Advice

Local Government Advice

City of Mitcham

February 2024

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City of Mitcham

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the City of Mitcham'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% p.a. per property over this period

RISKS IMPACTING SUSTAINABILITY

- Expansion of services and the building of new assets which increases affordability risk for ratepayers
- Cost constraints and savings targets are not met in accordance with its projections

CONTINUE

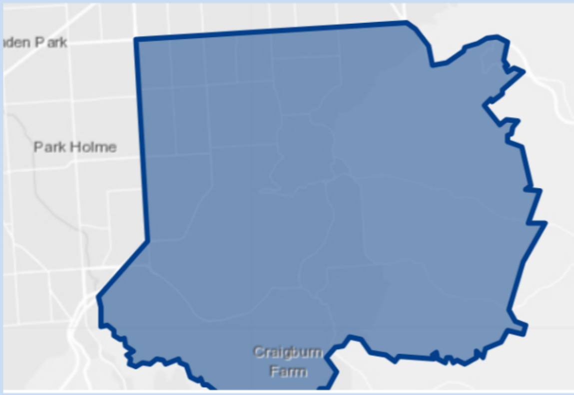
- Reviewing the inflation forecasts and other relevant macroeconomic assumptions
- Monitoring cost growth in the budgeting, including related to the costs of new services and initiatives
- Reporting any actual and projected cost savings in the annual budget and long-term financial plan
- Reviewing the estimates of asset useful lives
- Consulting with the community on its strategic asset management plans

COMMISSION'S RECOMMENDATIONS

- Adhere to the principles underpinning the long-term financial plan projections to continue to fund the renewal of assets
- Review the rationale for rate increase assumptions in its plans
- Consider limiting future average rate increases above inflation

KEY FACTS

- Population in 2021 was **67,617**
- Council covers **755 square kilometres**
- **29,266** rateable properties in 2022-23
- **$70 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$760 million**



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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 Mitcham
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 Mitcham

The Essential Services Commission (**Commission**) finds the City of Mitcham (**Council**) to be in a sustainable financial position, with projected operating surpluses driven by further growth in rate revenue and assumptions of lower long-term expense growth. The Council has aimed to resolve its infrastructure renewals backlog and is now prioritising the renewal of its asset base, consistent with the requirements it has identified through its asset management planning. It has also expanded its service provision through continued investment in new and upgraded assets which is contributing to the higher rates burden for ratepayers. The Council demonstrates a commitment to reviewing desired service levels through appropriate consultation with the community.

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 that the Council continues to budget appropriately, reports its cost savings and efficiencies, maintain the reasonableness of the assumptions underpinning its financial and asset management planning and looks for opportunities to limit the extent of further residential rate increases.

Budgeting considerations

1. **Continue** to review inflation forecasts and other relevant macroeconomic assumptions in budgets and forward projections each year.

Continuing to provide evidence of ongoing cost efficiencies

2. **Continue** to monitor cost growth in budgeting, where possible, including related to expenditure (such as for new services and initiatives) which contribute to increases in rate revenue recovery above CPI.

3. **Continue** the good practice of reporting any actual and projected cost savings in annual budgets and the long-term financial plan, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Refinements to asset management planning

4. **Adhere** to the principles underpinning its long-term financial plan projections to continue to fund the renewal of assets (including the backlog of renewals), and to limit future expenditure on new or upgraded infrastructure as required, in consultation with its community about desired service levels and rate contributions.

5. **Continue** to review the estimates of asset lives (and valuations) informing the forecast rate of asset consumption (and depreciation expenses) and asset renewal needs in the long-term financial plan and asset management plans.

Containing rate levels

6. **Review** the rationale for rate increase assumptions in its plans (related to the classification of the costs of existing service and new services), and **consider** limiting future average rate increases above inflation, particularly for residential rates (for which average rate levels are high compared to similar councils), in consultation with its community and in the context of desired service levels.

7. **Continue** the good practice of consulting with the community on its strategic management plans, with a focus on understanding and managing emerging affordability risk.

