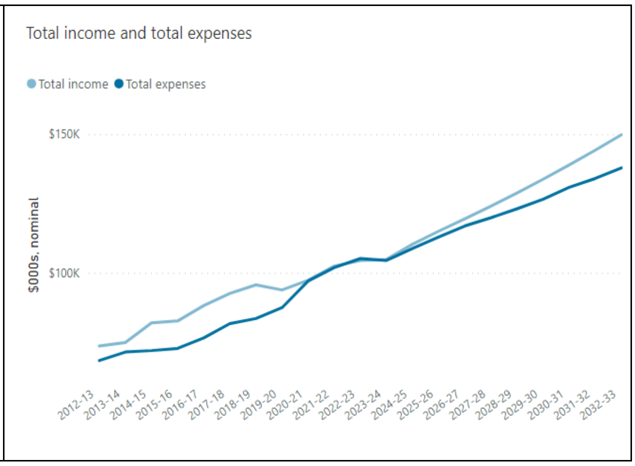
C.1 Operating performance

For the past 10 years, the Council's operating surplus ratio[21] 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 suggested target range in each year to 2032-33 (4 percent on average) (see the left chart below).

The Commission notes that the Council's operating surplus ratio decreased sharply in the three years to 2021-22 (see left chart below). 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'.[22] The right chart over the page shows the nominal increases by expense type in specific time periods. The estimated rate of growth in these expenses projected over the next 10 years (an average of 2.6 percent per annum and 2.7 percent per annum respectively), combined with higher rates increases,[23], will assist the Council's operating performance to remain in surplus.





The depreciation expense measured as a percentage of the Council's total expense was around 17 percent in 2012-13 and in 2022-23 (see left chart on next page). The Commission notes that typically the depreciation expense when measured as a percentage of total expenses is around 20 percent for Councils 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 detail in section C.3.

The Council's rates revenue has increased on average by 3.5 percent per annum from 2012-13 to 2021-22 (when rateable property growth averaged 1.1 percent and CPI growth averaged 2.0 percent). Over the same period, user charges' (accounting for 2 percent of total operating income) increased by an average of 5.2 percent per annum period. 'Grants, subsidies and contributions' (accounting for 10

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

22 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).

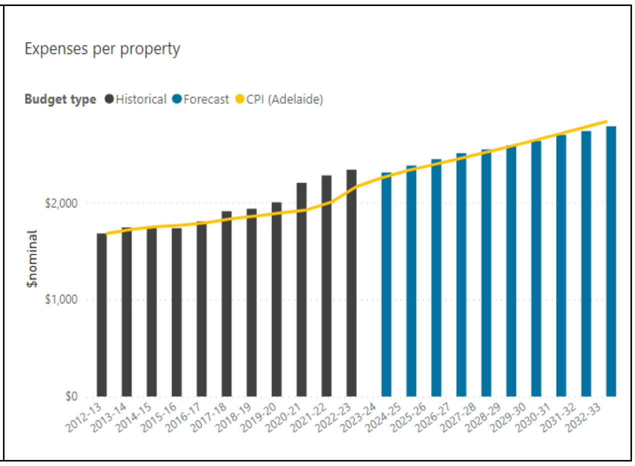
23 The forecast average annual increase in rates per property in the 10 years to 2032-33 is 3.3 percent.

percent of total operating income) increased by an average of 6.6 percent per annum. Grants income has been 'lumpy' from year to year,[24] and the three-year average of $216 per ratepayer in 2021-22 compares with the three-year average of $160 in 2014-15, which reflects an increase in value in real terms.

Looking forward, the Council is projecting average annual rates per property growth of 3.3 percent to 2032-33, which is above the forecast long-term inflation[25] and represents a real increase in rates. This average growth in annual rates revenue property is also higher than the expected expense per property growth of 2.1 percent for the same period (rates are discussed in more detail in section D).

The Council's template data (provided to the Commission) shows that employee numbers increase negligibly (to 363 FTEs in 2032-33 from 362 in 2023-24), with employee expenses 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 assist the Council's operating performance to remain in surplus.

Expenses per property (a metric which also accounts for growth) are expected to increase by an average of 2.1 percent per annum over this period, which would represent a significant cost reduction in real terms (based on current inflation projections) (see the right chart below). At the same time, average operating income per property is forecast to increase by only 3.0 percent (nominally), slightly above the impact of forecast inflation.



These projections highlight the importance of the forecast growth in rateable properties in minimising the impact of rising costs on households. The reduced costs and revenue per property in real terms is reliant on the Council's assumed average growth of 1.0 percent per annum (to 2032-33) in rateable properties, which is slightly lower than historical growth of 1.1 percent per annum (10 years to 2021-22).

