Advice

Local Government Advice

City of Playford

February 2024

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City of Playford

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the City of Playford's current and projected financial performance **sustainable** taking into account the council's average expected growth in properties of 2.3% p.a. over the next 10 years, and the planned average rate increases of 2.2% p.a. per property over this period

RISKS IMPACTING SUSTAINABILITY

- ⚠ Forecast growth in rateable properties is lower than anticipated and not realised by council
- ⚠ Failure to reduce its exposure to debt

CONTINUE

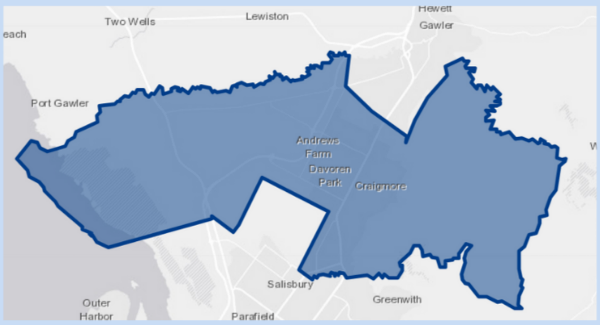
- ✅ Monitoring average rate rises annually
- ✅ Reviewing rateable property growth forecasts annually
- ✅ Focusing on selling and disposing of assets to help reduce debt
- ✅ Reporting any actual and projected cost savings in its annual budget and long-term financial plan

COMMISSION'S RECOMMENDATIONS

- Reduce the level of net financial liabilities
- Improve transparency on borrowing assumptions
- Include efficiency goals and cost savings in the long-term financial plan

KEY FACTS

- Population in 2021 was **99,190**
- Council covers **345 square kilometres**
- **44,407** rateable properties in 2022-23
- **$91.8 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$1.621 billion**



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Glossary of terms

ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
Commission	Essential Services Commission, established under the *Essential Services Commission Act 2002*
CPI	Consumer Price Index (Adelaide, All Groups)
Council	City of Playford
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 Playford

The Essential Services Commission (**Commission**) finds the City of Playford's (**Council's**) current and projected financial performance **sustainable** as it prepares for continued high levels of projected population growth. After a period of significant infrastructure and service expansion, leveraged by substantial borrowings and grant funding, the Council appears, based on historical surpluses, to demonstrate sound operating performance.

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

The Commission notes the Council's strategy to reduce its borrowings via the sale of assets (repurpose of assets) and operating surplus growth. However, it is not clear what level of borrowing can be reduced via asset sales in the 10 years to 2032-33. If the Council is unable to fulfill its asset sale strategy, then it risks a greater burden of revenue shifting to its ratepayers.

In addition, the Council's ability to reduce its borrowings via operating surplus growth also highlights the importance of its forecast growth in rateable properties. If the Council overestimates the growth in rateable properties to 2032-33, the burden of debt repayment will fall on existing ratepayers.

Noting that the Council's projections are somewhat reliant on its high growth assumptions, the Commission considers it important for the Council to ensure that its costs align to actual growth achieved – including having contingency plans to defer or avoid costs and new infrastructure if forecast growth does not transpire. In addition, the Council should focus on achieving scalability so that the marginal cost of serving a new ratepayer is financially sustainable.

Budgeting considerations

1. **Continue** its good practice of reviewing inflation forecasts in its budget and forward projections from 2024-25, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.
2. **Continue** its good practice of reviewing the rateable property growth forecasts in budget projections each year, to ensure that they remain current and do not create a need for additional rate increases to generate the same level of projected revenue.

Continue to provide evidence of ongoing cost efficiencies

3. **Continue** its good practice of reporting any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.
4. **Include** efficiency goals and projected cost savings in its long-term financial plan, to provide further evidence of projected cost growth constraint and efficiencies across its operations and service deliveries.

Continue to manage borrowing risk

5. **Reduce** its level of net financial liabilities, as forecast in its latest long-term financial plan, and continue to focus on asset sales or disposals as one of its strategies to help reduce debt.
6. **Improve** transparency on borrowing assumptions, including loan facilities and loan terms, in its long-term financial plan.