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.[5] The other main purpose is for the Commission to consider ratepayer contributions in the context of revenue sources, as 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 City of Mitcham (**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 financial performance and position sustainable. Over the last 10 years, the Council has consistently run operating surpluses, indicating that the operating income it collects is generally exceeding its operating expenses by a moderate margin. The Commission notes that, more recently, the Council has demonstrated some constraint in its budgeting since it is not accumulating excessive surpluses. At the same time, the Council is budgeting for a higher cost base, and has increased rate levels consistently above inflation to fund new services and initiatives in consultation with its community. Further its average residential rates are high (compared to similar

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 set out under the LG Act at 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).

councils), noting the socio-economic ranking for the community is also high,[10] suggesting that there may be more capacity to pay for higher rates than in other communities.

Community service levels appear to have been maintained, largely through the Council's focus on renewing its asset base, including continuing to address the infrastructure renewals backlog since 2011-12. It has also been adding to its asset base, with an accompanied expansion of service levels through investment in new projects and initiatives. The Council's asset management planning appears comprehensive, with significant asset classes covered by its adopted plans.

The Commission notes the Council's current good practice in formulating its financial projections in its LTFP, and transparency around its planning assumptions and directions, including the ratepayer impact. The Council is also reporting savings through historical efficiencies achieved and is continuing to incorporate proposed savings measures in its budgets. The Commission encourages it to continue this approach. There are other opportunities for the Council to continue to review its expenditure on new projects and initiatives (including its higher operating cost base), in consultation with the community to understand the service levels desired by the community, with a view to limiting rate increases above the rate of inflation.

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 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:

- ⚠ Operating cost changes are driven by increases in depreciation (by 14.3 percent), finance costs (by 12.4 percent) and 'employee costs' (by 6.5 percent); and reflects the recent changes in the macroeconomic environment, particularly around higher than previously anticipated inflation changes.
- ✓ Although the Council is anticipating price increases in construction, contracts, and electricity, it is committed to funding the cost of existing service provision through increases in rate revenue at or below CPI increases by identifying cost savings and efficiency measures.
- ⚠ Increased forecast capital expenditure by 22.3 percent (or $43.9 million) in its 2023-24 LTFP estimates.

The Commission has compared the Council's projections in its 2023-24 LTFP with those from its 2022-23 LTFP and focused on the aggregate of the nine overlapping years: 2023-24 to 2031-32 to ensure a comparable analysis of material amendments.

10 The City of Mitcham area is ranked 67 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics Socio-Economic Indexes for Areas Index of Economic Resources (2021), where a lower ranking (eg, 1) denotes relatively lower access to income and other economic resources, compared with other areas, available at https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

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

Based on the Council's updated assumptions in its 2023-24 LTFP, it is forecasting an increase in its cost and revenue estimates by up to 7.3 percent over the period between 2023-24 and 2031-32.[12] Operating cost changes are driven by increases in depreciation (by 14.3 percent), finance costs (by 12.4 percent) and employee costs (by 6.5 percent); and reflects the recent changes in the macroeconomic environment particularly around higher than previously anticipated inflation changes (also impacting on depreciation) and higher cost of borrowings. This results in lower operating surpluses than it has achieved in the past 10 years, which demonstrates some constraint in its budget, but also potentially that a higher operating cost base may be emerging. Most of the Council's operating income increases are driven by its recovery of the cost of existing services but some also arise from the Council's funding of ongoing costs associated with new projects and initiatives. In its first budget revision in October 2023, the Council noted that income forecasts will also be affected by timing differences associated with the receipt of Financial Assistance Grants for 2023-24, $2.7 million of which was received in June 2023.

