Advice

Local Government Advice - Attachment

City of Onkaparinga

February 2024

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A The Commission's approach

In providing the Advice for the Council of the City of Onkaparinga (**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]

- City of Onkaparinga Draft Annual Business Plan 2022-23 V 1 01/06/2022
- City of Onkaparinga Annual Business Plan 2022-23 V 1 06/07/2022
- City of Onkaparinga Our Annual Business Plan and Budget 2022-23 Summary
- City of Onkaparinga Annual Business Plan and Budget 2022-23 Snapshot
- City of Onkaparinga Annual Business Plan Summary Rates Brochure
- City of Onkaparinga Schedule of Fees and Charges 2022-23
- City of Onkaparinga Long Term Financial Plan February 2021
- City of Onkaparinga Annual Report 2021-22
- City of Onkaparinga Annual Report 2021-22 (Snapshot)
- City of Onkaparinga Strategic Asset Management Plan Update 2022-23
- City of Onkaparinga Strategic Asset Management Plan – annual update 2023
- City of Onkaparinga Minutes Strategic Directions Committee Meeting 4 July 2023
- City of Onkaparinga Agenda for Council Meeting 21 March 2023
- City of Onkaparinga Minutes of Council meeting (incl draft annual report) 4 November 2014
- City of Onkaparinga Minutes Strategic Directions Committee Meeting 4 July 2023 City of Onkaparinga Draft 2022-23 budget and LTFP update
- City of Onkaparinga 2022-23 Adoption of Annual Business Plan, Budget, Valuations and Declaration of Rates and Updated Long Term Financial Plan 5 July 2022
- City of Onkaparinga Draft 2022-23 Budget and Long-Term Financial Plan Update Special Audit and Risk Committee Meeting 30 May 2022

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.

- City of Onkaparinga Agenda, Audit and Risk Committee Meeting, 12 September 2022 – includes Attachment 1: KPMG *City of Onkaparinga Strategic Asset Management* September 2022

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

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 Council'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, historical financial data and the number of rateable properties and council staff (Full Time Equivalent or **FTE**) numbers from 2012-13 onwards.[6] 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 June quarter 2025), and the midpoint of the RBA target range (2.5 percent) thereafter.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Council, which was established in 1997 following the amalgamation of the former City of Happy Valley, City of Noarlunga, and part of the District Council of Willunga.[7] The Council is geographically the largest metropolitan council in the State of South Australia, with an area of 518.4 km^2 that includes both urban and rural communities, and is located on the southern fringe of the Adelaide metropolitan area. The Council has six electoral wards[8] with a population of more than 175,000 residents,[9] and nearly 82,000 rateable properties.[10]

[4] *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).
[5] As required under s122(1b) of the LG Act.
[6] The Council's estimates for the 2022-23 financial year, relied on at the time of preparing this advice, were unaudited.
Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.
[7] Because of the amalgamation, the Council has inherited assets of varying ages and condition from the former councils.
[8] Which include 50 suburbs.
[9] See https://councilsinfocus.sa.gov.au/councils/city_of_onkaparinga for data for Onkaparinga in 2022.
[10] Based on the estimated number of property assessments in 2022-23.

Summary of the City of Onkaparinga's financial sustainability performance and the Commission's risk assessment

The 'heat map' diagram below summarises the Commission's findings with regard to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators,[11] and the level of cost control and affordability risk identified for the Council over time.

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%)	Below LGA target range -->		Within target range --------------------->
Net financial liabilities ratio (target 0-100%)	Within target range --->		Within target range ------------------------------->
Asset renewal funding ratio (target 90-110%)	Below target range -------> Below target range --- ------------------------>	Within target range ---->	Below target range --- ------> Within target range ----->
Identified Risks:			
Cost control risk	Growth in operating expenses more than twice historic inflation -->		Growth in expenses less than forecast inflation -->
Affordability risk	Rates increase at rate of historic inflation -------------->		Rates to increase in line with inflation --->

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

11 LGA SA Financial Indicators Paper.

B Material plan amendments in 2023-24

The Council made several amendments to its 2023-24 budget and forward projections that are included in its 2022-23 LTFP estimates,[12] to adjust for slower growth in the number of rateable properties and higher costs associated with a higher inflation rate for 2023-24.

The Council last approved a LTFP in July 2022,[13] and has not undertaken a comprehensive review of the LTFP, accompanied by a report from the Chief Executive Officer on the sustainability of the Council's long-term financial performance and position since that time.[14]

Council elections were held in November 2022, with 10 of the 13 elected members (including the Mayor), newly elected to the Council. This turnover in Council membership, along with the appointment of a new Council CEO in May 2023,[15] is expected to initiate a review of the Council's operations, and the setting of new objectives and priorities,[16] which will require a new LTFP and IAMP to be drafted and approved.

The Council advised it had decided to place a priority on preparing the 2023-24 budget because time was limited. It put 'on hold' an 'overhaul' of the LTFP to address gaps that have arisen since it was approved in 2022, either due to some key assumptions not occurring as forecast, or the omission of some significant items. This decision to put the review of the LTFP 'on hold' means that the Council has not conducted a review of the LTFP data beyond 2023-24, as required by the LG Act.[17] This raises concerns for the Commission as a quick update could have been undertaken while preparing the 2023-24 budget.

In preparing its 2023-24 budget, the Council did undertake a review of assumptions in the latest approved LTFP, which was approved in July 2022,[18] as well as conducting a review of the Strategic Asset Management plan and Community Plan.[19] The Council is currently drafting a full LTFP (along with a Community Plan and Strategic Asset Management Plan (SAMP)[20]) to be adopted by June 2024 and coordinated with the next budget cycle.[21]

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12 The Council last prepared a LTFP in 2022-23 (which was adopted in July 2022) and reviewed the LTFP in conjunction with the 2023-24 ABP – see City of Onkaparinga Annual Business Plan 2023-24 p. 7. Although the 2023-24 ABP includes updates to income and expenditure for FY 2023-24, the later years are unchanged from the LTFP 2022-23.

13 Thie most recent LTFP uploaded to the Council's webpages in the LTFP 2021-22 to 2030-31.

14 A council must undertake a review of its long-term financial plan on an annual basis - see *Local Government Act 1999* (LG Act) s122 (1)(1a) and the financial projections must be consistent with those in the infrastructure and asset management plan adopted by councils122(1) (1b). The Council is currently updating its LTFP as required by the Act 'within 2 years after each general election of the council' - see LG Act s122 (1)(4)(a). As discussed in the section to follow, the Council should be undertaking a review and alignment of the IAMP (or SAMP) and group AMPs, and integrating this data into the updated LTFP. In addition, the Council did not provide a Statement of Financial Sustainability, nor can this be located on its website.

15 The appointment of a new Onkaparinga Council CEO was announced on 18 May 2023.

16 The Council advised that it is currently preparing a new LTFP - see footnote 13 above.

17 For example, the Council was reviewing its options regarding its water assets and decided to abandon its plans to sell its assets in November 2023 due to community opposition to the plans.

18 Which focused on the key assumptions, for the purpose of preparing the 2023-24 Budget.

19 See KPMG *City of Onkaparinga Strategic Asset Management* September 2022: Internal Audit Findings p. 6: 'Due to the inconsistent use of the SAMP and development of the AMPs, Asset Management teams were noted to follow ad-hoc internal processes to government decision making around asset management, rather than relying on a formal government structure and clear communication channels'.

20 The Council advised that it has individual asset management plans that underpin the data contained in the SAMP, but has not provided any 'current' group asset management plans to the Commission, nor are they available on the Council's website.
The Council advised in communications that it undertakes annual desktop revaluations of infrastructure assets recognised at fair value, and the last revaluation was effective 30 June 2023. This revaluation used a combination of unit rates and indexation to arrive at their revaluations.
The last comprehensive revaluation was completed in 2018-19, and the next one is scheduled for December 2024.