To facilitate the Council's achievement of the forecast real terms reduction in its cost base and improve its operating performance (without the need for further rate increases above inflation), the Commission encourages it 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.

[24] Due to the timing of different grants and sometimes advance grant payments (as for the 2022-23 grant allocation, which was received and accounted for in 2021-22).

[25] 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.

C.2 Net financial liabilities

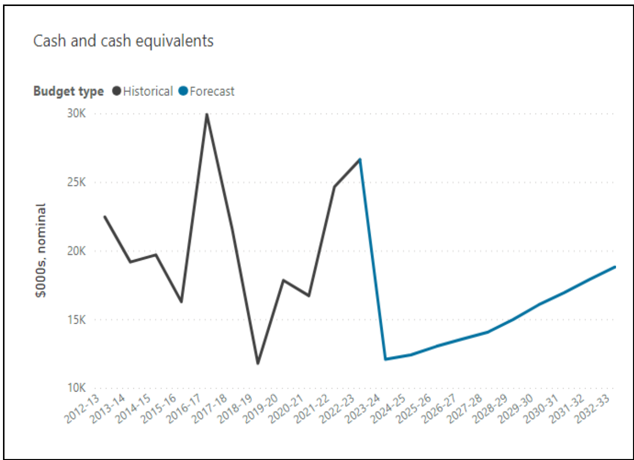
The City of Marion's net financial liabilities ratio[26] result was negative each year from 2012-13 to 2021-22. The annual average over this period was negative 20 percent, which is below the suggested LGA target range (see top left chart over page).

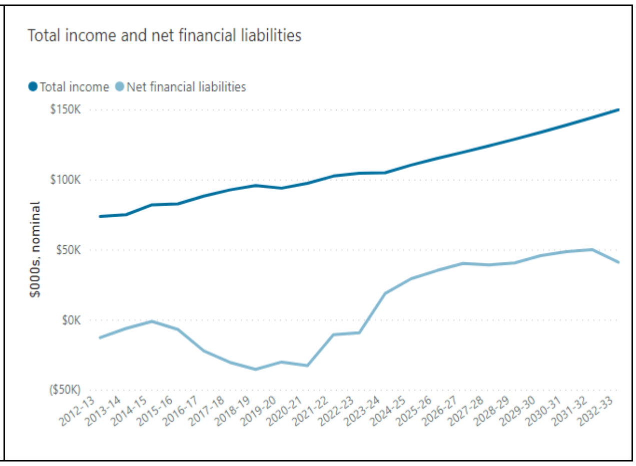
Looking ahead, the Council has forecast its net financial liabilities ratio to be positive throughout the forecast period to 2031-32 and remain within the suggested LGA target range. The annual average forecast for the net financial liabilities ratio from 2022-23 to 2031-32 is 30 percent. The Council's net financial liabilities are also forecast to increase from $18.7 million in 2023-24 to $41.0 million in 2032-33.

The level of net financial liabilities and the ratio are being 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 (see top right chart over page). These additional forecast borrowings after 2023-24 relate to the Council's capital forecast expenditure to 2032-33,[27] and its strategy to finance infrastructure projects drawn from the CoMBAS. The nine year expenditure for CoMBAS is $117 million of which $74.4 million is expected to be funded using debt with the remainder from grants.[28] The Council is also forecasting to have $49.7 million in debt still remaining from CoMBAS in 2032-33.

By utilising debt, the Council is reducing the pressure on its rate base to fund the annual capital spending as it occurs and supporting intergenerational equity.

The Council has stated in its 2023-33 LTFP that it has a desired target range is between zero and 50 percent for its net financial liabilities ratio.[29] . Community concerns about the Council's level of debt appear small, with the Commission noting that only 1 out of the 78 submissions received expressed concern about the forecast level of debt in 2032-33.[30]





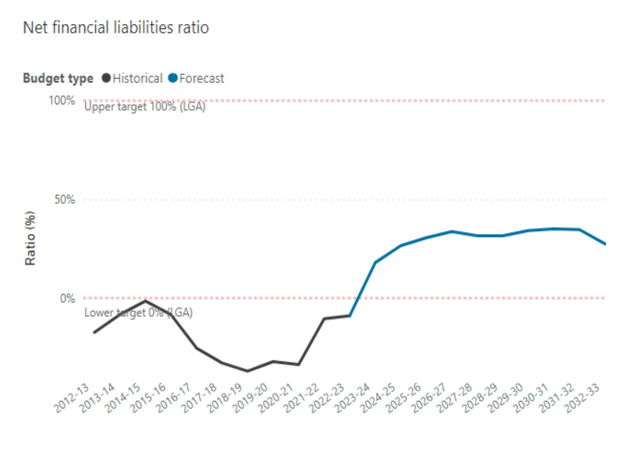
26 The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100 percent of total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