The Commission's analysis of the Council's indexation assumptions indicates that its increase in its cost and revenue estimates are impacted by higher inflation forecasts,[13] but also account for the impact of increased service delivery. The Council uses CPI and LGPI-based inflation assumptions, which it applies for different cost and revenue series, and these have increased materially for the 2023-24 forecast period compared to the same estimates in its 2022-23 LTFP.[14]

The Commission notes that while the Council is anticipating price increases in construction, contracts, and electricity, it is committed to funding the cost of existing service provision through increases in rate revenue at or below CPI increases by identifying cost savings and efficiency measures. Additionally, its stated assumptions for indexation in its 2023-24 LTFP are transparent and based on its annual review of these forecasts. However, there is still some uncertainty around the indexation assumptions,[15] which may present a risk to its cost and income projections. This is evident from the material revisions made to many of the Council's macro-economic assumptions in the current LTFP. Furthermore, as there is a need for the Council to secure savings and reduce any inflationary impact on its community, the Commission considers it would be appropriate for it to:

1. Continue to review its inflation forecasts and other relevant macroeconomic assumptions in its budgets and forward projections each year.

The Council has increased its forecast capital expenditure in total by 22.3 percent (or $43.9 million) in its 2023-24 LTFP estimates, which may appear on the high side given the indexation assumptions it is applying to its asset expenditure. However, the Council has advised that the material amendments in its capital expenditure program are also driven by re-budgeted capital expenditure from 2022-23 totalling $18.7 million, in addition to the LGPI indexation it has applied to its assets and expenditure of 12.5 percent in 2023-24 (compared to 2.9 percent in its 2022-23 LTFP for the same year). The Commission encourages the Council to monitor these matters and, where required, continue to ensure that the community is consulted on material budget adjustments.

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[12] The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.

[13] The Council has assumed CPI inflation increases of 7.9 percent in 2023-24, 3.5 percent in 2024-25, and approximately 2.5 percent annually from 2025-26.

[14] The increases on the 2022-23 LTFP estimates are between 1 percent and 9 percent, depending on which Consumer Price Index (CPI) or Local Government Price Index (LGPI) based series the Council applied.

[15] The RBA currently forecasts the CPI (Australia-wide) to increase by 3.6 percent in the year to the June 2024 quarter and by 3.1 percent in the year to June 2025. Thereafter, it is reasonable to anticipate a return to long-run averages (and growth of 2.5 percent per annum from 2025-26, based on the midpoint of the RBA's 2 to 3 percent target range). RBA, Forecast Table - August 2023, available at https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html.

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 4.3 percent in that time and 2.6 percent or $1.9 million in 2022-23.
- In its forward projections, the operating surplus ratio is forecast to increase to an average of 3.7 percent per annum from 2023-24 to 2032-33.
- Average annual increases of 3.3 percent in ‘employee’ expenses and 2.7 percent in ‘materials, contracts and other’ expenses, both increasing at rates above CPI.
- Conducts regular service level reviews of its operations (in consultation with its community) and focuses on maintaining the rate revenue recovery for existing services at or below CPI, in part by identifying ongoing efficiencies and cost savings measures.

The Council has predominantly run operating surpluses from 2012-13 to 2021-22, with the operating surplus ratio[16] averaging 4.3 percent over that period. In 2022-23, the Council achieved an operating surplus of $1.9 million (or an operating surplus ratio of 2.6 percent). In its forward projections, the operating surplus ratio will continue to meet the suggested LGA target range and indicates a progressive increase to 3.7 percent in 2032-33.

Operating income growth averaged 3.6 percent per annum from 2012-13 to 2021-22, while the rate of operating expense growth averaged 2.8 percent per annum.[17] As a result, the Council has predominantly been able to sustain its operating surpluses over the last 10 years. The Council received a combination of rates, ‘statutory charges’, ‘user charges’ and ‘grants, subsidies and contributions’ income over this period to generate its relatively strong operating income growth.

