Advice

Local Government Advice - Attachment

The Corporation of the City of Whyalla

February 2024

Enquiries concerning this advice should be addressed to:

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: advice@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

Table of contents

A The Commission's approach 2
B Material plan amendments in 2023-24 4
B.1 General observations on strategic management plans 4
B.2 Changes to operating performance 5
B.3 Changes to capital expenditure estimates 5
C Financial sustainability 7
C.1 Operating performance 7
C.1.1 Whyalla airport 7
C.1.2 Council operations including the airport 9
C.2 Net financial liabilities 11
C.3 Asset renewals expenditure 13
D Current and projected rate levels 17
D.1 Historical rates growth 17
D.2 Proposed 2023-24 rate increases 18
D.3 Projected further rate increases 19
D.4 Affordability risk 20

A The Commission's approach

In providing the Advice for the Corporation of the City of Whyalla (**Council** or **City of Whyalla**), 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]

- Budget Review 2023-24 Q1 incorporating Financial Results 2022-23 (October 2023)
- Annual Business Plan 2023-24, including LTFP projections in Appendix B (adopted July 2023)
- CEO Report on Financial Sustainability (October 2022)
- Annual Business Plan 2022-23, including LTFP projections in Appendix B (adopted June 2022)
- Long Term Financial Plan 2021 – 2030 (adopted March 2020)
- Asset Management Strategy 2021 – 2030 (adopted March 2020)
- Strategic Plan 2021 – 2030 (adopted March 2020)

The Commission notes that most of the Council's infrastructure asset base is covered by its existing asset management strategy, and asset valuations and condition audits for those assets have been carried out 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, 2022-23 LTFP forecasts, and 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 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

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 considered 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.

'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (**CPI**) line shows the cumulative growth in the CPI (Adelaide) series from 2012-13, and then projections of this series from 2023-24 based on the Reserve Bank of Australia (**RBA**) (Australia-wide) inflation forecasts (to the December quarter 2025), and the midpoint of the RBA target range (2.5 percent) thereafter.

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

- its location as an urban regional Council,
- its income level ($39.3 million), and
- the size of its rates base (around 11,500 ratepayers[8]).

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

<table>
<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>
<tr><td>Operating surplus ratio (target 0-10%)</td><td colspan="3">Volatility in ratio; Large deficits reported in FY14 & FY21; Generally breakeven, but sustainability risks emerging</td><td>Deficit mainly due to Airport</td><td>Deficits projected ---------------></td><td>Surpluses emerging</td></tr>
<tr><td>Net financial liabilities ratio (target 0-100%)</td><td colspan="4">On average ratio met historically -----------------------------></td><td colspan="2">Higher borrowings over the short-term, however ratio projected within target from 2023-24 --></td></tr>
<tr><td>Asset renewal funding ratio (target 90-110%)</td><td>Volatility in ratio</td><td>Ratio below the suggested target range</td><td colspan="2">Volatility in ratio; Below the suggested range (FY21-FY23)</td><td colspan="2">Higher renewal works spending from FY24 & FY25; Ratio within target range for remaining projections ----------------------></td></tr>
<tr><td>Identified Risks:</td><td colspan="6"></td></tr>
<tr><td>Cost control risk</td><td colspan="4">Operating expenses per property average growth of 5.1% pa to 2022-23 (CPI 2.6%) ---------------------------></td><td colspan="2">Operating expenses per property average growth of 2.6% in line with forecast CPI ----- --></td></tr>
<tr><td>Affordability risk</td><td colspan="4">High rates revenue per property average growth of 4.8% pa to 2022-23 (CPI 2.6%) --------------------------------></td><td colspan="2">Projected rate revenue per property average growth of 4.6% above forecast CPI (CPI 2.6%) ---></td></tr>
</table>

- 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

[8] Based on the estimated number of property assessments in 2022-23.

