ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA

Advice

Local Government Advice - Attachment

City of Playford

February 2024

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A The Commission's approach

In providing the Advice for the City of Playford (**Council**), the Essential Services Commission (**Commission**) has followed the approach in the Framework and Approach – Final Report (**F&A**).[1]

The Commission has considered the Council's strategic management plan (**SMP**) documents (as in the box below), with a particular focus on its performance and outlook against three financial indicators: the operating surplus ratio, the net financial liabilities ratio and the asset renewal funding ratio.[2] Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.[3]

- 2023-24 Annual Business Plan (adopted June 2023)
- 2022-23 Annual Business Plan (adopted June 2022)
- 2023-2032 Long Term Financial Plan (adopted June 2022)
- 2024-2033 Long Term Financial Plan (adopted June 2023)
- 2023-2024 Strategic Asset Management Plan (adopted June 2023)
- 2021-22 Annual Report (adopted October 2022)

The Commission notes that most of the Council's asset base is covered by its existing strategic asset management plan, and asset valuations for those assets are carried out internally on an annual basis with an external independent review carried out every 5 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, 2022-23 LTFP forecasts, historical financial data, the number of rateable properties and staff (Full Time Equivalent (**FTE**)) numbers from 2012-13 onwards.[6] [7] All charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council's audit committee reports and other public information.

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

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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.

4 *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).

5 As required under s122(1b) of the LG Act.

6 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.

7 The Council's estimates for the 2022-23 financial year, relied on at the time of preparing this advice, were unaudited.

2023-24 based on the Reserve Bank of Australia (RBA) (Australia-wide) inflation forecasts (to the December quarter 2025), and the midpoint of the RBA target range (2.5 percent) thereafter.

Finally, in formulating this Advice, the Commission has had regard to all discussions and engagement with the Council, including the face-to-face onsite meeting at the Council chambers and the individual circumstances of the Council, consisting of:

- its location as a metropolitan fringe Council,
- its income level ($124.2 million), and
- the size of its rates base (more than 43,000 ratepayers[8]).

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

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<tr><th>Financial sustainability indicators:</th><th colspan="3">Last 10 years from 2012-13 (Actual performance)</th><th>2022-23 estimate</th><th colspan="2">Next 10 years from 2023-24 (Council forecasts)</th></tr>
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</table>

(red)	Ratio outside suggested LGA target range or higher risk
(amber)	Ratio close to suggested LGA target range or medium risk
(green)	Ratio within suggested LGA target range or lower risk

[8] Based on the estimated number of property assessments in 2021-22.

B Material plan amendments in 2023-24

The Council has made various amendments to its 2023-24 budget and forward projections, partly for inflation and partly for other revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[9] To ensure a comparable analysis of estimates between the 2022-23 and 2023-24 LTFPs, the Commission has reviewed nine overlapping years' statistics, 2023-24 to 2031-32, and identified material amendments accordingly.

Selected Financial Item	Sum of 2023-24 to 2031-32 estimates in 2022-23 LTFP ($ million)	Sum of 2023-24 to 2031-32 estimates in 2023-24 LTFP ($ million)	Change in 2023-24 estimates ($ million)	Change in 2023-24 estimates (percent)
Grants, subsidies and contributions operating income	188.7	229.4	40.7	21.6
Rates	1,011.0	1,115.5	104.5	10.3
Employee Expenses	490.6	524.7	34.1	7.0
Materials, contracts and other expenses	448.3	505.4	57.0	12.7
Depreciation, amortisation and impairment expenses	286.1	326.1	39.9	14.0
Total Expenses	1,256.9	1,394.1	137.2	10.9
Capital expenditure on renewal of assets[10]	152.9	218.4	65.5	42.9
Total Liabilities	1,001.4	1,053.3	51.8	5.2

B.1 Changes to operating performance

In its 2023-24 LTFP, the Council increased its operating income projections to 2031-32 by 11.2 percent in total compared with its 2022-23 LTFP estimates (from 2023-24). Rates income projections increased by $104.5 million (or 10.3 percent). Most of that increase is attributable to rate increases of $63.9 million and a further $8.8 million, due to growth in the number of rateable properties.[11] Grant income increased by 21.5 percent, or $40.6 million ,due to the Council receiving $12.1 million in Federal assistance grants and $10.6 million from the Roads to Recovery Program.[12]