Containing rate levels

7. **Continue** to monitor average rate rises to help reduce cost of living pressure on the community.

2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by the 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 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 providing relevant information and engaging with Commission staff to assist the Commission in preparing this advice.

2.1 Summary of advice

Historically, the Council's community has had strong rateable property growth, accompanied by strong infrastructure growth and increasing contributions from ratepayers and government grants. In general, the Commission finds the Council's current financial position sustainable, on balance, with small historical and projected operating surpluses. However, there are some risks to the income and expense forecasts and the Council's strategy to reduce its borrowings.

The Council is one of South Australia's fastest growing areas. In 2022-23, the Council had 44,407 rateable properties. The Council expects this to increase to 46,306 in 2023-24, a 4.3 percent growth in rateable properties.[10]

The Council's cost base is expected to rise in the short-term, driven by further growth projections, with the Council forecasting an average of 1,075 new properties each year from 2023-24 to 2032-33. This growth will become embedded into the underlying cost base of the Council. In addition, the Council has

1 Amendments to the LG Act (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local Councils for the Local Government Scheme Advice. The Commission must provide advice to each Council in accordance with the matters outlined in s122(1e), (1f) and (1g).
2 Commonly referred to as asset management plans.
3 The objectives of the advice with reference to a Council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a Council's SMP, including the LTFP and IAMPs.
4 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.
5 Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
6 LG Act s122(1f)(a) and (1g)(a)(ii).
7 LG Act s122(1f)(b) and (1g)(b).
8 LG Act s122(1h).
9 The Commission must publish its advice under LG Act s122(1i)(a).
10 City of Playford, *2023-24 annual business plan*, June 2023, p. 60

factored this growth into its additional rate revenue estimates. Therefore, the future sustainability of the Council is strongly linked to its expectations regarding the further development of the community.

The Council has predominantly used borrowings from the Local Government Finance Authority of South Australia (LGFA) to fund its renewal of existing assets and acquisition of new and upgraded assets. In doing so, the Council's net financial liabilities ratio[11] has been outside (or above) the suggested target range (the 10-year average to 2021-22 was 121.3 percent). The Council has forecast a reduction in its net financial liabilities ratio from a peak of 88.4 percent in 2023-24 to an average of 49.9 percent in the five years to 2032-33. The reduction in the ratio from 2022-23 to 2031-32 is proposed to come from the progressive repayment of total borrowings ($33.1 million over the next ten years to 2032-33), via the sale of assets and from operating surplus growth.

The Council's forward projections from 2023-24 (in its LTFP) forecast a slightly improved financial sustainability outlook as a result of the forecast rate of operating revenue growth set to slightly outpace the forecast rate of expense growth with:

- average growth in rates and expenses per property below the Reserve Bank of Australia (RBA)-based forecast inflation rate (and generally aligned with the Council's forecast inflation), and
- a reduction in its net financial liabilities ratio from a progressive repayment of total borrowings (of $33.1 million over the next ten years to 2032-33), via the sale of assets[12] and forecast available net annual cashflow.

The Commission notes the Council's current good practice of reporting cost savings (the Council has identified $0.6 million of savings during the 2023-24 budget process). However, these savings equate to only 0.4 percent of the Council's total forecast expenses in 2023-24.[13]

The Commission encourages the Council to include efficiency goals and challenging projected cost savings in its long-term financial plan that could provide some mitigation if the forecast increase in rateable properties does not arise. There are also other opportunities for the Council to be more transparent about its price, service level and efficiency-related assumptions in its forward cost projections. In general, a transparent focus on cost constraint should help the Council to identify opportunities to reduce any affordability risk emerging for residential ratepayers, who account for the major share of the rates revenue.

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.[14]

2.2.1 Advice on material plan amendments in 2023-24

Key Point:

✓ Projected improvement in operating performance driven by higher rates and grant revenue and reduced level of net financial liabilities.

[11] 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).

[12] City of Playford, *2023-24 2032 long-term financial plan*, June 2023, pp. 18.