21 Which means that the current LTFP adopted in 2022 is not coordinated with the 2023-24 budget or with the IAMP. See above.

The data provided to the Commission in the Financial Template is predominantly based on the Council's 2022-23 LTFP projections which the Council used to inform its 2022-23 budget. Subsequent to this, the Council provided the Commission with updated figures for 2023-24 based on its 2023-24 budget that was adopted in July 2023.[22] The assumptions contained in the table prepared in 2022 have been updated in the data underlying the 2023-24 budget and the Financial Template,[23] which covers the 10-year forecast period required for the analysis for this advice.[24]

The Council's 2023-24 budget was updated (from previous forecasts) primarily to account for inflation, but also regarding grant funding and major capital project costs. The material adjustments to some of its main financial forecasts are listed in the table below,[25] noting that the Council has not updated its long-term projections (apart from the 2023-24 budget) since it prepared its 2022-23 LTFP. This data is shown in the table below[26] in the column 'Sum of 2023-24 to 2031-32 estimates in 2023-24 LTFP'.

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)
Total operating income	1,985.4	1,993.4	7.9	0.4
Total operating expenses	1,932.2	1,940.5	8.3	0.4
Operating surplus / (deficit)	53.2	52.9	-0.3	-0.6
Capital expenditure on renewal of assets[27]	339.8	340	0.1	0.4
Capital expenditure on new and upgraded assets[28]	64.4	80.1	15.7	24.4

B.1 Changes to operating performance

The Council budgeted for a decline in operating performance in 2023-24, resulting in a cumulative surplus of $52.9 million compared to a surplus of $53.2 over the common nine-year period in the approved 2022-23 LTFP (that is, the 2022-23 LTFP approved in 2022).

The material changes are attributable to an alignment of rates income to the actual March 2023 (Adelaide) CPI of 7.9 percent, capital expenditure to the construction output price index,[29] increases in

22 The 2022-23 LTFP was updated in 2023, but the updated 2022-23 LTFP data used in conjunction with the 2023-24 budget has not been approved. Note that the term 'updated 2022-23 LTFP' is being used rather than 'draft 2023-24 LTFP' because the 2022-23 LTFP was approved in July 2022, and updated to a limited extent (but not approved) since to accommodate the preparation of the 2023-24 budget.
Hereafter, the term 'draft LTFP' is used to refer to the 2024-25 LTFP, which is currently in draft and expected to be approved later in 2024.

23 Completed by the Council and provided to the Commission in September 2023.

24 The data included in Appendix 8 of the 2022-23 LTFP was not updated in the 2023-24 ABP as part of their purported review of the LTFP.

25 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.

26 Since the Council does not have an updated LTFP, they provided data for the purpose of this analysis to the Commission in the Financial Template.

27 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).

28 See footnote 10.

29 See https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction. Construction outputs increased by 5.4 percent for the 12 months ended December 2023 compared to the consumer price index outcome of +4.1 percent.

capital expenditure due to external funding (grants from the State and Commonwealth Government), and an updated projected debt position.

The Council has planned for a deficit of negative $1.9 million in 2023-24, which is an improvement of 57 percent from the deficit of negative $4.5 million in 2022-23 (unaudited). Total income is forecast at $204.3 million, and expenses at $206.3 million.

The Council aligned its rates increases to the most recent CPI of 7.9 percent for the 12 months ended March 2023[30] and to forecast increases in inflation over a 10-year period. The annual increase in revenue from rates includes both the rates adjusted for inflation, but also the annual projected growth in the number of rateable properties (i.e. an increase of 0.9 percent per year).

The Council has embarked on an ambitious capital works program in 2023-24, funded primarily through grants received from the state and federal governments.

Some of the amendments in the 2023-24 budget, compared to the LTFP, include:

- an increase in income to adjust for inflation in March 2023, and higher income from user charges due to increased usage of facilities post COVID,
- an increase in employee costs in line with the higher CPI outcome for March 2023, and the reclassification of agency employees from ‘materials, contracts and other’ expenses to employee costs,
- an increase in capital expenditure to reflect increases in the building price index and replacement costs,
- increased expenditure on new and upgraded assets with funding from the State and Federal Governments,
- an increase of $3.5 million in depreciation expenses,
- a reduction in borrowings and interest costs due to $30 million of grant funding received in advance, and
- the inclusion in income for net gain– equity accounted Council businesses for the Council’s 55 percent equity share in the Southern Region Waste Resource Authority (SRWRA - a joint venture with the City of Marion and the City of Holdfast Bay) not previously captured in the LTFP forecasts.[31]

The Council’s historical and projected operating performance is discussed further in section C.1.

The Council has applied CPI-based inflation adjustments to its cost and revenue estimates, including indexation based on the March 2023 CPI of 7.9 percent.[32] The key economic assumptions for its LTFP projections were obtained from the RBA, including the CPI projections, with a forecast average increase of 2-3 percent from financial years 2026-27 onwards.

The Council set the growth in rateable properties at an average of 0.9 percent per year for the 10-year period, which includes both urban and rural communities in the Council area.

The Council has planned for a constant level of 750 FTEs throughout the term of the LTFP and anticipates that the current level of services can be maintained without any increase in staff numbers.

30 See City of Onkaparinga Annual Business Plan 2023-24 p. 7.
31 Council rejected a proposal to privatise their CMWS due to community opposition in November 2023.
32 As per the ABS CPI Adelaide, all groups, 12 months to March 2023. See City of Onkaparinga 2022-23 Long Term Financial Plan – Key Assumptions in Appendix 8 of City of Onkaparinga 2022-23 Budgeted Financial Statements.

The Commission notes that the Council's stated assumptions in the 2022-23 LTFP[33] are transparent and based on its annual review of forecasts.

Given the benefit to the Council and the community of the implementation of a robust long-term financial plan, the Commission finds it would be appropriate for the Council to:

1. Ensure that the long-term financial plan is prepared every year as required by the LG Act.
2. Update and coordinate the data in the long-term financial plan and annual budget by clearly identifying the annual inflation and other relevant assumptions as inputs to its projected revenue (including rates) and expenditure, to provide transparency to the community.
3. Start to provide an annual statement of financial sustainability as required by the LG Act.

B.2 Increase to capital expenditure estimates

The Council's 2023-24 budget includes an increase in capital revenue of $1.1 million, and an increase in capital expenditure of $1.1 million relating to infrastructure projects funded by the Local Roads and Community Infrastructure program in 2023-24.

The Council was successful in securing over $30 million of State and Federal grants for a range of capital works projects. Although some of the work has commenced, most of these projects will be delivered in 2024. To reflect this, the Council's 2023-24 budget shows an increase in capital expenditure of $15.7 million on expenditure on new and upgraded assets, with an increase of only $0.4 million on the renewal of assets (an increase of under 0.4 percent, with some re-timing of the expenditure due to prioritising the externally funded projects).

These capital works projects have been included in the SAMP 2022-2023, which was updated and approved on 4 July 2023.

The Council's capital expenditure outlook is discussed further in section C.3.

B.3 Changes between 2023-24 LTFP and annual business plan

The Council adopted its 2023-24 Annual Business Plan and Budget on 17 July 2023, and updated the data included in the 2022-23 LTFP approved on 4 July 2022.

The Commission notes that the Council generally coordinates its long-term projections with its annual budget process and publishes both on its website, along with the underlying projections for inflation. However, as stated previously, this was not undertaken for 2023-24. Therefore, the Commission considers it would appropriate for the Council to:

4. Review its long-term financial plan annually (including its 10-year projections and all relevant assumptions (including for inflation)) to better inform its decision-making and any relevant consultation processes.