The Council's operating expense estimates increased by $137.2 million, or 10.9 percent, in its 2023-24 LTFP estimates (compared with its 2022-23 LTFP estimates), which exceeds the impact of revised inflation forecasts but incorporates continuous improvement savings of $559,000 in 2023-24.[13] Those

9 This table shows only selected financial items to demonstrate the material amendments made by the Council in its 2023-24 estimates. It excludes various financial items and individual items do not sum to totals.
10 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).
11 The rates income estimates are based on the material amendments reasons estimates for the set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections provided by the Council to the Commission (in an Excel template).
12 See footnote 11.
13 City of Playford, *2024 – 2033 annual business plan*, June 2023, pp. 7, available at https://cdn.playford.sa.gov.au/general-downloads/City-of-Playford-ABP-23-24_2023-07-05-033559_uyyu.pdf

savings equate to 0.4 percent of the Council's total forecast expenses in 2023-24.[14] Employee costs increased by $34.1 million or 7 percent, partly due to new budgeted roles to maintain services and infrastructure standards for the forecast growing number of residents and also due to higher superannuation charges to 2025[15] and higher inflation. Materials, contracts and other expenses increased by $57 million, or 12.7 percent, due to increases in capital works of $25.9 million, electricity of $5.9 million and $21.8 million to account for higher inflation.

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

B.2 Indexation adjustments

The table below highlights the Council's 10 year CPI assumptions between the 2022-23 and 2023-24 LTFPs.

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%

Based on updated inflation assumptions in the Council's 2023-24 LTFP, an increase in cost and revenue estimates (excluding employee costs), by up to 6 percent over the 2023-24 to 2031-32 forecast period,[16] compared with the same estimates in its 2022-23 LTFP, could reflect higher inflation forecasts. The Council has adjusted its operating income and expense forecasts by amounts higher than its adjusted inflation forecasts (increases of 11.2 percent and 10.9 percent on 2022-23 estimates[17]). This suggests higher forecasts in real terms.

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 3.9 percent in the year to the June 2024 quarter and by 3.3 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).[18]

The Commission notes that the Council's stated assumptions for indexation in its 2023-24 LTFP are transparent and based on its annual review of these forecasts. The Commission considers that such annual reviews of assumptions to reflect best practice and supports the Council 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.

[14] 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

[15] The Superannuation Guarantee Levy is the amount that an employer is required to pay into a superannuation account on behalf of an employee. From 1 July 2021, the Superannuation Guarantee was legislated to rise in half per cent increments from 9.5 percent each year, until it reaches 12 percent of wages in 2025.

[16] The set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections.

[17] Based on the overlapping forecast period in both LTFPs (2022-23 to 2031-32 and 2023-24 to 2032-33).

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

B.3 Increase to capital expenditure estimates

The Council's 2023-24 LTFP indicates an increase in capital expenditure for new and upgraded assets (by $180.2 million), compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). The Council has changed its methodology and adopted the good practice of including future work for capital expenditure on new and upgraded assets (previously this was excluded from the LTFP forecast. The Commission encourages the Council to continue this practice.

B.4 Increase in total liabilities

The Council's 2023-24 LTFP indicates an increase in total liabilities of $51.8 million, or 5.2 percent, compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). The Council's current liabilities decreased by $42.1 million, or 14.1 percent, mostly due to a decrease in trade and other payables and borrowings of $39.4 million and $4.9 million (for the period from 2023-24 to 2031-32).

The Council's non-current liabilities have increased by $93.9 million, or 13.4 percent, compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). Long-term borrowings have increased by $163.6 million, or 26.4 percent, to fund increased capital works (for the period from 2023-24 to 2031-32). Other non-current liabilities of $70.2 million were for the Council's cash advance debenture facility, which was reduced to zero.

The Council's borrowings and net financial liabilities are forecast to be higher in the 2023-24 LTFP than the previous year's LTFP (for the period from 2023-24 to 2031-32). As a result, the Council's net financial liabilities ratio is forecast to achieve a higher average rate of 68.4 percent (for the period from 2023-24 to 2031-32). This compares to the 2022-23 LTFP which forecast the net financial liabilities ratio to achieve an average rate of 51 percent (for the period from 2023-24 to 2031-32).