[13] City of Playford's total expenses for 2023-24 are forecast to be $131,187,342 City of Playford Council, *2024 – 2033 long-term financial plan*, June 2023, p. 35

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

The Council's 2023-24 LTFP includes an improvement in projected operating performance and increases in projected capital expenditure estimates, compared with the 2022-23 forecasts (for the nine-year overlapping period in both LTFPs: 2023-24 to 2031-32), as follows:

- An additional improvement of $145.5 million (11 percent) in total operating income. Most of this increase is due to higher rates revenue, which increased by $104.5 million (10.3 percent) on the 2022-23 estimates (for the period 2023-24 to 2031-32). Grants, subsidies and contributions have also increased by $40.6 million (21 percent).
- An additional $137.2 million or 11.2 percent in total operating expenses. This includes an additional $57 million (12.7 percent) for 'materials, contracts and other' expenses, and an additional $34.1 million (7 percent) in 'employee costs'. Depreciation also increased by $39.9 million (14 percent).

The table below highlights the Council's 10-year CPI assumptions between the 2022-23 and 2023-24 LTFPs, the Commission has reviewed the nine overlapping years' CPI statistics: 2023-24 to 2031-32.

Consumer Price Index	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Deloitte Forecast Economics 2022-23 LTFP	2.30%	2.30%	2.40%	2.30%	2.40%	2.50%	2.30%	2.40%	2.30%
Deloitte Forecast Economics 2023 -24 LTFP	7.90%	2.58%	2.47%	2.51%	2.52%	2.43%	2.29%	2.29%	2.38%

The Council's current inflation forecasts present a risk to its cost and income projections in the current inflationary environment. 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).[15]

The Commission notes that the Council's stated assumptions for indexation in its 2023-24 LTFP are based on its annual review of these forecasts. The Commission considers that annual reviews of assumptions to reflect best practice and supports the Council in continuing to do so through its annual process. For this reason, it would be appropriate for the Council to:

1. Continue its good practice of reviewing its inflation forecasts in its budget and forward projections from 2024-25, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

✅ Operating surpluses have been consistently achieved between 2016-17 to 2022-23.

✅ The operating surplus ratio is forecast to meet the suggested LGA target range in each year to 2032-33, averaging 3.3 percent.

⚠ Operating expenses from 2012-13 to 2022-23 have experienced moderate growth above CPI.

15 RBA, Forecast Table - August 2023, available at https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html

- Average operating expenses per rateable property are projected to increase by 1.7 percent each year to 2032-33.
- Continuous improvements have resulted in cost savings of $16.9 million since 2011.

The Council has consistently recorded operating surpluses[16] since 2016-17 and the operating surplus ratio[17] is forecast to meet the suggested LGA target range in each year to 2032-33. In the 10 years to 2021-22, the average operating surplus ratio performance was 3.5 percent. That is within the lower portion of the suggested LGA target range for the ratio. In the same period, the Council's operating income growth averaged 5.3 percent per annum, higher than the rate of operating expense growth (averaging 3.3 percent per annum).[18]

The Council received a combination of additional 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, its 'materials, contracts and other' expense increased at a conservative level (averaging 2.6 percent per annum) from 2012-13 to 2021-22, given the average annual CPI growth of 2.0 percent.[19] On the other hand, its 'employee' and depreciation expenses both increased by an average of 3.3 and 5.2 percent per annum.

The estimated increase in the rate of growth in operating expenses (to an average of 4.0 percent per annum to 2032-33, which is above the RBA-based forecast inflation[20]), combined with operating income growth of 3.7 percent per annum (also above the RBA-based forecast inflation), is expected to slightly reduce the Council's operating performance. The Council has projected smaller operating surpluses to 2032-33, averaging 3.3 percent.

Average operating expenses per rateable property are projected to increase at 1.7 percent (nominally) in the 10 years to 2031-32 (the increase in the 10 years to 2021-22 was also 1.7 percent). At the same time, average operating income per property is forecast to increase by 1.3 percent (nominally), below forecast inflation. These projections highlight the importance of the forecast growth in rateable properties in minimising the impact of rising costs on households. The Council's assumed average growth is 2.3 percent per annum (to 2031-32) in rateable properties, which is higher than historical growth of 1.7 percent per annum (10 years to 2021-22).