[33] The LTFP 2022-23 with data updated in the 2023-24 budget.

C Financial sustainability

C.1 Operating performance

The Council ran an operating surplus for three years during the historical period 2012-13 through 2021-22, however forecasts a return to an operating surplus in the last nine years of the forecast period (2024-25 through 2032-33), which is to be achieved by increasing rates income by the forecast CPI, plus growth in the number of rateable properties,[34] while keeping the increase in expenses below forecast inflation over the period.

The Council's primary source of income over the historic period was rates, which was 79 percent of total income over the historic period,[35] which increased by an average of 1.9 percent per annum[36] (close to average inflation of 2.0 percent). This was followed by 'grants, subsidies, and contributions' at 12.5 percent of income, which was volatile and increased by an annual average of 7.3 percent,[37] and contributed to an annual average increase in income of 4.1 percent.

Over the historic period of 2012-13 through to 2021-22, employee costs and 'materials, contracts and other' expenses had equal shares of expenses at 39 percent. While employee costs increased by an average of 4.8 percent per annum,[38] 'materials, contracts and other' expenses increased by an average of 3.2 percent, both above average annual inflation for the period of 2.0 percent. Over the same period, depreciation, which was nearly 20 percent of expenses, also increased at a rate above inflation, with an average of 6.2 percent per annum. In total, expenses increased at an average annual rate of 4.3 percent per annum over the historic period.

Although the difference between the annual average percentage rates of growth in income and expenditure is small, the Council's operations remained in deficit over the last five years of the historic period and the operating surplus ratio was negative and sat below the lower target value.

Over the forecast period of 2024-25 to 2032-33, total income is forecast to increase in line with the average forecast inflation rate, at an annual average of 2.6 percent, with income from rates increasing by an average of 3.6 percent per annum,[39] which includes both an increase in line with average inflation and an increase due to growth in the number of rateable properties at 0.9 percent per annum. This means that the average rates revenue per property is forecast to increase by 2.7 percent per annum, slightly above the inflation average of 2.6 percent. (See chart on page 12).

The increased share of income from rates over the forecast period is accompanied by a reduction in the income from grants, subsidies, and other income, which decreases[40] from 12.5 percent of total income over the historical period to 9.1 percent of total income over the forecast period. At the same time, user charges increase by 3.7 percent per annum, which increases its share of total income from 3.8 percent over the historical period to 4.7 percent over the forecast period.

34 The number of rateable properties is forecast to increase at an annual average rate of 0.89 percent over the forecast period.

35 The Council's own source income was 88 percent of total income in the 2021-22 financial year, compared to the state average of 86 percent. See SA Local Government Grants Commission Report 2 – Sources of Operating Income by Council for 2021-22 Financial Year.

36 With the increases in income from rates due to only the growth in rateable properties in 2020-21 because the Council voted not to increase rates that year due to the pandemic.

37 As can be expected when funding is linked to specific projects.

38 As FTEs increased from 639 FTE in 2012-13 to 714 FTE in 2021-22, an increase of nearly 12 percent over the period.

39 The Council's rates increase policy over the three years 2019-20 through 2021-22, although it gave rates relief during the pandemic, was a major reason the Council had an operating deficit over those years.

40 By an average of negative 2.3 percent per annum over the forecast period.

The Council should consider whether it wishes to continue to increase its reliance upon rates[41] for income, given that the contribution is forecast to increase to 84 percent of income in 2032-33,[42] compared to an average contribution from rates of 72 percent for all councils in South Australia.[43] It is advisable that the Council consider its options of increasing income from its current sources, such as user charges, and identifying new sources, such as the sale of obsolete or underutilised assets, to reduce its reliance on rates.[44] While expenses increased at an average annual rate of 4.3 percent over the historic period (more than twice the rate of historic inflation), the Council has forecast that expenses will increase at an annual rate of only 1.8 percent, which is 0.8 percentage points below the forecast average inflation. This is due in part to forecast employee costs, which are over 40 percent of total expenses, increasing slightly below forecast inflation at an annual average rate of 2.2 percent, increases in the costs of 'materials, contracts and other' expenses (nearly 39 percent of expenses) forecast to increase at an average annual rate of 2.5 percent, and depreciation[45] (at 18.5 percent of expenses), which is forecast to decrease at an average annual rate of 0.1 percent.

Total capital expenditure is forecast to peak in 2023-24, with an average annual decrease of 1.6 percent over the remaining nine years of the 10-year forecast period.[46] While the expenditure on the renewal and replacement of assets is forecast to increase at an average annual rate of 1.7 percent over the forecast period (below the average annual forecast CPI for the period), expenditure on new and upgraded assets is forecast to peak in 2023-24[47] and decline at an average of negative 7.1 percent for the nine years thereafter.

This decline in total capital expenditure over the last nine years of the forecast period is one of the main reasons that total expenses are forecast to increase by only an average of 1.8 percent per annum over the entire 10-year forecast period.

It is problematic that the Council's expenses are forecast to increase at a rate lower than forecast inflation, when construction expenses increased historically at a rate higher than inflation[48] and are generally expected to continue to do so over the forecast period.[49] Combined with the continuing low levels of asset renewal (discussed in more detail in C.3 below), this suggests that the Council might find itself in a position where they are required to reduce the level of services they deliver to maintain the operational surplus forecast from 2024-25 through to 2032,[50] because they have either not provided adequately for this expenditure in their budget and LTFP, or do not find further cost savings or efficiencies in delivering services.

The operating surplus ratio fluctuated over the historic period, however, has been negative (below the suggested LGA target range) in all but three years during that time. On average, the operating surplus ratio was negative 1.2 percent over the period from 2012-13 to 2022-23, indicating the Council was, generally, not operating sustainably.

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[41] In communications with the Commission in December 2023, the Council indicated that it was seeking to decrease its reliance upon rates as a source of income and increase other/identify new sources of income as it develops the new LTFP in 2024.

[42] As forecast in the updated 2022-23 LTFP.

[43] See SA Local Government Grants Commission Report 2 – Sources of Operating Income by Council for 2021-22 Financial Year.

[44] The potential decrease in reliance on rates for income might also shift the burden away from current ratepayers to users of specific council services and/or achieve improved intergenerational equity.

[45] The council has indicated in communications in December 2023 that depreciation has been a significant cost pressure due to 'significant asset revaluations over the last few years'.

[46] Total capital expenditure is forecast to increase by 3.6 percent in 2028-29 (from the prior year).

[47] Due to the completion of major projects funded by both the State and Commonwealth Governments during the 2023-24 financial year.

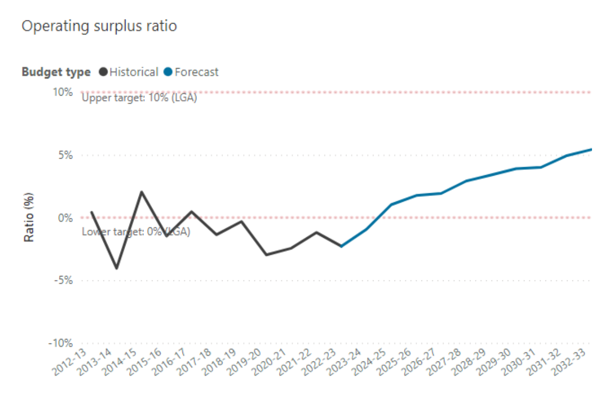
[48] As per the construction price index see https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#construction.