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

C Financial sustainability

C.1 Operating performance

The Council has consistently recorded operating surpluses[19] since 2016-17, and the operating surplus ratio[20] is forecast to meet the suggested LGA target range in each year to 2032-33 (see the left chart below).

Historically, the Council has ensured that its income growth exceeds its expense growth over time (see the right chart below), thereby providing for recurring surpluses. From 2012-13 to 2021-22, operating expenses increased by an average of 3.3 percent per annum, which compares with average operating income growth of 5.3 percent and annual inflation growth of 2.0 percent over this period.[21] Accordingly, the operating surplus ratio averaged 3.5 percent, which demonstrates prudent financial management without excessive surplus levels in the context of the growth in expenses experience.

The Council's operating expense growth (from 2012-13 to 2021-22) was primarily due to an average annual increase in 'Depreciation, amortisation and impairment' of 5.2 percent and a 3.3 percent increase in employee costs.[22] The right chart over the page shows the nominal increases by expense type in specific time periods. The estimated rate of growth in those expenses projected over the next 10 years (an average of 4 percent per annum and 4.8 percent per annum respectively), combined with higher rates increases, will help the Council's operating performance remains in surplus.

Rates revenue has increased on average by 4.9 percent per annum from 2012-13 to 2021-22 (when rateable property growth averaged 1.5 percent and CPI growth averaged 2.0 percent). Over the same period, user charges' (accounting for 3 percent of total operating income) increased by an average of 6.1 percent per annum. 'Grants, subsidies and contributions' (accounting for 23 percent of total operating income) increased by an average of 7.3 percent per annum; however, the Council is forecasting grants income to remain generally constant in the 10 years to 2032-33 (accounting for 14 percent by 2032-33).

As a result of the generally constant levels in grants income that is forecast to 2032-33, the Council is projecting total income growth of 3.7 percent to 2032-33, with average annual rates growth of 4.6

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

20 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).

21 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.

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

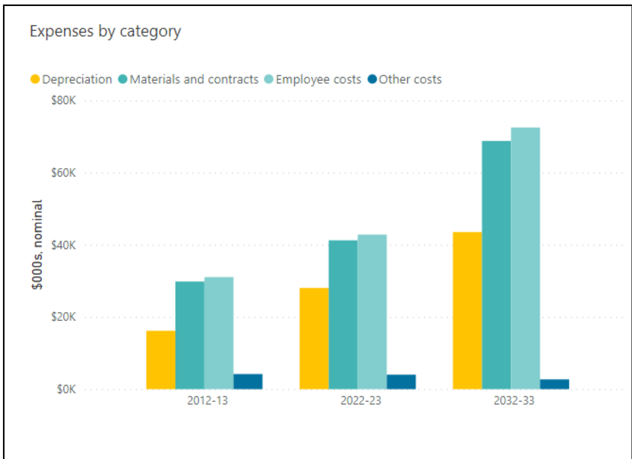
percent to 2032-33. Total income growth and average annual rates growth are forecast to increase above forecast long-term inflation.[23]

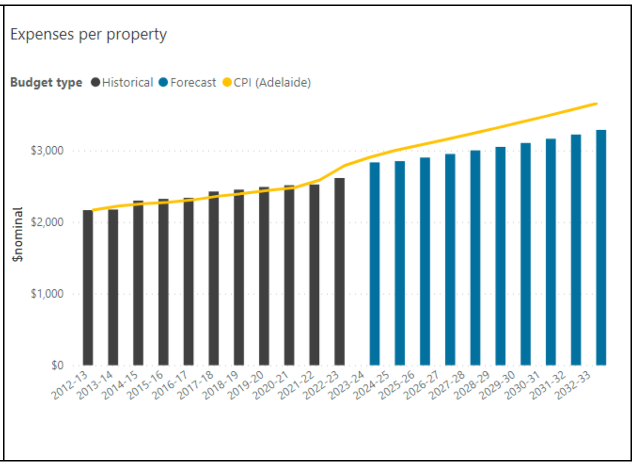
Higher forecast average expense growth of 4.0 percent per annum is also above the RBA-based forecast inflation growth[24] and higher than the Council's past performance (with average annual growth of 3.3 percent in the 10 years to 2021-22).