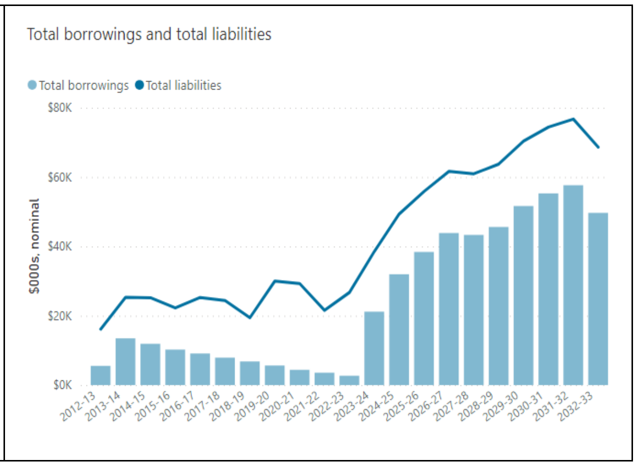
27 City of Marion, *2023-24 Annual Business Plan*, June 2023, p. 15.

28 Submission to ESCOSA – Local Government Advice – Response to follow up questions – City of Marion p.1

29 City of Marion, *2023-33 long-term financial plan*, June 2023, p. 11.

30 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





C.3 Asset renewals expenditure

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.[31] Looking ahead, from 2023-24 to 2032-33, the Council's asset renewal funding ratio[32] (under the 'IAMP-based' approach) is forecast to perform within the appropriate 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) (see the top right chart over the page). 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 (see the top left chart over the page). By implication this indicates the Council's asset stock has declined in real terms (or the increase is lower than historical inflation).

The Council's forward projections indicate that the value of assets per property will slightly decrease to $27,829 per property in 2032-33 (from $27,843 in 2023-24) - by an average of less than 0.1 percent per annum - which is lower than the RBA-based forecast rate of inflation (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.

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% of its depreciable assets) every 5 years.[33]

For land, buildings, site improvements and other assets (19% 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.[34]

Notwithstanding the Council's annual desktop revaluation and the indexing of depreciation,[35] 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 section C.1 this

31 City of Marion, *2020 annual report*, October 2021, p. 82.

32 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).

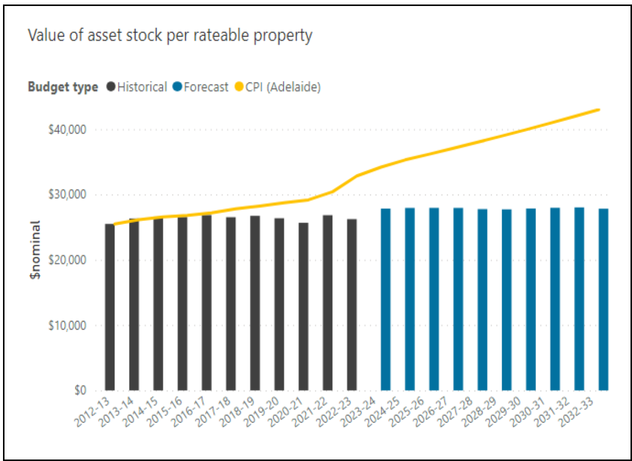
33 Submission to ESCOSA – Local Government Advice – Response to follow up questions – City of Marion p.3

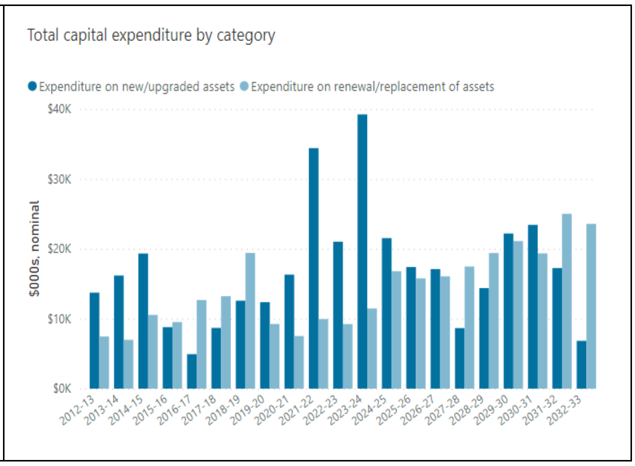
34 Submission to ESCOSA – Local Government Advice – Response to follow up questions – City of Marion p.3