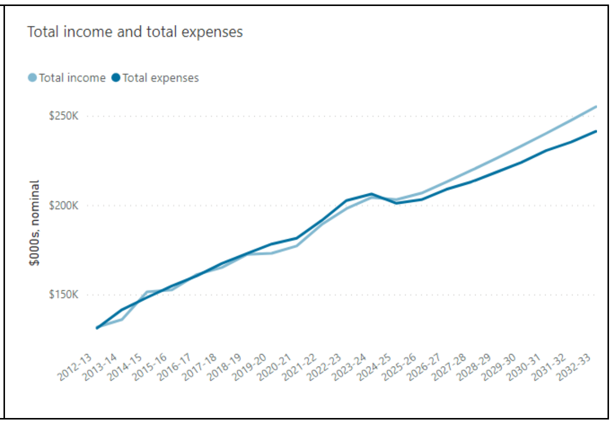
[49] See https://www.propertycouncil.com.au/property-australia/labour-the-biggest-challenge-to-construction-costs-slattery#:~:text=Slattery%20expects%20costs%20escalation%20to,the%20back%20of%20infrastructure%20spend.

[50] In communications in December 2023, the Council advised that they are 'aiming to break even within the next 2 years (before the current term of council)' and that they are 'identifying opportunities to improve the operating position' using the strategies of 'reducing reliance on rates revenue and reviewing costs'.

The main reason the operating surplus ratio sat below the target range over the later years of the historic period is because the Council kept the increase in rates below the inflation rate in 2021-22 (at the start of the pandemic), while increasing expenditure with stimulus programs. Due to compounding effects the deficit widened, which resulted in the operating surplus ratio remaining below zero percent.

Over the forecast period from 2023-24 to 2032-33, the Council has forecast a turnaround in the operating surplus ratio, with increasing values from 2024-25 onwards (following the negative value of 0.95 percent in 2023-24), and an average of 2.83 percent for the entire 10-year forecast period. (See chart below at left).





As discussed previously, this turnaround in the operating surplus ratio is forecast to be achieved by increasing income from all sources in line with forecast inflation, while keeping the rate of increase in expenses below that of inflation. However, the Council's ambition to achieve a surplus within the target range might be hard to achieve, given the size of the current deficit, and the service levels and assets required of a council of this size.[51]

The Council has attempted to achieve budget savings (e.g. the $8 million mentioned in the 2023-24 budget[52]), and it might be beneficial for the Council to develop cost reduction plans with annual cost reduction targets for each of the areas of operations that are included in, and with achievements reported in their budgets,[53] to hold themselves accountable and provide transparency to the ratepayers.

The breakdown of expenses shows increases in expenses in materials and contracts, as well as employee costs over the forecast period, which shows only a small change in the share of expenses by category[54] including a small decrease in depreciation expenses, which may appear to be slightly optimistic. The forecast increase in expenses and the share of expenses by category should be reviewed carefully during the review of the LTFP being undertaken this year to ensure that forecast increases are aligned with recent trends and realistic. (See chart overleaf at left).

Over the historic period, the number of rateable properties increased by 0.7 percent per annum, which translates to the rates revenue per property (the largest source of Council income) increasing by an average rate of 3.1 percent per annum (around 50 percent higher than historical inflation). At the same time, expenses per property increased at an annual average rate of 3.6 percent (80 percent above the historical inflation). Although the differential between these rates is only 0.5 percent per annum, it is

51 'Materials, contracts and other' expenses are nearly 40 percent of the Council's costs over the forecast period, and the forecast value of expenditure on new and upgraded assets in 2023-24 is $14M.

52 See City of Onkaparinga Annual Business Plan and Budget 'From the Mayor' p. 4.

53 Which is also linked to projects undertaken during each financial year.

54 Where employee costs were 39 percent of total expenses in the historic period, they increase slightly to 40.5 percent (with cost increase slightly under forecast inflation of 2.6 percent) with no change in FTEs. 'Materials, contracts and other' expenses decreased from 39 percent of expenses to 38.6 percent, and expenditure continues to grow over the period despite the major projects being completed by 30 June 2024. On the other hand, depreciation is forecast to decrease by 1.1 percentage points, which indicates that a review of depreciation expenses is in order.

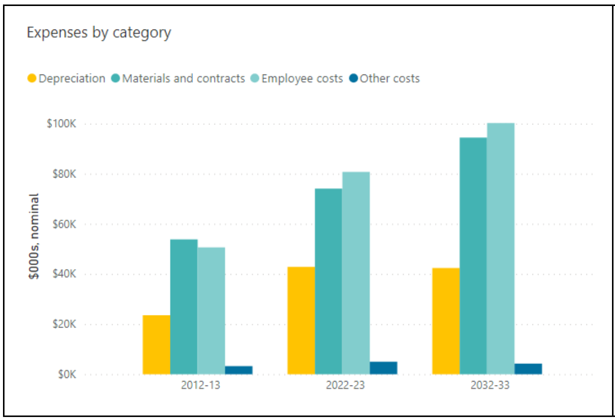
significant when compounded over the historic period, because the gap between income and expenses continued to increase over time. (See chart on previous page at right).

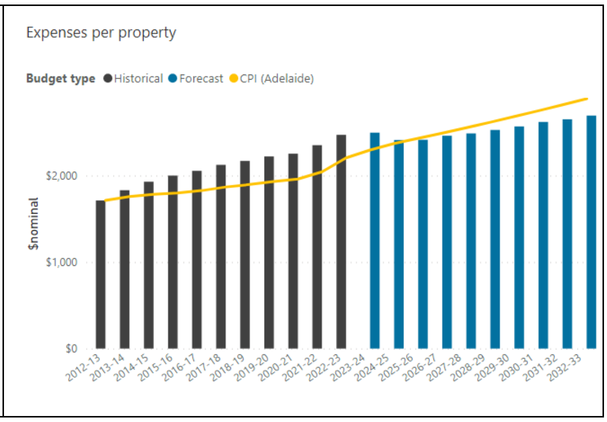
The reason for the increasing deficit occurred primarily due to the Council's ratings over the years 2020-21 through to 2022-23. This led to slower growth in rates income, accompanied by higher growth in expenditure due to both spending on the Council's pandemic stimulus projects and externally funded projects, which, when combined with the existing deficit, indicates that the level of debt has grown close to the Council's debt ceiling.[55]

Over the forecast period, the Council expects the number of properties to increase at an annual rate of 0.9 percent, and rates revenue per property to increase by 2.0 percent, while expenses per property are forecast to increase by only 0.9 percent.[56] This is considerably lower than the average forecast inflation rate of 2.6 percent, and a considerable improvement on the historic rate. It is unclear whether this forecast is realistic, given the Council's previous performance, without seeing declining service levels or even higher rate increases.

The Council has forecast return to surplus in 2024-25, with an operating surplus ratio over the forecast period of an average of 2.8 percent. This can only be achieved through a concerted effort by the Council to increase income from multiple sources (and possibly increasing the share of income from sources other than rates), to achieve a reduction in the deficit and indebtedness, and to reduce expenditure or undertaking no new expenditure on new projects; however, the strategies to achieve this have not been sufficiently developed in the current LTFP.

This issue will be addressed further in section C.2.





55 See City of Onkaparinga Council Agenda for 15 June 2021 item 9.7 Debt Management Strategy p. 8, which refers to the Council's 16 financial principles and the debt ceiling of $139.5M. The debt management strategy to achieve a balanced budget position in 4 years includes undertaking no new major projects beyond those that are currently committed and the use of the surpluses to repay debt.

56 The council advised that it has an ability to phase its capital program and, in some cases, defer capital expenditure to avoid price shocks.