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 LTFP projections (included in the Council's Annual Business Plans (ABPs)), the Commission has reviewed the nine overlapping years' statistics: 2023-24 to 2031-32 and identified material amendments accordingly.[10]

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)
Rates income	260.9	274.3	13.5	5
User charges	42.3	60.4	18.1	43
Grants, subsidies and contributions	73.8	55.7	-18.0	-24
Total operating income	392.5	407.1	14.6	4
Total operating expenses	402.2	413.4	11.2	3
Capital expenditure on renewal of assets[11]	59.3	61.4	2.1	4
Capital expenditure on new and upgraded assets[12]	23.4	25.2	1.8	8

B.1 General observations on strategic management plans

The Council updates its LTFP projections each time a budget is amended, and these updated 10-year projections are adopted by the Council twice a year – during the annual budget planning process and then again in October for the audited (or actual) financial information. Its main LTFP document was last adopted in March 2020 and is comprehensively updated every 4 years.[13] This contrast with some practices of other councils which republishes its LTFP each year.[14]

Since the Council adopted its LTFP several of its long-term planning assumptions would have changed, including macro-economic variables such as CPI, asset indexation, interest rates, and commodity prices (among other things).[15] It is noted the Council regularly revisits its LTFP projections (as noted above), however it is not always clear how its assumptions have changed over its forecast period; the implication being that its ratepayers (or stakeholders) may not be fully informed on these matters. More recently in its 2023-24 LTFP (included in its ABP) the Council has commenced disclosing its key long-term planning assumptions, and it is encouraged to continue this practice. It is also positive that it

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 Council's updated LTFP projections are contained in its Annual Business Plans (ABPs).
11 The capital expenditure estimates are based on the 2023-24 ABP estimates provided by the Council to the Commission (in an Excel template).
12 Footnote 10 applies.
13 City of Whyalla, *Long Term Financial Plan 2021 – 2030*, March 2020
14 Under s.122(4)(a)(i) of the LG Act the Council must undertake a review of its long-term financial plan on an annual basis.
15 Including numerous COVID and post-COVID impacts.

undertakes sensitivity and scenario analysis in its LTFP to understand the variables which impact on its operating performance.

Regarding the Council's IAMP, it was last comprehensively reviewed in 2019-20 and is preparing to undertake this review again within the next 12 months. It is noted that the Council incorporates annual updates to its asset valuations, but also undertakes a detailed valuation process and asset condition assessment for each asset class every 5 years.[16] In the last 12 months, the Council noted it has seen an overall increase in asset values of 8 percent at 30 June 2022 which was approximately 3.5 percent higher than it had anticipated in financial projections.

The Commission considers that it would be appropriate for it to:

1. Improve the transparency of changes to its key planning assumptions in its long-term financial plan and annual business plan each year.
2. Complete its planned comprehensive review of its long-term financial plan and infrastructure and asset management plan, as it is required to do under the LG Act; and consider publishing its long-term financial plan each year.

B.2 Changes to operating performance

The Council has forecast in its 2023-24 LTFP (included in its ABP) an increase in total operating income of $54 million (or 3.7 percent) across the nine-year comparative period to 2031-32 compared to the 2022-23 LTFP (included in its ABP) (as shown in the table above). This reflects a range of changes to its income forecasts, notably:

- 5 percent increase in rates income,
- 43 percent increase in user charges, and
- 24 percent decrease in grants, subsides and contributions.

The change in rates income over the 2023-24 to 2031-32 period predominantly reflects the change in CPI between the Council's 2022-23 adopted budget (estimated by the Council at 2.3 percent for 2023-24), and its 2023-24 adopted budget where actual CPI of 7.9 percent was applied.[17] The Council also noted that its projected CPI for the following three years (from 2024-25 to 2026-27) increased by a cumulative total of 1 percent, further impacting on its forecasts. The increase in user charges is offset by the decrease in grants, subsidies and contributions reflecting the shift in funding assumptions for security screening at the Whyalla airport (airport), which will be levied on airlines using the airport.

Operating expenses have also increased by changes in CPI (as noted above), however there have been some offsetting factors advised by the Council. For example, in the 2023-24 LTFP projections the Council has resolved to reduce the size of the management team by three FTEs from 2025-26 if the growth expected from the Hydrogen industry doesn't eventuate. 'Materials, contracts and other' expenses and depreciation charges have changed by 4.2 percent and 3.9 percent respectively. In part, this reflects the higher anticipated costs associated with its electricity contract renewal, and higher than anticipated asset indexation after the 2022-23 LTFP projections was adopted in June 2022. Overall, the Council continues to forecast operating deficits across most of its forecasts. Financial sustainability is discussed in section C.