35 Based on the Council's Excel template (with material amendment reasons) it provided to the Commission.

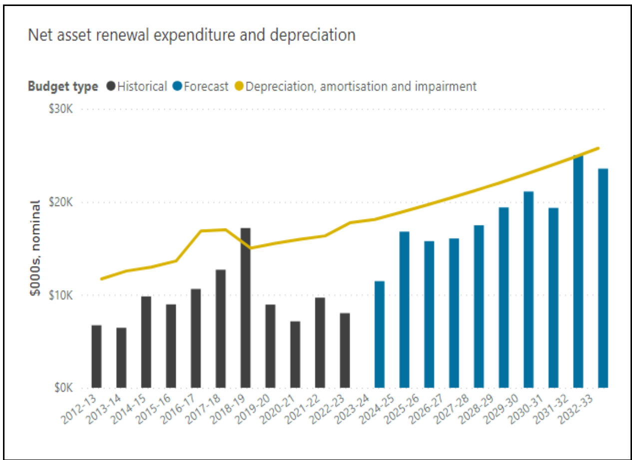
could cause the Council's depreciation expense to be lower than what is required to reflect the current cost of the Council's assets. In addition, it could also cause an overstatement of the Council's operating surplus ratio. For these reasons, the Commission considers it appropriate for the Council to:

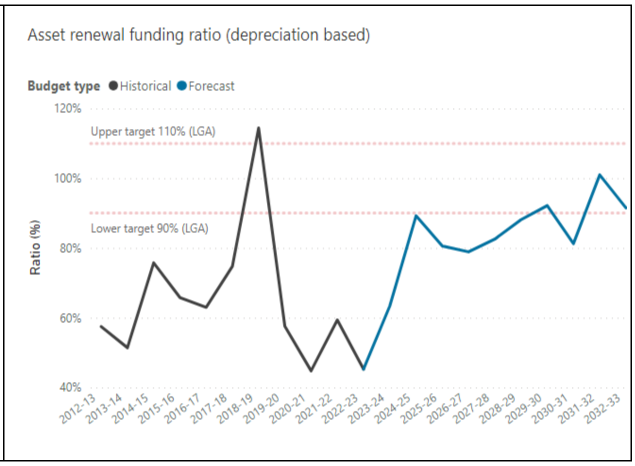
4. **Consider** undertaking a comprehensive revaluation of its depreciable assets by an external valuer at least every four years ensure the forecast rate of asset consumption (and depreciation expense) in the long-term financial plan reflects recent macro-economic conditions.





When the asset renewal funding ratio is instead calculated by the depreciation-based method,[36] it is forecast to average 85 percent over the forecast period (2023-24 to 2032-33) (see right chart over the page). 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 (see the left and right chart over the page). 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 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.[37]

36 Where asset renewal/replacement expenditure is divided by depreciation expenses.
37 City of Marion, *2022-23 annual report*, June 2023, p. 24.

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.[38]

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.[39] 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 asset valuation, condition, asset performance, risk, intervention levels, level of service monitoring and future financial sustainability options and consequences.[40]

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.

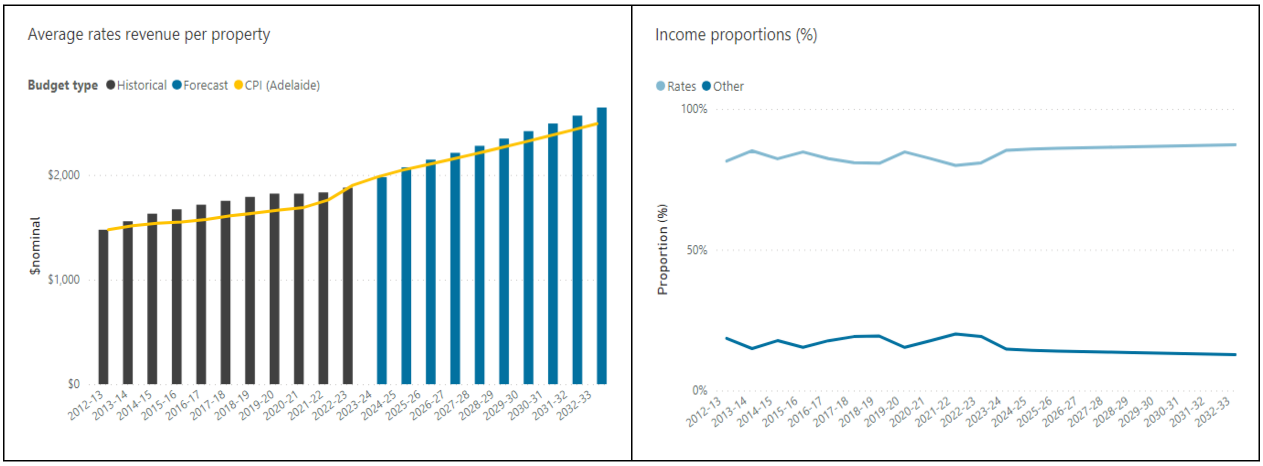
[38] City of Marion, *2022-23 annual report*, June 2023, p. 24.
[39] City of Marion, *Refresh of Budgeted Expenditures Accommodated in the LTFP*, August 2023, p. 1.
[40] City of Marion, *2019-28 Asset Management Strategy*, March 2019, p. 6.