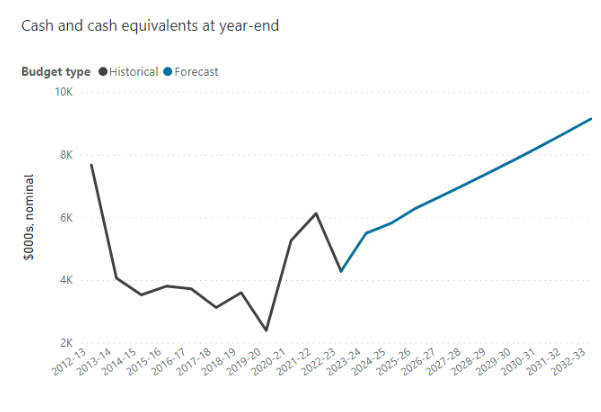
To ensure that the Council is positioned to achieve cost savings and deliver value for money to its ratepayers, and to potentially contain rate increases to under the rate of inflation, the Commission encourages it to:

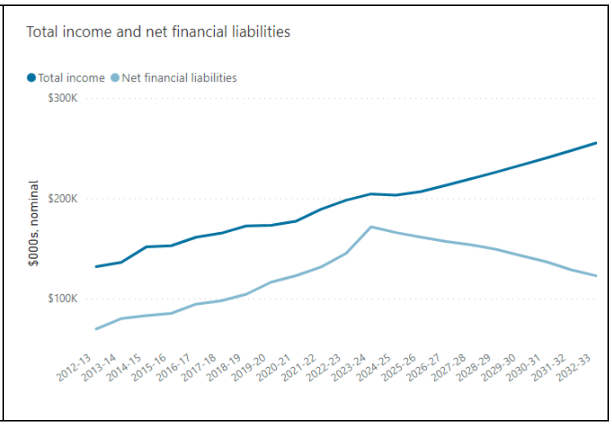
5. **Consider** options to increase income to move forward to a more financially sustainable position.
6. **Monitor** and **report** the growth in costs, including employee expenses, to ensure costs are constrained to forecast levels to ensure the operating performance is not negatively impacted by a lack of cost control.
7. **Consider** adopting cost savings targets and reporting the projected and actual cost savings in the annual budget and long-term financial plan to provide evidence of controlling the growth in costs, and achieve efficiencies across its operations and service delivery.

C.2 Net financial liabilities

The net financial liabilities ratio[57] sits within the LGA target range for the entire historical and forecast periods, with an average value of 60.6 percent for the historical period and 67.1 percent for the forecast period. The net financial liabilities ratio is a measure of the Council's indebtedness, and although the value of the ratio increased somewhat over the time periods, peaking at 83.7 percent in 2023-24, the ratio indicates that the Council was able to finance its financial obligations from operating income over both the historical and forecast periods (see chart overleaf at left).

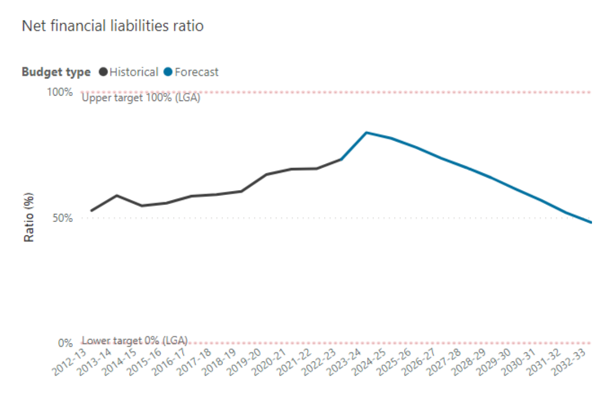
Over the historic period, the value of cash and cash equivalents at the end of the year was volatile (in large part associated with the timing of grants income received and the Council's expenditure on projects), but still averaged growth of 5.3 percent average per annum (above average historical inflation of 2.0 percent) over the entire 10-year period (see chart below at left). This is also related to the widening gap between total income and net financial liabilities over the forecast period (see chart below at right) where income continues to increase, while net financial liabilities decline from 2024-25 through 2032-33 as borrowings decrease from 2025-26 onwards[58] (see chart overleaf at right).

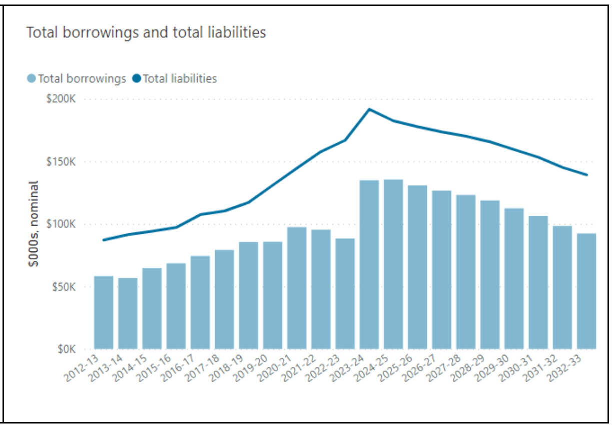




57 The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100 percent of total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

58 This peak in indebtedness is linked to the low growth in rates income due to Council's pandemic rate relief measures, which when combined with the stimulus measures in 2021-22 and 2022-23, led to large increases in borrowings.
It should be noted, however, that the Council already had a high level of borrowings (i.e. an average of $72.76M per annum over the last 5 years of the historic period) and that although borrowings decreased over the forecast period from a peak of $11.18M in 2024-25, average annual borrowings over the entire 10-year forecast period are over 40 percent higher than the average annual borrowings over the historic period, primarily due to the level of borrowings doubling in 2023-24 and increasing by nearly another 4 percent in 2024-25.





Over this historic period, total liabilities increased at an annual rate of 6.88 percent and averaged $113.8 million per annum. At the same time, net financial liabilities increased by 7.4 percent per annum, which resulted in an average net financial liabilities ratio of 60.63 percent for the historic period, which sits within the LGA target range of 0 to 100 percent.

The Council is a growing council, with more urban development planned over the next 20 years with the number of rateable properties growing on average by 0.9 percent per annum. Over the historical period, the Council relied on borrowings to finance the infrastructure required to support this growth, with borrowings increasing by an average of 2.5 percent per annum.

Net financial liabilities were forecast to increase by over 10 percent in 2022-23, followed by another 18.2 percent in 2023-24, with a debt of $134.9 million forecast for 2023-24.[59] This is forecast to reduce from 2024-25 onwards by around 6 percent per annum.

In general, the Commission urges the Council to consider options to reduce its debt burden (given the financial sustainability risk discussed previously), such as through the disposal of older assets or those that do not deliver much benefit to the community, which will reduce its debt obligations and exposure to future repairs and maintenance, and renewal/replacement costs.

At the same time, after reaching a peak of $191.7 million in 2023-24, total liabilities are forecast to decrease by an average of 3.6 percent per annum for the remaining nine years of the forecast period. This will result in an average net financial liabilities ratio of 67.1 percent for the forecast period, which is higher than the historic average of 60.6 percent, and sits within the LGA target range.

It is not clear from the budget and LTFP what strategies the Council plans to employ to reduce debt, while at the same time ensuring that the appropriate level of asset renewal expenditure is maintained. It is understood that the Council is currently updating its LTFP, which ideally should include a range of strategies to maintain service levels while reducing debt. Strategies should include the rationalisation and sale of assets, including the disposal of aged assets that incur high maintenance and renewal costs.

Along with the reduction in borrowings and total liabilities, cash and cash equivalents at year end are forecast to increase from 2023-24 onwards at an average of 8.0 percent per annum, a rate stronger than forecast increases in both income and repayments of borrowings. This increase in cash holdings will be discussed further in the following section.

59 See City of Onkaparinga Annual Business Plan 2023-24 p. 41.

For the Council to achieve and maintain financial sustainability, the Commission considers it appropriate for the Council to:

8. **Develop** a staged plan and identify targets to reduce the high level of debt, and report the achievements against targets in the annual budget and long-term financial plan.
9. **Identify** and dispose of those assets that have reached the end of their useful lives or are excess to requirements to reduce debt and exposure to future liabilities.