The Council's template data shows that employee numbers are assumed constant at current levels (453 FTEs), and its employee expenses are forecast to increase by an average of 4.8 percent per annum from 2023-24 to 2032-33. In addition, 'Materials, contracts and other' expenses and costs for depreciation are forecast to increase by an average of 4.2 percent and 4.0 percent per annum respectively, from 2022-23 to 2031-32.

The estimated rate of growth in the average total operating expense (for the 10 years to 2032-33) is slightly higher than the estimated rate of growth for total income for the same period. However, the Council is still forecasting that it will remain in surplus each year to 2032-33, with an annual average operating surplus ration of 3.3 percent - slightly below the Council's past performance (with average operating surplus ratio of 3.5 percent in the 10 years to 2021-22).

Total expenses per property (a metric which accounts for growth) are expected to increase by an average of 1.7 percent per annum over this period, which would represent a significant cost reduction in real terms (based on current inflation projections) (see the right chart below). At the same time, average total income per property is forecast to increase by 1.3 percent (nominally), below the forecast inflation.





These projections highlight the importance of the forecast growth in rateable properties in minimising the impact of rising costs on households. The reduced costs and revenue per property in real terms is reliant on the Council's assumed average growth of 2.3 percent per annum (to 2031-32) in rateable properties, which is notably higher than historical growth of 1.5 percent per annum (10 years to 2021-22).

The Commission notes that, if the Council's growth in rateable properties remained at 1.5 percent instead of its forecast 2.3 percent for the 10 years to 2032-33, then there would likely be a negative impact on the Council's operating performance in those years.

If the forecast growth in rateable properties does not occur and the Council cannot reverse the increases in costs in the short-term (for example, if contracts are locked in), this could place pressure on

23 The forecast average annual growth in the CPI from 2023-24 to 2032-33 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to December 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

24 Footnote 23 applies.

rate levels. 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.

The Commission has observed the current good practice of the Council to focus on continuous improvement resulting in savings of over $16.9 million since 2011.[25] 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.[26] However, the Commission notes that the Council has not set out any efficiency goals in the subsequent years in its LTFP.

To ensure the Council is positioned to achieve the real terms reduction in its cost base that it has forecast 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 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.

C.2 Net financial liabilities

The Council has predominantly used borrowings from the Local Government Finance Authority of South Australia (**LGFA**) to fund its capital expenditure. As a result, its net financial liabilities ratio[27] has trended between 99.8 and 143.2 percent between 2012-13 and 2022-23 respectively (see the left chart over the page). This is outside (or above) the suggested LGA target range for the indicator of between zero and 100 percent.

While this could suggest that the Council is accumulating liabilities that its operating income cannot reasonably service (see the right chart over the page), the Commission notes that it has achieved operating surpluses in seven out of the last 10 years to 2021-22. In addition, as one of the fastest growing communities in South Australia, the Council is experiencing a period of significant development. By utilising debt within the Council's own target range of 160 percent, the Council is spreading the cost of acquiring the necessary assets, thereby more equitably reducing intergenerational risk. The Commission notes that there were minimal community concerns, with only two out of the 48 submissions received mentioning the need to reduce debt in the 2023-24 budget process.[28]

The Commission also notes the Council's strategy of reducing 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 progressive repayment of total borrowings

25 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
26 City of Playford Council, *2024 – 2033 Long Term Financial Plan*, June 2023, p. 17.
27 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).
28 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

(of $33.1 million over the next ten years to 2032-33) via the sale of assets[29] and operating income growth. For this reason, the Commission supports the Council's strategy to:

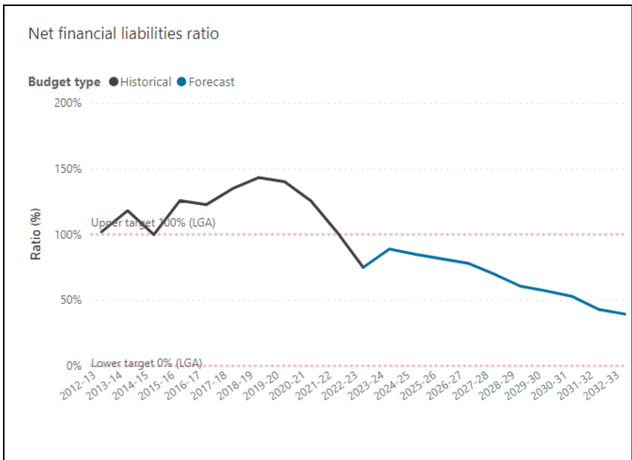
5. **Reduce** its level of net financial liabilities as forecast in its latest long-term financial plan and continue to focus on asset sales or disposals as one of its strategies to help reduce debt.