If the forecast growth in rateable properties does not occur, and the Council cannot reverse the increases in costs, this could place pressure on rate levels., while simultaneously reducing the speed at which borrowings are drawn down. This could result in the need for further asset sales. Notwithstanding this, the Commission notes the Council's good practice of reviewing its rateable property forecast annually and encourages the Council to:

2. Continue its good practice of reviewing the rateable property growth forecasts in its budget projections each year to ensure that they remain current and do not create a need for additional rate increases to generate the same level of projected revenue.

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16 This means the Council's operating income (including rates and other revenue sources but excluding capital grants, subsidies, and contributions) have exceeded operating expenses (including depreciation).

17 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).

18 Based on the compound average annual growth rate formula (which is the adopted approach to calculating average annual growth rates throughout the Commission's advice).

19 CPI (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 The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

The Commission has observed the current good practice of the Council to focus on continuous improvement resulting in savings: over $16.9 million since 2011.[21] As an example, it has factored in savings of approximately $0.6 million to its expense estimates in 2023-24, compared to these items in 2022-23.[22] However, the Commission notes that the Council has not set any subsequent year efficiency goals in its LTFP.

To ensure that the Council is positioned to achieve the forecast real term reduction in its cost base and improve its operating performance (without the need for further rate increases above inflation), the Commission encourages it to:

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

4. **Include** efficiency goals and projected cost savings in its long-term financial plan, to provide further evidence of projected cost growth constraint and efficiencies across its operations and service deliveries.

Net financial liabilities

Key Points:

The net financial liabilities ratio has been above the LGA target range between 2012-13 to 2021-22.

The net financial liabilities ratio in the ten years to 2032-33 is forecast to be an average of 49.9 percent as a result of progressive repayment of debt, asset sales and growth of operating income.

Current high level of debt of $101 million with an average debt of $105.8 million dollars between 2012-13 to 2021-22.

Over the past 10 years, the Council's net financial liabilities ratio has been above the suggested LGA target range (averaging 121.3 percent from 2012-13 to 2021-22).[23] The Council has consistently used a high level of borrowings to finance (in part) its capital expenditure (the average level of borrowings from 2012-13 to 2021-22 was $105.8 million).

While the Council's performance is above the LGA target range, the Commission notes the significant outlays on new infrastructure required for a high growth Council. The Commission also notes that, in the 2023-24 budget process, the Council's public consultation report received only two mentions (out of a total of 48) that expressed concerns about how it is planning to reduce debt.[24] The Commission also notes that the Council has achieved consistent operating surpluses (seven operating surpluses in the 10 years to 2021-22).

The Council has forecast a reduction in its net financial liabilities ratio from a peak of 88.4 percent in 2023-24 to an average of 49.9 percent in the five years to 2032-33. The reduction in the ratio from 2023-24 to 2032-33 comes from the progressive repayment of total borrowings (of $33.1 million over the next

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21 City of Playford, *2024 – 2033 long-term financial plan*, June 2023, pp. 17, available at City-of-Playford-LTFP-23-24_2023-07-05-033606_mqwd.pdf

22 City of Playford Council, *2024 – 2033 long-term financial plan*, June 2023, p. 17.

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

24 City of Playford, *Ordinary Council Meeting Agenda -27 June 2023, Item 14.5 Draft 2023/2024 annual business plan, What We Heard Report – Public Consultation,* available at https://cdn.playford.sa.gov.au/agendas-minutes/attachments/06-27-June-2023-Attachments-for-Items-14.5-14.7.pdf

ten years to 2032-33), via the sale of assets and operating income growth. In doing so, the Commission supports the Council's strategy to:

5. **Reduce** its level of net financial liabilities as forecast in its latest long-term financial plan and continue to focus on asset sales or disposals as one of its strategies to help reduce debt.