C.3 Asset renewals expenditure

The asset renewal funding ratio – renewal expenditure based (net) has been quite volatile throughout the 10-year historic period and averaged 78 percent,[60] which lies below the lower LGA target ratio of 90 percent. The ratio only sat within the target range of 90 percent – 110 percent for one year (2019-20) and exceeded the target range in another (2016-17 with 114.2 percent).[61] This indicates that the Council has failed to renew or replace its existing infrastructure assets compared to the requirements in its AMPs.

This historic performance is complicated by the Council's history. The Council was established in 1997 by amalgamating three pre-existing council areas to cover a substantial area with a growing population and rates base. On the one hand, an amalgamation offers some advantages of delivering services using economies of scale, but on the other hand, it means that the Council inherited many pre-existing problems (including older assets) and is required to deliver services to diverse communities[62] with a resident population of over 173,000 people spread over 518 square kilometres.[63]

This situation requires the Council to have a solid understanding of its asset base, with up-to-date condition assessments and knowledge of the service levels required from each asset.[64] Since the Council is also continuing to grow, it faces the need to service new subdivisions and the redevelopment of older subdivisions, and the LTFP forecast funding should accommodate these asset management requirements.

To facilitate an improved understanding of its asset base, current asset condition and service levels required, the Council should draft detailed individual asset management plans for each of its major asset groups that are linked to the Council's asset register, and coordinate this data with the SAMP, budget and LTFP.[65] These asset group management plans should then be updated regularly in line with the annual review and update of the IAMP or SAMP (as applicable).

Over the forecast period, the average value of the asset renewal funding ratio (net) improves, and the average for the period of 92.1 percent sits within the LGA target range of 90 to 110 percent. This

[60] The Council advised in communications with the Commission that it decided to defer capital expenditure in some historic years to assist with the budget position, which has impacted on the asset renewal funding ratio.

[61] As well as the unaudited year 2022-23 between the 10-year historic period and the 10-year forecast period, when it was 105.5 percent.

[62] Including five rateable property categories, including residential, commercial, and primary production.

[63] The size of the Council area means it might be difficult to provide the same level of services that are easily accessible to all locations.

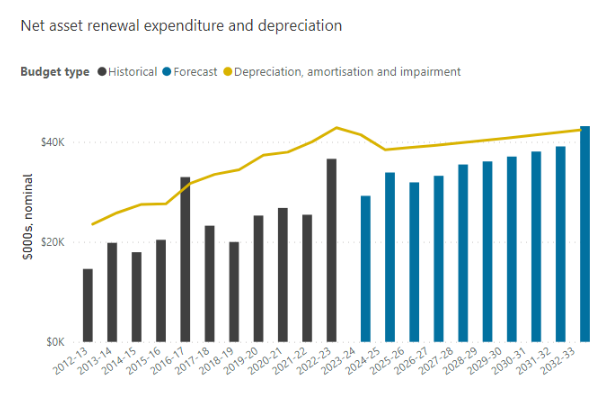
[64] The Council is migrating its assets register data to the One Council (software to manage council finances, assets, and documents) and anticipates that this 'will assist in making informed decisions regarding maintenance, repairs, and asset replacements.' See City of Onkaparinga Strategic Asset Management Plan Update 2022-23 p. 2.
Furthermore, given the external funding provided to the Council for prioritised new/upgraded assets to be completed in 2023-24 and the related deferral of renewal/replacement capital expenditure, which will occur after the production of this report, the Council has not provided evidence that the AMPs have been reviewed and updated since then to accommodate this.

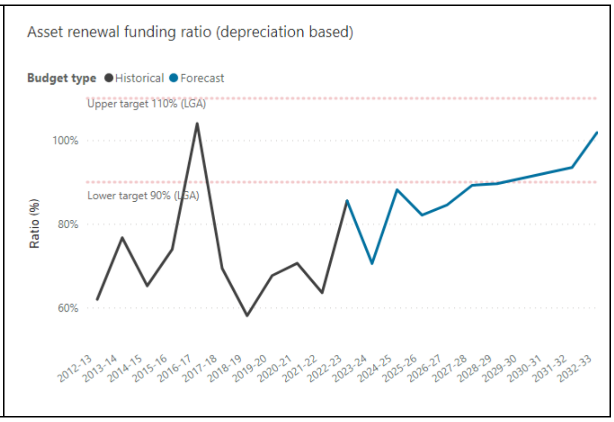
[65] The Council does not have any group AMPs available on its website and was not able to provide the Commission with any current group AMPs (i.e., AMPs that are less than 10 years old). The Council also cited a reference to their group AMPs in the KPMG report *City of Onkaparinga Strategic Asset Management* September 2022 as evidence that they have AMPs for their asset groups. However, this report fails to mention that these AMPs were drafted in 2009 and the Commission deems these to not be current.

indicates that the Council plans to undertake asset renewal at levels below that set out in the AMPs[66] – though this on its own does not tell the whole story.

Over the historic period, the asset renewal funding ratio (depreciation based)[67] is volatile, with an average value of 71.1 percent for the period and only sits within the target range of 90 to 110 percent for one year out of the ten (in 2016-17).[68] (See chart below at right). Although the ratio value improves somewhat over the forecast period, it only sits within the 90 to110 percent target range over the last four years (with an average value of 88.2 percent for the entire forecast period and 94.6 percent for the last four years of the period). This, along with the increasing levels of cash over the forecast period,[69] indicates that the Council may be planning to spend too little from 2023-24 through to 2028-29 to maintain the level of its asset base, and risks incurring high repairs and maintenance expenses to maintain existing service levels, which is a continuation of the expenditure pattern over the historic period.[70]

This trend can also be seen in the relationship between net asset renewal and depreciation (see chart below at left), where the value of expenditure on net asset renewal remains below that of depreciation for all but two years of the historic and forecast periods (i.e., 2016-17 and 2032-33). This underspending on asset renewal is reflected in the increasing levels of cash held at year end seen over the forecast period,[71] and in the renewal/replacement gap (both the IAMP renewals based and depreciation gap), which starts (based on the data series under review) from 2013-14 and continues through 2032-33.[72]





The Council has explained how the low levels of asset renewal expenditure planned over the years 2022-23 and 2023-24 are due to the Council being required to complete the projects funded by the State and

[66] The Council advised in communications in December 2023 that the LTFP adopted in February 2021 was aligned to the financial forecasts in the current SAMP, but in the 2022-23 SAMP update, a decision was made to reduce the capital forecasts for the Local Roads and Community Infrastructure Program stimulus funding, which has created a misalignment between the SAMP and LTFP.

[67] Where asset renewal/replacement expenditure is divided by the depreciation expenses.

[68] As mentioned earlier, the Council advised that it deferred capital expenditure to improve the annual budget outcome over the latter years of the historical period.
Regarding the planned capital expenditure over the years of the LTFP, since the Council has limited resources, it placed a priority on the delivery of state and federally funded projects due to the substantial commitments that were made, and because these projects must be delivered within a short timeframe.

[69] As discussed in the previous section and shown in the chart 'Cash and cash equivalents at the end of the period.'