B.3 Changes to capital expenditure estimates

The Council's 2023-24 LTFP projections (included in its ABP) indicates an increase in capital expenditure for asset renewals (by $2.1 million or 4 percent) and for new and upgraded assets (by $1.8 million or 8 percent), compared to the previous year's LTFP projections (for the period from 2023-24 to

[16] The Council's statement on material amendments to its IAMP provided to the Commission in September 2023.
[17] CPI Adelaide (All groups) increased by 7.9 percent in the year to March 2023 quarter. Available at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023.

2031-32). The Council advises that the spend on both renewals, and new and upgraded assets is proposed to be higher in 2023-24 and 2024-25 than previously budgeted due to:

- some approved projects being deferred (in line with updated project schedules), driven by difficulties in attracting interest from contractors and associated price pressures, and
- general increase in costs of capital works, some of which have been retimed or include scope adjustments following higher tendered estimates.[18]

The Council's transport assets (mainly road, kerbs, and footpaths), and building assets represent its largest asset classes, and are a major focus of its renewal investment and operating and maintenance budgets.[19] The Council's capital expenditure outlook is discussed further (in the context of its asset renewal funding) in section C.3.

[18] The Council has resolved to reduce new and upgraded asset expenditure by 25 percent from 2025-26, recognising that the Council may need to cut back in the medium to longer-term if development in the Hydrogen industry does not occur as expected.

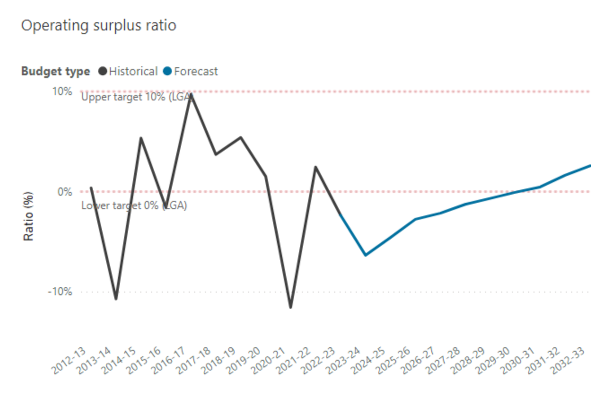
[19] City of Whyalla, *Asset Management Strategy 2021 – 2030*, March 2020, pp. 11, 35 to 36.

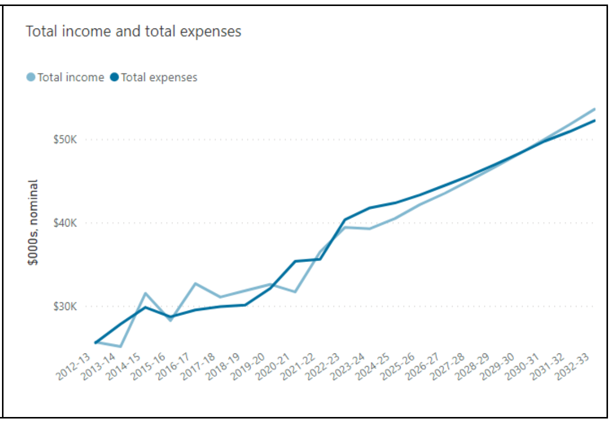
C Financial sustainability

C.1 Operating performance

The Council has experienced some volatility in its operating performance from 2012-13 to 2022-23, and in 2020-21 and 2013-14 it had reported large operating deficits of $3.7 million and $2.7 million respectively.[20] Over the 11-year period (from 2012-13 to 2022-23, inclusive) the Council accumulated a small operating surplus of $1.5 million, generally reflecting a breakeven performance over this period. Its operating surplus ratio[21] is not forecast to be positive again (with a surplus) until 2030-31 (then 0.5 percent) (see the left chart below). Also, from 2023-24 to 2032-33, the Council is forecasting accumulating a loss of nearly $5 million.