On the cost side, the Council’s operating expenses growth (from 2012-13 to 2021-22) was primarily due to an average annual increase of 3.3 percent in employee expenses and 2.7 percent in ‘materials, contracts and other’ expenses,[18] both increasing at rates above average annual CPI growth of 2.0 percent over the same period.[19] Employee costs were also a result of increasing staff numbers of approximately one full-time equivalent (FTE) staff per year. The Council reported in 2022-23 material year-on-year increases in finance charges, ‘materials, contracts and other expenses and employee costs of 38 percent, 18 percent, and 9 percent, respectively,[20] and is largely attributable to the macroeconomic environment resulting in increased contract, materials and utility prices. This higher cost environment is expected to continue to drive lower operating surpluses over three years to 30 June 2026.

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 This is despite the increase in the solid waste levy over the past 10 years which has impacted councils’ waste management costs.

19 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.

20 Included in the Council’s Financial Reporting template provided to the Commission.

Looking forward, the Council is projecting average annual rates revenue growth of 3.2 percent to 2032-33, above the forecast long-term inflation,[21] and represents a real term increase in rates revenue, driven by Council's revenue recovery for the cost of new services, the asset renewal backlog and prior Council decisions.[22] The impact on ratepayers is discussed further below.

The Commission has observed the current good practice of the Council in conducting regular service level reviews of its operations (in consultation with its community) and its focus on maintaining the rate revenue recovery for existing services at or below CPI, in part by identifying ongoing efficiencies and cost savings measures. As an example, the Council has factored into its 2023-24 budget recurrent savings of $863,000 per annum, which represents approximately 1.4 percent of adjusted total operating costs.[23] These overall savings measures, while positive, have not resulted in average rate increases (in line with CPI) and appear modest, notwithstanding the Council's recent history of spending growth and its further exposure to inflationary pressures over the short-term.

As part of the Council's continuing reviews of service levels and operating efficiencies, it may now need to find additional productivity improvements or reduce new services or initiatives in order to minimise any inflationary impact on its community. Therefore, the Commission has found that it would be appropriate for it to:

2. Continue to monitor cost growth in its budgeting, where possible, including related to expenditure (such as for new services and initiatives) which contribute to increases in its rate revenue recovery above CPI.
3. Continue its good practice of reporting any actual and projected cost savings in its annual budget and long-term financial plan, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

The Commission also noted the Council uses a suite of financial management ratios in addition to the suggested LGA financial indicators, which together provide it with a framework to further manage its operating performance and financial risk.[24] In general, the Council's own policy targets are more conservative (or narrower) than the LGA's, and the Commission would encourage the Council to continue its focus on such prudent budgeting practices.

The Commission considers that the use of alternative or specific financial reporting measures and targets (within the broader LGA financial management framework) have been positively utilised by the Council and, if such measures were more broadly adopted by other Councils, this may assist to further improve the Local Government sector's decision making, accountability and effectiveness.

[21] 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.

[22] City of Mitcham, *2023-24 Annual Business Plan, Budget and Long-Term Financial Plan*, July 2023, p.29.

[23] The Commission's estimate of the impact of additional savings in 2023-24 is based on the proportion of additional savings targeted ($0.863 million) compared to adjusted total operating expenses, being before the additional savings, and excluding non-cash losses from subsidiaries, and depreciation ($59.676 million).

[24] City of Mitcham, *2023-24 Annual Business Plan, Budget and Long-Term Financial Plan*, July 2023, p.37. Also see City of Mitcham, *Treasury Management Policy*, 14 February 2023, available at https://www.mitchamcouncil.sa.gov.au/__data/assets/pdf_file/0030/89850/Treasury-Management-Policy.pdf.

Net financial liabilities

Key Points:

- ⚠ Net cash flows after operating and investing (that is, capital-related) activities has averaged negative $1.1 million per annum between 2012-13 and 2021-22.
- ✔ Between 2012-13 and 2021-22 the net financial liabilities ratio averaged 15.4 percent.
- ✔ The forecast net financial liabilities ratio over the next 10 years is projected to reduce from a peak of 63.7 percent in 2023-24 to 41.8 percent in 2032-33.