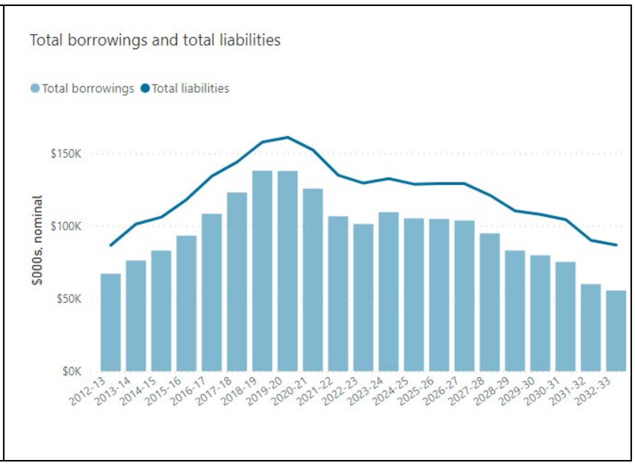
The Council only includes proposed asset sales when there is a high level of certainty associated with the disposal.[30] As a result it is not clear what level of borrowing can be reduced via asset sales in the 10 years to 2032-33 relative to using operating surpluses to repay borrowings. If the Council 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, those projections (the progressive repayment of borrowings of $33.1 million to 2032-33) also highlight the importance of the forecast growth in rateable properties and of 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 in order to achieve operating surpluses that can be used to repay borrowings.

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 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 its long-term financial plan.





C.3 Asset renewals expenditure

Between 2012-13 and 2021-22, the Council averaged 86 percent on its asset renewal funding ratio[31] (under the 'IAMP-based' approach),[32] signifying a slight underspend on the renewal and rehabilitation needs of its asset stock over this period (see left chart over the page). The Council's spending on renewal and rehabilitation of assets averaged $16.3 million each year (over this period). From 2023-24

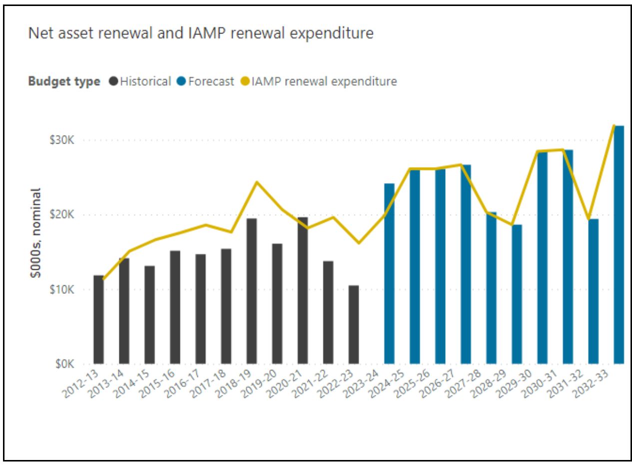
29 City of Playford, *2023-24 2032 Long Term Financial Plan*, June 2023, pp. 18.

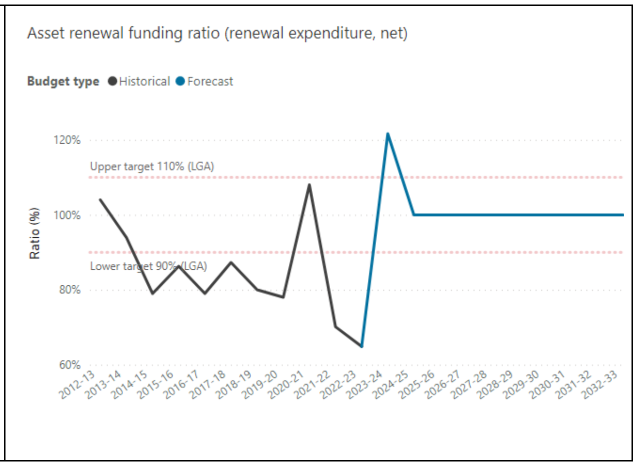
30 City of Playford, *2023-24 2032 Long Term Financial Plan*, June 2023, pp. 18.