Historical operating income growth averaged 4.4 percent per annum from 2012-13 to 2022-23, while the rate of operating expense growth averaged 4.7 percent per annum,[22] both increasing at almost double the rate of historical CPI. Overall, the Council has generally achieved a breakeven operating position over the long-term (based on an average of operating balances over this period). This somewhat contrasts with the last five years (from 2018-19 to 2022-23) which shows the Council had accumulated (in total) a $1.5 million operating deficit, which appears due to the airport operations with an accumulated operating deficit of $2.8 million over the same period.[23] If over this period airport operations are excluded, the Council registers a cumulative $1.3 million surplus. Given the significance of the airport to the Council's financial position and its current approach to sustainability risk, this is considered in the section below, prior to considering the Council's overall business operations.





C.1.1 Whyalla airport

The Commission notes that prior to the COVID-19 pandemic (**COVID**), the operating income for airport services was lower than the operating costs, with COVID temporarily exacerbating this due to travel restrictions. A more permanent impact has been the Council's recent upgrades and expansion of the

20 The Council's reported operating deficit in 2020-21 (of $3.7 million) is driven by, in part, by a $0.6 million operating deficit for the Airport, $1.2 million irrigation system impairment, higher depreciation charges of $0.5 million associated with the revaluation of land improvements, and buildings and other structures as of 30 June 2020, and 'employee costs' increasing by 9 percent (or $0.9 million). See City of Whyalla, *2020-21 Annual Report*, pp. 116 and 122, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0017/1067102/2020-21-Annual-Report-Document_FINAL-FOR-WEB.pdf.

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

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

23 Based on the Commission's analysis of the Council's ABPs over the period 2018-19 to 2022-23, where historical financial information is available on the Whyalla airport.

airport infrastructure. These reflect both mandatory legislative requirements and strategic choices made by the council.

The main projects undertaken relate to a $5.9 million for the airport terminal upgrade (including security screening) reflecting mandatory legislative requirements. This has been funded via a Federal Government grant of $4.2 million and the council contributing $1.7 million. The Commission understands that the council is not able to recoup the costs funded by the grant via airport charges, due to the terms of the agreement. The Council has also chosen to expand and renew the airport's runway infrastructure. This has been funded through a $4.5 million council contribution and a $2.4 million Federal Government grant. It is not clear whether the council can recoup this grant through airport charges or not.

Based upon the Commission's understanding, the Council appears to be absorbing virtually the entire depreciation charge, rather than just that proportion associated with the grant agreements stipulating this. It is not clear what proportion of the depreciation charge relates to grants agreements including this stipulation. If it represents a high proportion, the Commission considers it virtually impossible for the airport to become self-sustaining through cost-reflective charging.

The Commission also notes that the operating deficits for the airport were greater than the depreciation over the last three years, meaning that the Council was required to further fund these deficits through a combination of increased borrowings and existing cash balances. This is an unsustainable position for the Council, noting that it increased borrowings (associated with the airport) totalling $7.8 million over the five-year period to 2022-23.

The airport's operating expenses (excluding depreciation) over the past five years increased at an average rate of 39 percent per annum (over the period from 2018-19 to 2022-23), while the average increase in the airport's operating revenues was 29 percent per annum. Overall, the airport represents a notable component of the Council's operations currently accounting for 6.4 percent of total operating revenues, and 9.5 percent of total operating expenses (excluding depreciation) in 2022 23.

The airport continues to be a significant part of the Council's business operations over the period of the LTFP. The Council's airport forecasts from 2023-24 to 2032-33, shows that it will continue to absorb operating deficits (averaging $0.8 million per annum, in nominal terms).[24] Further the airport's cash flow deficits (totalling $0.6 million over the same period) is forecast to continue to be financed from existing cash balances and new borrowings.

This suggests that some cost constraint and review of the airport's funding model (and charging structure) is needed to ensure appropriate recovery of the airport's costs, and in turn reduce the burden on the Council's budgets and ratepayers.[25] The Commission acknowledges that a proportion of the depreciation charge (or cost recovery funded by the grant) may be constrained, depending on the precise nature of any relevant grant funding agreements. However, it also notes that the Council choosing to enter such agreements can increase longer-term sustainability risk. It is suggested that the Council closely reviews any funding agreements to ensure it is correctly interpreting and applying its terms and conditions.