The Council only includes proposed asset sales when there is a high level of certainty associated with the disposal.[25] As a result, it is not clear what level of borrowing can be reduced via asset sales in the 10 years to 2032-33 relative to using operating surpluses to repay borrowings. If the Council is unable to fulfill its asset sale strategy, then it risks a greater burden of revenue shifting to its ratepayers in order to achieve operating surpluses that can be used to repay borrowings.

As previously mentioned, these projections (the progressive repayment of borrowings of $33.1 million to 2032-33) also indicate the importance of the forecast growth in rateable properties and ensuring that the Council undertakes a robust process when forecasting rateable property growth. If the Council overestimates the growth in rateable properties to 2032-33, it also risks a greater burden of revenue shifting to existing ratepayers in order to achieve operating surpluses that can be used to repay borrowings.

In addition, the Council has not fully disclosed the assumptions underpinning its borrowing forecasts in its LTFP (such as loan facilities and/or terms, if applicable). However, the Council has disclosed its interest rate assumptions for its borrowing facilities, along with sensitivity analysis. According to its 2023-24 LTFP, the Council has a $3.7 million impact to its operating expenditure over 10 years based on a 1 percent interest rate increase each year over its 10-year LTFP. The Commission considers that it would be appropriate for it to:

6. **Improve** transparency on borrowing assumptions, including loan facilities and loan terms, in the Council's long-term financial plan.

Asset renewals expenditure

Key Points:

⚠ The asset renewal funding ratio averaged 86 percent from 2012-13 to 2021-22 and averaged $16.3 million per annum.

✓ The forecast asset renewal funding ratio until 2032-33 is 100 percent with an average of $25 million spend per annum.

✓ The forecast capital expenditure on new and upgraded assets will average $19.8 million to 2032-33.

⚠ Depreciation expenses are growing higher than forecast renewal expenditure, causing the Council to not meet the average rate of asset consumption based on current projected depreciation expenses.

The Council's asset renewal funding ratio[26] averaged 86 percent for the 10 years to 2022-23, which is close to but below the lower end of the suggested LGA target range of 90 to 110 percent. The Council is forecast to consistently meet the suggested target for the ratio in the 9 years to 2032-33 (averaging 100 percent).

The Council's spending on the renewal of assets averaged $16.3 million per annum between 2012-13 to 2021-22. From 2023-24, the Council is adjusting its asset renewals spending profile, with higher

25 City of Playford, *2023-24 2032 long-term financial plan*, June 2023, pp. 18.

26 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).

projected annual renewal expenditure averaging $25 million to 2032-33, in nominal terms. This compares to a projected capital spending on new and upgraded assets averaging $19.8 million to 2032-33, and a projected slight increase in the value of assets per property over this period.

When the asset renewal funding ratio is calculated by the depreciation-based method,[27] it is forecast to average 68 percent over the period 2023-24 to 2032-33. The ratio is impacted by the Council's renewal expenditure which is quite low due to its relatively new asset base (average asset age is 21 years).[28] Renewal expenditure is expected to increase as the council's average asset age increases. The Commission notes that the Council is of a young age (the council was formed in 1997 through the merger of the City of Elizabeth and City of Munno Parra), in a high growth area with a high number of new assets recently acquired or gifted.[29]

2.2.3 Advice on current and projected rate levels

Key Points:

⚠ Rate revenue per property growth has averaged 3.4 percent or $52 per annum for each property in the period between 2012-13 and 2021-22, which is 1.4 percent above CPI for the same period.

⚠ The forecast rate increase for 2023-24 is 10.7 percent or $225 per property.

⚠ The Council is one of South Australia's fastest growing council areas, with rateable properties forecast to increase by 4.3 percent in 2023-24 and averaging 3 percent until 2032-33.

✅ Based on current projected increases in rateable properties of 4.3 percent, between 2023-24 to 2032-33 the average rate across all categories is forecast to increase by 2.2 percent which is below the RBA-based forecast average of inflation of 2.6 percent per annum.

The Council's rate revenue per property growth has averaged 3.4 percent or $52 per annum for each property in the period between 2012-13 and 2021-22. This has exceeded CPI growth of an average of 2.0 percent per annum over this period, resulting in rates increasing in real terms (but also encompassing 1.5 percent average annual growth in rateable property numbers).[30] Current rate levels partially reflect the Council's recent history of spending growth, predominantly on capital expenditure (on renewals, and new and upgraded assets), higher employee-related costs, and its focus to improve its operating performance.