31 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).

32 The quoted averages for the ratio are based on 'net asset renewal expenditure' (after the sale of replaced assets) rather than 'gross asset renewal expenditure'.

to 2032-33, the ratio is forecast to be within the appropriate range, at an average of 102 percent (see right chart below). Average annual spending on renewal or rehabilitation of assets is projected to increase to $25 million (in nominal terms).

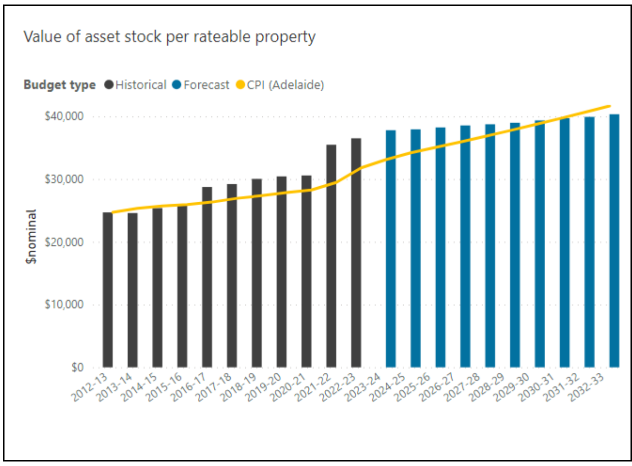


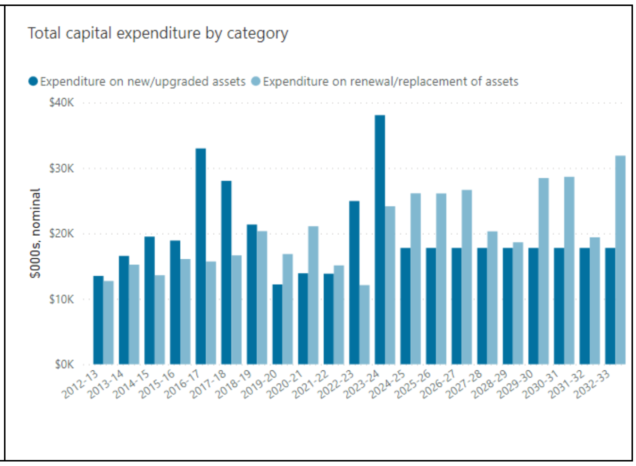


As one of the fastest growing communities in South Australia, the Council is experiencing a period of significant development. During 2012-13 to 2021-22, the Council spent more on new and upgraded assets than the renewal and rehabilitation of its existing stock, averaging $19 million per annum on new or upgraded assets, compared with $16.3 million per annum on the renewal of its asset base (see right chart above). The Council's accumulation of infrastructure reflects the demands of property growth (of 1.5 percent on average per annum over this period). As a result, the Council has grown its asset base over the past 10 years.

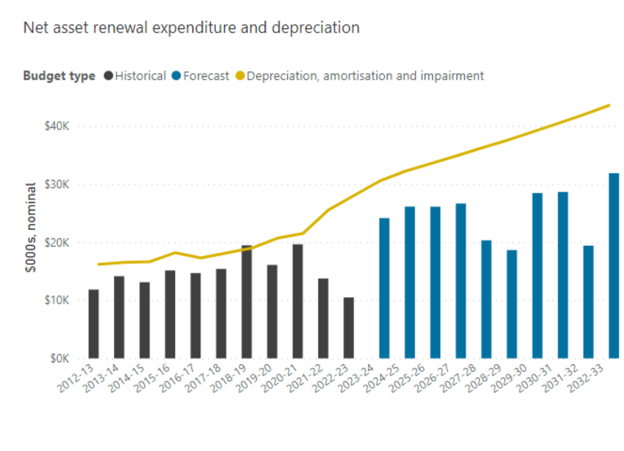
The expenditure on new and upgraded assets includes a portion of grant funding for certain projects. The growth in its asset base reflects a combination of capital expenditure and asset accumulation by the Council (including those assets provided by developers), as well as asset revaluations over this period. This has led to an average annual increase in the value of the asset stock per property of 4.1 percent, or $1,198, each year over the 10 years to 2021-22 (see left chart below). By implication, this indicates that the Council's asset stock has increased in real terms (or the increase is higher than historical inflation).