Despite the Council's frequent operating surpluses over the last 10 years (which account for depreciation expenses), its net cash flows after operating and investing (that is, capital-related) activities has averaged negative $1.1 million per annum between 2012-13 and 2021-22. This net cash flow (in addition to the Council's existing cash balances and borrowing capacity) has been primarily used to fund its growing capital expenditure requirements. Overall, the Council has relied primarily on rates revenue and operating and capital grant funding to support its financial liabilities.

Consistent with the Council's commitment to ensuring financial sustainability and intergenerational equity, it has predominantly used borrowings to finance new and upgraded assets[25]. Over time the Council's use of borrowings and other net financial liabilities has been within the suggested LGA target range for the net financial liabilities ratio (averaging 15.4 percent from 2012-13 to 2021-22).[26] The Council continues to meet the suggested LGA target range under its 2023-24 forecasts and projects a reduction in the ratio from a peak of 63.7 percent in 2023-24 to 41.8 percent in 2032-33. This forecast trend in the net financial liabilities ratio reflects the Council's additional net borrowings (of $10 million budgeted in 2023-24) to support financing its strategic projects, the infrastructure renewal backlog, and higher operating income growth over the long-term.

The Commission observes that the Council has a focus on managing intergenerational equity[27] through an appropriate use of borrowings. This is positive; however, given the Council's proposed increases in borrowings (in 2023-24) and further interest rate exposure, it may be appropriate for it to consider expanding its financial risk measures to include, for example, a debt service coverage ratio which can more appropriately measure the Council's total debt obligations (both principal and interest over the term of its debt) and assist it to manage intergenerational equity.

[25] City of Mitcham, *2023-24 Annual Business Plan, Budget and Long-Term Financial Plan*, July 2023, p.32.
[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, pp. 7-8).
[27] 'Intergenerational equity' relates to fairly sharing of services and the revenue generated to fund the services between current and future ratepayers.

Asset renewals expenditure

Key Points:

- ✅ Between 2012-13 and 2021-22 total capital expenditure averaged $19.3 million per annum (including $16.4 million on asset renewals and $2.9 million on new and upgraded assets).
- ⚠ Between 2012-13 and 2021-22 the asset renewal funding ratio averaged 85 percent.
- ✅ The forecast asset renewal funding ratio over the next 10 years is projected to average 96 percent.
- ⚠ Higher forecast spending on new or upgraded assets averaging $5.1 million per annum to 2032-33.
- ✅ Regularly consults with the community on capital expenditure proposals and acknowledges that investment in new or upgraded assets will incur ongoing costs, such as interest, maintenance and depreciation.

Between 2012-13 and 2021-22 the Council's total capital expenditure averaged $19.3 million per annum (including $16.4 million on asset renewals and $2.9 million on new and upgraded assets) and, based on the asset renewal expenditure requirements specified in its AMPs, it generally underperformed on meeting its asset service sustainability requirements during that time. The Council's asset renewal funding ratio (IAMP-based) was below the suggested LGA target range of 90 to 110 percent over these years,[28] and averaged 85 percent between 2012-13 and 2021-22. Discussions with the Council has indicated that this ratio has been affected by re-budgeted capital works, but also brought forward capital renewal works resulting from grant opportunities.

From 2023-24, the Council's asset renewals spending profile is increasing (with projected annual renewal expenditure averaging $21.5 million to 2031-32, in nominal terms). As a result, its asset renewal funding ratio (IAMP-based) is expected to trend in line with the suggested LGA target range (averaging 96 percent from 2023-24 to 2032-33),[29] and reflects the Council's intention to continue to address its asset renewal backlog in 2023-24.[30] This coincides with higher forecast spending by the Council on new or upgraded assets (estimated to average $5.1 million per annum to 2032-33), and overall, the value of its asset base per property is generally forecast to be maintained in real terms.