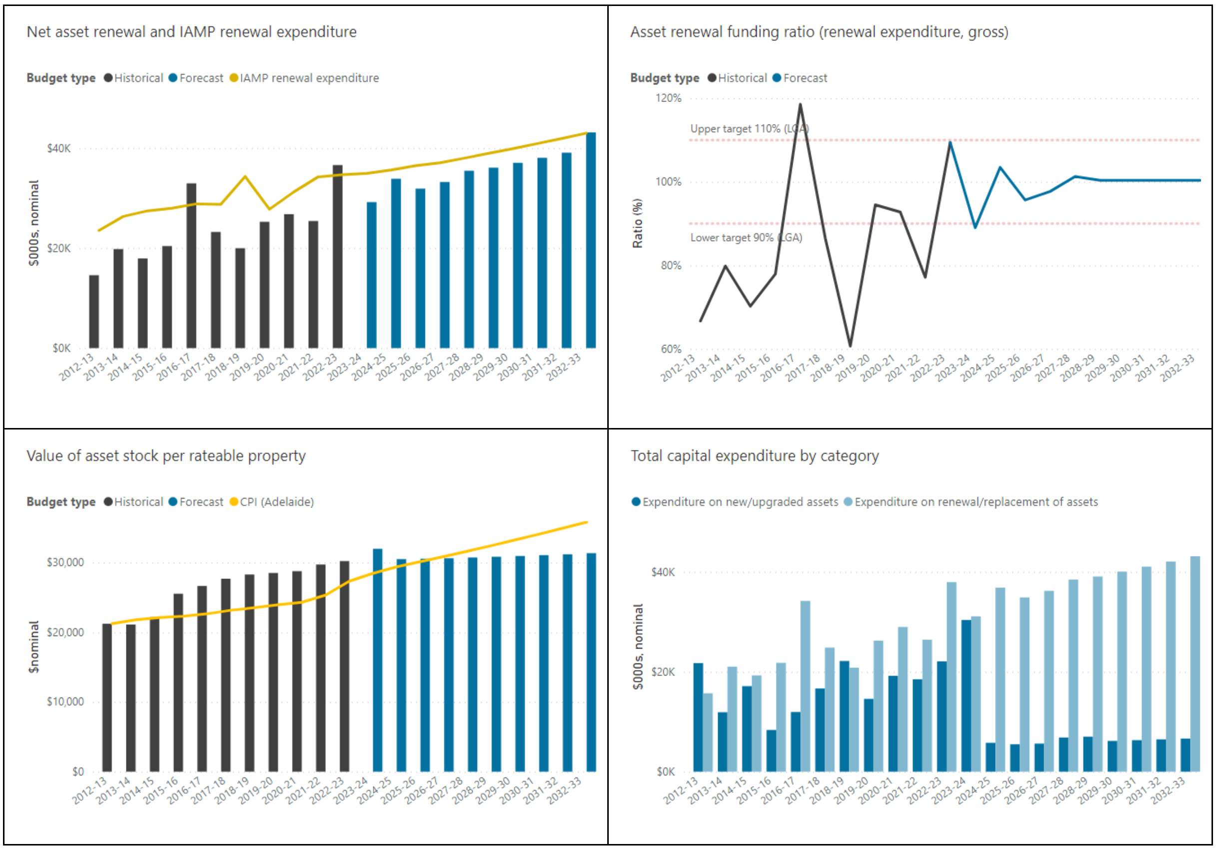
[70] Which, according to the Council, is due to a reduction in assets renewal expenditure in 2022-23. The Council recognises that the current LTFP and IAMP are not now consistent and expects that capital renewal expenditure will be re-aligned to the IAMP during the current update of the IAMP. See Materials Amendments Reasons for asset renewal funding ratio in the Financial Template.

[71] Over the forecast period, the value of cash and cash equivalents at year end is forecast to grow steadily as an annual average rate 8 percent, which sits well above the forecast annual growth in income of 2.57 percent. This can be attributed to the gap between depreciation and the lower levels of expenditure on the renewal and replacement of assets.

[72] See above.

Commonwealth Governments before the 30 June 2024 deadline.[73] Due to limited resources, this results in some assets renewal expenditure being undertaken from 2024-25 onward. The period from 2024-25 shows a significant reduction in expenditure on new and upgraded assets, which accompanies the modest growth in expenditure on renewal and replacement assets over the historic period. However, the total expenditure on the latter from 2024-25 onwards does not compensate for the earlier persistent low levels, as well as the requirement to address the future stream of liabilities arising from the recent expenditure on new assets.[74]

The deficit of net asset renewal relative to IAMP renewal expenditure over the historic period, which continues into the forecast period (see chart below at left), is also seen in the value of asset stock per property, which increased over the historic period, but drops after 2025-26 (see chart bottom left). The Council has acknowledged that the net asset renewal expenditure in the LTFP is not aligned to the IAMP renewal expenditure,[75] and this will be resolved in its current review of the LTFP. It is imperative this is completed to enable to Council to evaluate its asset renewal situation.



73 Funding made available to build new assets requires an increased maintenance budget, which is currently not funded, and these new assets will require renewal in the future.

74 Along with the initial expenditure on new assets (even those externally funded), the Council should consider the future stream of liabilities created.

75 The KPMG City of Onkaparinga Strategic Asset Management report in September 2022 states: '1. While the SAMP outlines the CoO's asset management objectives and asset classes, there is no formal requirement to develop an AMP for each asset class. As a result, some asset categories do not have AMPs in place. Further, several AMPs are partially in use without being endorsed by the Council, nor approved by the Executive Leadership Team (ELT)'. '2. Inconsistencies were identified in the maintenance of key asset management documents, including examples of out of date documents… And although 3.'The CoO's documentation hierarchy ensures alignment between its strategic plans, operational documents and daily tasks, it is not being effectively utilised'… and is 'not being relied upon nor referred to in a consistent way across the organisation… and that 'Council Asset Management teams have not yet undertaken a council-wide update of the Strategic Asset Management plan (SAMP).' – see pg. 6 of KPMG Strategic Asset Management September 2022 report.

The Council reported in its SAMP that it has been conducting asset audits and reviewing its asset portfolio with a view to divesting assets.[76] Such an assessment and alignment of remaining assets would enable the Council to move forward, focusing on current and future community needs.

The Council in its comments recognises that asset renewal expenditure in the 2022-23 LTFP are not aligned to the IAMP renewal expenditure, 'due to a reduction that occurred during the 2022-23 update across five years', which has probably occurred because the Council has deferred renewals to prioritise expenditure with the grant funding on new assets. (See chart on previous page at top left). The Council recognises this issue when it states that 'Capital renewal expenditure figures will be realigned to the IAMP during the current update, as it is recognised that the current LTFP and IAMP are now not consistent.' This deferred expenditure on asset renewals indicates that not only is it facing the risk of decreased levels of service during this period when the expenditure has been deferred, it also faces higher levels of expenditure when it addresses the deferred asset renewal.

Along with the review of its assets, the Council should be mindful of identifying assets that are obsolete or no longer required, with the intention of disposing of any assets that are no longer required. This rationalising of assets will not only potentially add to the Council's revenue, but also reduce maintenance and/or repair costs that would have been incurred.[77]

To align the average rate of consumption of its assets as indicated by its depreciation expenses, with a reliable IAMP and the annual spending on the renewal of its asset base over time, the Commission considers that it would be appropriate that the Council:

10. Review the asset valuations, their remaining useful lives and corresponding depreciation schedules regularly to ensure they reflect current values, incorporate this information into the SAMP, and include these expenditure forecasts in the annual budget and annual long-term financial plan update.
11. Undertake the good practice of developing and regularly updating the individual asset management plans for each asset group and coordinate the data in these asset management plans with the infrastructure asset management plan, budget and long-term financial plan.
12. Provide more funding for asset renewals rather than prioritising initiatives which involve new or upgraded infrastructure.
13. Continue to hold community consultations and conduct surveys to identify community priorities and desired service levels as part of the planning process for its strategic management plans.