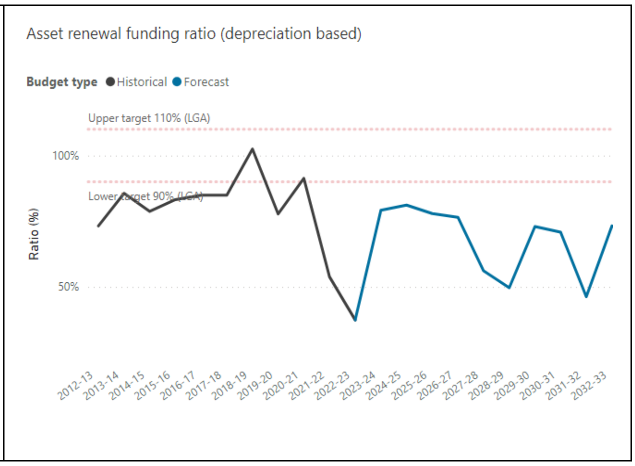
The Council's forward projections indicate that the value of the assets per property will increase at a much lower rate to 2032-33, by an average of 0.7 percent per annum: lower than the RBA-based forecast rate of inflation (2.6 percent per annum). These projections, as they stand, would contribute to the Council's sustainability into the future and reflect a period of asset and service consolidation.





When the asset renewal funding ratio is instead calculated by the depreciation-based method,[33] it is forecast to average 68 percent over the forecast period (2023-24 to 2032-33) (see right chart below). 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) (see left chart below).[34] 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.[35]





According to its Strategic Asset Management Plan (**SAMP**) the Council has individual asset management plans (**AMP**) for the following asset classes: transport, streetscape, stormwater, parks and sports fields, buildings, water delivery, fleet and minor plant and technology office. The AMPs provide a breakdown of the assets within each respective asset class and the proposed capital works are fed into the Council's SAMP.

The Council's SAMP is reviewed annually and contains current asset portfolio and condition data, up-to-date improvement initiatives and any current risks and mitigations. [36] The SAMP also includes 10 years of asset renewal projections, in alignment with Council's long term financial plan.

The Commission notes that the 10-year forward renewal plan is a rolling indicator of future renewal investment requirements, based on the expected remaining life of the Council's assets and each asset class's renewal strategy.

In addition, the 10-year forward new capital projects plan uses the expected new capital projects forecast and multi-year new capital projects already commenced in prior years for year one and a historic average thereafter to forecast its remaining new capital expenditure requirements.[37]

The Commission's review of the SAMP has found that, on balance, the Council's strategic planning processes aligns with good practice for a Council of its size and complexity.

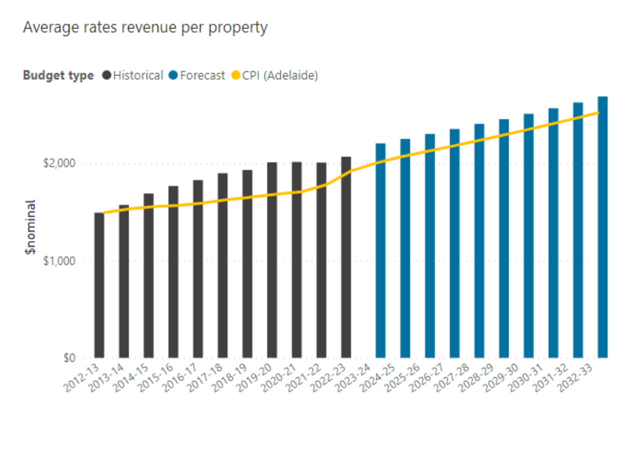
33 Where asset renewal/replacement expenditure is divided by depreciation expenses.
34 City of Playford, *2023-24 Strategic Asset Management Plan*, June 2023, pp. 19
35 City of Playford, Error of fact check letter, January 2024, pp1.
36 City of Playford, *2023-24 Strategic Asset Management Plan*, June 2023, pp. 11.
37 City of Playford, *2023-24 Strategic Asset Management Plan*, June 2023, pp. 37.