D Current and projected rate levels

D.1 Historical rates growth

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,[41] to reach an estimated $1,834 per property in 2021-22 (see the left chart below). 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.[42] 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 remains reliant on its rate base for sustainable operations as the chart below indicates (to the right), rates revenue is forecast to account for 81 percent of budgeted operating income in 2022-23, compared with 81.5 percent of income in 2012-13.



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.[43]

The *Local Government (Financial Management) Regulations 2011* (Regulations) require that, at a minimum, the annual business plan provides a statement on the average change in the expected rates for each land use category.[44] While the Council has complied with this obligation,[45] the Commission considers that it would also be appropriate for it to:

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.

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41 From 2012-13 to 2021-22.

42 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.

43 City of Marion, *2023-24 Annual Business Plan*, June 2023, p. 44.

44 Under Regulations s6(ec).

45 City of Marion, *2023-24 Annual Business Plan*, June 2023, p. 23.

D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 5.2 percent or $100 per property for its existing ratepayers in 2023-24[46] and represents a fall in real terms as the increase is below the level of inflation.[47] This was higher than it had anticipated charging for this year in its 2022-23 long-term financial plan projections (2.40 percent for existing rateable properties). The rate increase reflects higher short-term inflation (anticipated by the Council via its indexation to rates in its long-term financial plan). In 2022-23, Council had 44,902 rateable properties and expects this to increase to 49,401 in 2032-33, representing modest growth of 1 percent in rateable properties.[48]

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.[49]

The Council states that, to ensure all rateable properties make a contribution to the cost of administering its activities and the creating and maintaining of the physical infrastructure that supports each property, it has adopted a minimum rate payable by way of general rates.[50] No more than 35 percent of properties will be subject to the minimum amount.[51]

On a proportional revenue basis, commercial ratepayers account for 16 percent, industrial 1 percent vacant land use 2 percent and residential ratepayers' 81 percent of total general rate revenue in 2023-24. Other than 'general rates' income, the Council also collects the Regional Landscape Levy, on behalf of Green Adelaide and is expected to collect $2.2 million for this purpose in 2023-24.[52]

D.3 Projected further rate increases

Between 2023-24 and 2032-33 the average rate across all categories is forecast to increase from $1,980 to $2,645[53], a cumulative increase of $665 per property. This equates to a 3.3 percent average annual increase (between 2023-24 and 2032-33), which is above to the RBA-based forecast average inflation of 2.6 percent per annum and represents a real increase in rates over that period.[54]

D.4 Affordability risk

The Council received 15 submissions from the community (out of a total of 78) that expressed concerns about further rate rises in the 2023-24 budget process.[55] Notwithstanding this, affordability

46 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.

47 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

48 Based on the Council's 2023-24 Annual Business Plan and its Excel template (with the 2023-24 forecasts) provided to the Commission

49 City of Marion, *2023-24 Annual Business Plan*, June 2023, p. 23

50 City of Marion, *Rating Policy*, June 2023, p. 9. Available at https://cdn.marion.sa.gov.au/sp/2022-23-Rating-Policy.pdf

51 *Local Government Act 1999* (LG Act) s158(2)(c).

52 City of Marion *2023-24 Annual Business Plan*, June 2023, p. 24

53 This includes rates growth of 4.3 percent expected each year of which 1 percent is for property growth.

54 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.

55 City of Marion, *General Council Meeting Agenda -13 June 2023, Item 11.5 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

risk among the community for these further rate increases appears to be low, on balance, when considering:

- the average annual increases over the past 10 years
- the Council's relatively moderate socio-economic indexes for areas (SEIFA) economic resources ranking for the City of Marion area[56]

[56] The City of Marion area is ranked 35 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 (2021), where a lower score (e.g., 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

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