[76] The value of infrastructure, property, plant, and equipment increases by an average annual rate of 1.3 percent over the 10 years of the LTFP, however, this appears inconsistent with decreasing depreciation. See also the City of Onkaparinga Strategic Asset Management Plan Update 2022-23 p. 5, which states that the delivery of the externally funded projects has increased overall depreciation from $40.02M to $40.97M this fiscal year (i.e. 2022-23) but also that the review of road asset lives in 2022-23 resulted in a reduction in depreciation of 'approximately $1.40M, pending end of financial year adjustments'. Further, the Council is planning to 'review our depreciation schedule to ensure our financial and infrastructure is consistent,' which implies it could be inconsistent due to the recent expenditure.

[77] Of course, any program for the disposal of assets will require community consultation, e.g., the Council's water assets decision in November 2023.

D Current and projected rate levels

D.1 Historical rates growth

The Council's revenue from rates increased by an average of 3.8 percent per annum over the 10-year historic period and is forecast to increase by an average of 3.6 percent per annum over the 10-year forecast period. This resulted in the income from rates increasing its share of council income from 79 percent of total income during the historic period to 82.7 percent of income over the forecast period.

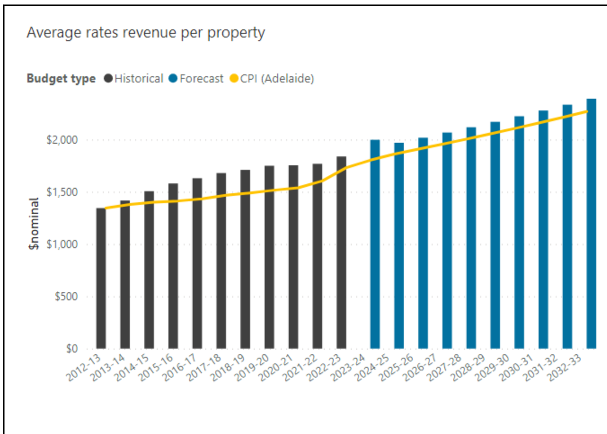
The number of rateable properties increased from 76,605 in 2012-13 to 81,388 in 2021-22 (or by an average of 0.7 percent per annum over the historic period) and is forecast to increase to 89,559 properties (or at an annual rate of 0.9 percent) over the ten years to 2032-33.

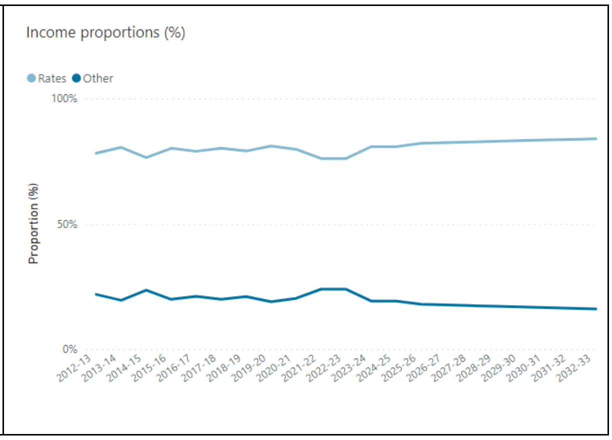
The Council's average rate revenue per property increased by an average of 3.1 percent per annum over the historical period, which represents more than 1.5 times the average rate of inflation for the 10-year period (2.0%). This results in an increase in average rates per property from $1,345 in 2012-13 to $1,768 in 2021-22, despite the rates relief introduced during the COVID-19 pandemic in 2020-21 and 2021-22.[78]

The Council indicated that it plans to reduce its reliance on rates in the new LTFP,[79] and to accomplish this, the Council is exploring strategies to generate income, including full cost recovery on fees and charges, as well as exploring other revenue sources and/or expanding existing sources of revenue, which should include the disposal of assets[80] (see chart below at right for the share of income generated from rates).

Along with the planned review of its assets, the Council should be mindful of identifying assets that are obsolete or no longer required, with the intention of reducing debt through disposal of these assets. This rationalisation of assets will not only increase revenue and reduce debt, but also reduce maintenance and/or repair costs, and improve the asset renewal ratio.[81]

The current burden of rates is considered affordable, with the average rates per residential rateable property[82] in the Council area of $1663 per property, which sits marginally below the state average of $1,665 per property in 2021-22. (See chart below at left).





78 The Council approved rates relief measures to reduce the financial impact of the pandemic upon ratepayers which resulted in average rates per property increasing by only 0.25 percent in 2020-21 and 0.81 percent in 2021-22.

79 Ibid.

80 Ibid.

81 Of course, any program for the disposal of assets will require community consultation, e.g., the Council's water assets decision in November 2023.

82 For total residential rates (excluding CWMS rates) per rateable residential property - see SA Local Government Grants Report 6 – Council Rating Arrangements for 2021-22 Financial Year.

D.2 Proposed 2023-24 rate increases

The Council budgeted for an increase in rates of 7.9 percent in 2023-24, which is aligned with the March 2023 CPI[83] but which exceeds the RBA forecast of 3.9 percent to 30 June 2024.[84]

The Council calculates rates using a fixed charge component of $715, to which it adds a differential rate for each land use category and maintains a similar proportion of net revenue for each category.[85]

This formula has resulted in an increase in rates income of 9.54 percent in 2023-24, with an increase in rates per property of 8.7 percent or $159.94.

D.3 Projected further rate increases

The Council has projected further increases in rates income with an annual average increase of 3.6 percent per annum over the 10-year forecast period,[86] which is mainly due to growth in rateable properties. As a result, the average rates per property are forecast to increase by 2.7 percent per annum[87] over the forecast period, which is slightly above forecast inflation of 2.6 percent per annum.

Due to the increases in average rates per property, which were higher than inflation over the historic period, there is a gap between the inflation-adjusted rates and forecast rates in 2032-33 of $123.03 relative to 2012-13.

Although the increase in rates per property forecast sits a little above inflation over the forecast period, rates are projected to remain around the mid-range of rates in the State.

D.4 Affordability risk

The affordability risk among the Council's community for these further rate increases appears to be low, on balance, when considering:

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area[88] of 37 of 71, which places residents in the middle range of advantage and disadvantage,
- the historic average increases in rates of 3.1 percent per annum, which is above the average annual inflation increase of 2.0 percent per annum for the period,[89]
- the current average level of rates (across most ratepayers), which rank 32nd out of 72 Councils when ranked from highest to lowest rates in South Australia and sitting slightly below the average rates in the state,[90] and

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83 See City of Onkaparinga Budget 2023-24 pp. 39 & 40.
84 See RBA economic outlook at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html.
85 For the formula, see City of Onkaparinga Annual Business Plan 2023-24 p. 31. This also disregards movements in the relative capacity to pay.
86 Or an average increase in rates revenue of 2.9 percent for the 9-year period 2024-25 through 2032-33, with a corresponding average increase in rates per property of 2.0 percent per annum.
87 This is calculated based on the Council's formula given in City of Onkaparinga Budget 2023-24 pp. 39 and 40.
88 The Onkaparinga Council area is ranked 37 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, with additional information available at SEIFA (abs.gov.au).
89 Which includes the rates relief granted by the Council during 2020-21 and 2021-22.
90 With average rates in Onkaparinga Council calculated at $1663 per property, compared to the state average of $1,665 per property as calculated by the SA Local Government Grants Commission in Finance Report 6 – Council Rating Arrangements for 2021-22 financial year.

- the forecast increases in rates of 2.7 percent per rateable property, which sits slightly above forecast inflation over the term of the LTFP.[91]

However, as the current economic environment is putting more pressure on most communities' capacity to pay for further rate increases, including those of the Council, the Commission considers it would be appropriate for the Council to:

14. Continue to consider limiting future increases in rates to no more than expected inflation to reduce any emerging affordability risk in the community.

91 That is, an average annual increase per property of 2.69 percent compared to a forecast annual average rate of 2.6 percent.

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