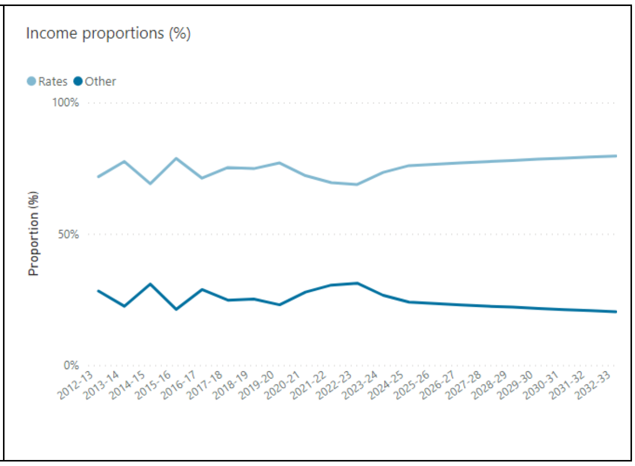
D Current and projected rate levels

D.1 Historical rates growth

The Council's rate revenue per property growth has averaged 3.4 percent, or $52, per annum for each property over the past 10 years,[38] reaching an estimated $2,005 per property in 2021-22 (see the left chart below). 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).[39] 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, as well as its focus on improving operating performance.

The Council remains reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 74 percent of budgeted operating income in 2022-23, compared with 72 percent of income in 2012-13.





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). 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 as per the Council’s rating structure and LG Act.[40] [41] 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.[42]

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).

38 From 2012-13 to 2021-22.
39 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.
40 City of Playford, *2023-24 annual business plan*, June 2023, page. 59.
41 *Local Government Act 1999* (LG Act) s151(10).
42 City of Playford, Rating Policy, June 2023, page 1 available at https://cdn.playford.sa.gov.au/general-downloads/Rating-Policy-23-24.pdf

D.2 Proposed 2023-24 rate increases

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.[43] This is higher than anticipated in its 2022-23 LTFP projections (2.78 percent for existing rateable properties). The 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.[44] 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 the Council expects this to increase to 46,306 in 2023-24, representing a 4.3 percent growth in rateable properties.[45]

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) or the size of the various commercial ratepayers.

On a proportional revenue basis, commercial ratepayers account for 21 percent and general ratepayers 79 percent of total general rate revenue in 2023-24.

Other than 'general rates' income, the Council also collects the Regional Landscape Levy, on behalf of Green Adelaide, and is expected to collect $1.2 million (net of rebates) in 2023-24.[46]

D.3 Projected further rate increases

Between 2023-24 and 2032-33 the average rate across all categories is forecast to increase from $2,202 to $2,684,[47] a cumulative increase of $482 per property. This equates to a 2.2 percent average annual increase (between 2023-24 and 2032-33), below to the RBA-based forecast average inflation of 2.6 percent per annum. [48]

D.4 Affordability risk

The two rate types declared by the Council will have increases on 2022-23 levels. General ratepayers are to pay an increase of $111 per property (6.6 percent) and commercial ratepayers are to pay an increase of $1,356 per property (4.2 percent). On balance, the affordability risk for the community in respect of these further increases appears to be high. The current economic environment is putting more pressure on many communities' capacity to pay for further rate increases, including those of the Council. It has a relatively low socio-economic index (SEIFA) economic resources ranking[49] 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.[50] For these reasons, the Commission suggests that the Council:

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43 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.

44 City of Playford, *2023-24 long-term financial plan*, June 2023, p. 16.

45 City of Playford, *2023-24 annual business plan*, June 2023, p. 60

46 City of Playford, *2023-24 annual business plan*, June 2023, p. 58

47 This includes rates growth of 2.3 percent expected each year.

48 The forecast average annual growth in the CPI from 2023-24 to 2032-33 is estimated to be 2.6 percent based on Reserve Bank of Australia (RBA) forecasts for the CPI (Australia wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

49 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.

50 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

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

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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