The Council has budgeted for an average rate increase (for general and commercial ratepayers) of 10.7 percent, or $225, per property for its existing ratepayers in 2023-24.[31] This was higher than anticipated in its 2022-23 LTFP projections (2.78 percent for existing rateable properties). The rates increase reflects higher short-term inflation (estimated by the Council to be 7.9 percent) along with the Council's target to meet a 1 percent structural surplus.[32] As noted earlier, the Council is one of South Australia's fastest growing council areas: in 2022-23, it had 44,407 rateable properties, and it expects this to increase to 46,306 in 2023-24 - a 4.3 percent growth in rateable properties.[33]

The Council's general rate revenue, consists of two components: one based on a fixed charge and the other on the value of the land (differential charge).

27 Where asset renewal/replacement expenditure is divided by depreciation expenses as was known as the asset sustainability ratio until 2018.
28 City of Playford, *2023-24 strategic asset management Plan*, June 2023, pp. 19
29 City of Playford, Error of fact check letter, January 2024, pp1.
30 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.
31 Based on the Council's 2023-24 annual business plan and its Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $105.615 million (in 2023 24 budgeted rates revenue) compared to unaudited 2022-23 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.
32 City of Playford, *2023-24 long-term financial plan*, June 2023, p. 16.
33 City of Playford, *2023-24 annual business plan*, June 2023, p. 60

After applying rebates, the Council will collect general fixed rate revenue equal to 50 percent of its general rates revenue. This is the maximum amount that it can collect from the fixed charge under the Council's rating structure and LG Act.[34] [35] In 2023-24, the Council's fixed charge will be $1,111.90 per rateable property, with the remaining 50 percent of general rates (after rebates) to be collected from a differential charge.[36]

The differential charge payable per property is based on a rate in the dollar that is applied to the capital value of property. The rate in the dollar may vary based on land use and the Council currently has two rate types declared, commercial and general.

The Commission notes that the average differential charge per rateable property for the general type will increase to $707 in 2023-24 (from $664 in 2022-23). As such, the average rate per rateable property for the general type will be $1,818.90, of which $1,111.90 is the fixed charge applicable to all rateable properties.

The Commission also notes that there is no differentiation in the commercial rate to reflect the type of industry (for example light versus heavy) or type of commercial property (for example office versus retail

On balance, affordability risk within the community for these further rate increases appears to be high. The current economic environment is likely to be putting more pressure on the communities' capacity to pay for further rate increases. The Council has a relatively low socio-economic index (SEIFA) economic resources ranking[37] and already has relatively high average rates (across most ratepayers). In the 2023-24 budget process, the Council's public consultation report received 23 submissions (out of a total of 48) that expressed concerns about further rate increases.[38] For these reasons, the Commission suggests that the Council:

7. Continue to monitor average rate rises to help reduce cost of living pressure on the community.

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:

- progress in reducing its net financial liabilities,
- ongoing performance against its LTFP estimates (including review of growth assumptions),
- achievement of cost savings and efficiencies and its continued reporting of these in its plans, and
- actions to address any misalignment between the capital expenditure and depreciation estimates in its LTFP and various AMPs.

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34 City of Playford, *2023-24 annual business plan*, June 2023, p. 59.

35 *Local Government Act 1999* (LG Act) s151(10).

36 City of Playford, Rating Policy, June 2023, p. 1 available at https://cdn.playford.sa.gov.au/general-downloads/Rating-Policy-23-24.pdf

37 The City of Playford area is ranked 10 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2016), where a lower score (eg, 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

38 City of Playford, *Ordinary Council Meeting Agenda -27 June 2023, Item 14.5 Draft 2023/2024 annual business plan, What We Heard Report – Public Consultation,* available at https://cdn.playford.sa.gov.au/agendas-minutes/attachments/06-27-June-2023-Attachments-for-Items-14.5-14.7.pdf

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