The Council regularly consults with the community on capital expenditure proposals and acknowledges that investment in new or upgraded assets will incur ongoing costs, such as interest, maintenance, and depreciation, and is a factor which increases Council's average rates above CPI. The Commission suggests that the Council could be better placed if it was more focused on accelerating expenditure on its identified asset renewals backlog, rather than increasing investment in new and upgraded assets. For this reason, the Commission considers that it would be appropriate for it to:

4. **Adhere** to the principles underpinning its long-term financial plan projections to continue to fund the renewal of its assets (including the backlog of renewals), and to limit future expenditure on new or upgraded infrastructure as required, in consultation with its community about desired service levels and rate contributions.

28 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).

29 Included in the Council's Financial Reporting template provided to the Commission.

30 The Council identified in 2011-12 an asset renewal backlog which it is continuing to address in 2023-24 where it will focus on the road capital renewal backlog and postponing the footpath backlog to the following year. City of Mitcham, *2023-24 Annual Business Plan, Budget and Long-Term Financial Plan*, July 2023, p.15.

The Commission notes the Council's historical spending (over the last 10 years) on asset renewals has outpaced depreciation by a significant margin. The Council states the difference is driven by a combination of additional expenditure on its asset renewal backlog, timing of Federal and State grants contributing to expenditure brought forward, and higher infrastructure asset revaluations (than has been anticipated) driven by higher asset and construction price increases.[31]

The Commission's initial view of historical trends (in the absence of a detailed assessment) was that the Council's asset lives were assumed to be longer (in the depreciation calculation) than occurs in practice, or that it is renewing its assets at a faster pace than indicated by the rate of asset consumption (this could be appropriate if there are peaks in aggregate asset renewal timing need). In accordance with the Council's planned reviews, it would be appropriate for it to:

5. Continue to review the estimates of asset lives (and valuations) informing its forecast rate of asset consumption (and depreciation expenses) and asset renewal needs in its long-term financial plan and asset management plans.

2.2.3 Advice on current and projected rate levels

Key Points:

- Rate revenue per property growth has averaged 3.7 percent or $64 per annum for each property in the period between 2012-13 and 2021-22, which is 1.7 percent above CPI for the same period.
- A key budget objective is to keep future rate increases required for delivering existing services, at existing service levels, at or below CPI.
- The forecast rate increase for 2023-24 is 8.9 percent per property, and it is forecast for rates to increase on average by 3.0 percent per annum or $700 in total to 2032-33.
- Affordability risk among the community for the further rate increases appears to be moderate based on a range of factors including the existing relatively high-rate levels (for residential ratepayers compared to similar councils), an assessment of the economic resources available to the community, and community feedback.

The Council's rate revenue per property growth has averaged 3.7 percent or $64 per annum for each property in the period 2012-13 and 2021-22, almost double the CPI growth with an average of 2.0 percent per annum over the same period.[32] Based on discussions with the Council, it has indicated that one of its key budget objectives is to keep the rate increase required for delivering existing services, at existing service levels, at or below CPI. As such, rate increases above CPI mostly reflects the Council's expanded or new service provision to the community.

The Council remains reliant on its rate base for its financial and operating sustainability, and rates revenue represents almost 90 percent of its total operating income. Historically, the Council area reflects relatively higher rate levels for residential categories, compared to lower average rates for non-residential ratepayers.[33]

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31 It is noted that the Council has been able to adequately fund its renewal expenditure requirements (including some of the asset renewal backlog previously identified in 2011-12) from its cash flows from operations, that is without drawing down on borrowings or existing cash balances. See also City of Mitcham, *2023-24 Annual Business Plan, Budget and Long-Term Financial Plan*, July 2023, p.38.

32 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.

33 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/city_of_mitcham. The Commission is not relying on these historical rate comparisons for its advice; the data source provides just one indicator, among many, which has informed

In 2023-24, the Council has budgeted for an average rate increase of 8.9 percent, which is higher than it had anticipated charging for this year in its previous LTFP projections (that is, a 3.6 percent increase was previously forecast for 2023-24). The rates increase reflects the Council's expected financial pressures across its service delivery (consistent with the increase in CPI,[34] and accounts for other macro-economic factors at the time its budget was developed), but also reflects the expected cost recovery for existing service delivery (net of efficiency savings), costs for addressing the infrastructure backlog, and new service delivery.[35]

Its 2023-24 LTFP forecasts an average increase of 3.0 percent per annum or $700 to existing rates in total to 2032-33 (to $3,005 per annum), which is consistent with the Council's assumed inflation growth over this period plus the rate increases required for new service delivery[36] but is above the RBA-based forecast of average inflation (2.6 percent).[37] Overall, the Commission considers that the Council has demonstrated good budgeting practices by identifying the rate impacts associated with individual programs, activities, and projects. However, it may need to provide further clarity in rate assumptions in its plans, and ensure its rate increases can be clearly explained. To this end, the Commission considers it would be appropriate for it to:

6. Review the rationale for rate increase assumptions in its plans (related to its classification of the costs of existing service and new services), and consider limiting future average rate increases above inflation, particularly for residential rates (for which average rate levels are high), in consultation with its community, and in the context of desired service levels.

Affordability risk among the community for the further rate increases appears to be moderate based on a range of factors including the existing relatively high-rate levels (for residential ratepayers),[38] an assessment of the economic resources available to the community,[39] and community feedback. The Commission notes that the Council has comprehensively consulted with the community on its plans and has used a range of approaches and media channels, which has resulted in a high level of engagement.[40] In this context, the Commission considers it would be appropriate for it to:

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its advice on the appropriateness of the rate levels. Furthermore, this rate comparison does not consider the relative differences or changes in property values within a council's area.

34 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 year to 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.

35 The City of Mitcham has presented a range of budget options setting out differing service levels and rate increase options as part of the annual review of its Annual Business Plan, Budget and LTFP. City of Mitcham, *Special Full Council Meeting, Notice and Agenda – 27 June 2023, Item 7.1 Preparation of the Draft 2023/23 Long Term Financial Plan and the Draft 2023/2024 Annual Business Plan,* p.161 available at https://mitcham.civicclerk.com.au/web/Player.aspx?id=842&key=-1&mod=-1&mk=-1&nov=0.

36 The Council's projected rate increases in 2023-24 is 8.90 percent, 4.27 percent in 2024-25, and then 4.27 percent per annum in 2025-26 and 2026-27 (City of Mitcham, *2023-24 Annual Business Plan, Budget and Long-Term Financial Plan,* July 2023, p. 29).

37 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.

38 See footnote 33.

39 The City of Mitcham area is ranked 67 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics Socio-Economic Indexes for Areas Index of Economic Resources (2021), where a lower ranking (eg, 1) denotes relatively lower access to income and other economic resources, compared with other areas, available at https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

40 The Council received a range of submissions on its 2023-24 Draft Annual Business, Budget and LTFP: 212 online surveys, 11 general feedback, 1 Audit and Risk Committee submission, and 17 questions and answers were provided. City of Mitcham, *Special Full Council Meeting - 27 June 2023, Item 6.1 Community Consultation Findings on the Draft 2023/24 Annual Business Plan, Budget and Long Term Financial Plan,* available at https://civicclerkau.blob.core.windows.net/stream/MITCHAM/3803f8755f.pdf?sv=2015-12-11&sr=b&sig=9mME%2BF92m1A92smGOJ6IxJ7OXk6oaCNmHcVl%2BF2kIMk%3D&st=2023-09-16T23%3A45%3A11Z&se=2024-09-16T23%3A50%3A11Z&sp=r&rscc=no-cache&rsct=application%2Fpdf.

7. **Continue** the good practice of consulting with the community on its strategic management plans, with a focus on understanding and managing emerging affordability risk.

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 and relevant assumptions in its LTFP (including inflation),
- achievement of cost savings and efficiencies, and its continued reporting of these in its plans
- continuing review and adoption of its AMPs, and
- how it has sought to minimise any emerging affordability risks.

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