The Commission also observes the expansion of Whyalla airport represents part of the Council's intention to extend its services and facilities in anticipation of an increasing population, resulting from various Federal and State Government projects that may take place within the region. Based upon the Council's 2022-23 Annual Report,[26] these include a $593 million hydrogen power station, electrolyser and storage facility, a $13 billion Port Bonython Hydrogen Hub, a $1 billion Northern Water Supply project, and expected benefits from the $2 billion Hydrogen HeadStart Program. Within this context, the Council's Annual Report states:

24 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 62.

25 The Council states that the airport has undergone extensive upgrades, and the long-term funding model will be phased in over a number of years to avoid a large one-off increase. See City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 40.

26 See City of Whyalla, *2022-23 Annual Report*, p. 6, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0039/1519689/Annual-Report-2023_FINAL_small.pdf.

"To help attract and cater for the increased workforce required for these projects, we have already implemented a number of improvements, including a $12m airport upgrade; construction of a brand new, state-of-the art $100m Whyalla Secondary College; and improved our lifestyle attraction with a $9m circular jetty – the only one of its kind in the Southern Hemisphere. There is still more to come, including a staged, $20m family-friendly foreshore redevelopment, incorporating a $4m investment in a new Surf Life Saving Club and café – as well as several State Government-led housing and liveability projects."

The Commission considers that this level of expansion represents a high sustainability risk for the Council. It is unlikely that the Council can sustainably manage this over the longer term without significant population growth and funding support. In this respect, the Commission notes that the Council's LTFP does not forecast any increase in rateable properties over its entire 10-year period, nor is it clear the overall level of financial support the Council has taken up which may have constraints on its cost recovery.

C.1.2 Council operations including the airport

The gradual longer-term improvement to the Council's overall projected operating surplus is attributed to budgeting for continued rate revenue increases (similar to historical rate revenue increases), and slower expenses growth than it has achieved in the past, on average (see the previous chart on the right).

Rates revenue has increased on average by 4.3 percent per annum from 2012-13 to 2022-23 (when rateable property growth was negligible and CPI growth averaged 2.6 percent). Over the same period 'grants, subsidies and contributions' (accounting for 19 percent of total operating income) increased by an average of 7.7 percent per annum, and additionally the Council has also received funding specifically for new and upgraded assets (recognised below the operating surplus line).[27] The Commission recognises that operating grants can be 'lumpy' from year to year,[28] and has not adjusted for this timing differences in the analysis.

The Council's operating expense growth (from 2012-13 to 2022-23) was primarily due to an average annual increase of 5.1 percent in 'employee' expenses and 4.9 percent in 'materials, contracts and other' expenses (see the changes by expense type in specific time periods in the left chart over the page). This reflects an increase of 13 FTEs, and in part is due to the Council building organisational capacity as part of its 2021 restructure.[29]

It is noted that a significant proportion of the Council's historical operating expense growth has come from a higher year-on-year increases across its cost structure reported in 2022-23, notably the annual increase in 'employee costs', 'materials, contracts and other' expenses, and depreciation charges were 12 percent, 14 percent, and 10 percent respectively. The Council's budgets and forecasts reflects this higher emerging cost base.

Looking forward, the Council is projecting average annual rates revenue growth of 4.6 percent to 2032-33, which is approximately 2.0 percent higher than the current long-term forecasts of inflation,[30] and represents a material real increase in rates revenue (noting the Council currently does not build in rateable property growth in its plans). These increases are generally driven by the Council's forecast rate increases of CPI plus 1.9 percent per annum, which it states is for sustainability and funding purposes,[31] however this will not provide a forecast breakeven operating result until the end of the decade. The

27 The Commission notes that the Council's General Purpose Grant together with the Local Roads Grant (a component of the Council's 'grants, subsidies and contributions' income) has reduced in real terms by one percent per annum over the period 2012-13 to 2022-23 (based on the further information provided by the Council).

28 Due to the timing of different grants and sometimes advance grant payments (as for the 2023-24 grant allocation, which was received and accounted for in 2022-23).

29 Based on discussions with the Council and further information provided to the Commission on 28 November 2023.

30 The forecast average annual growth in the CPI from 2022-23 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.

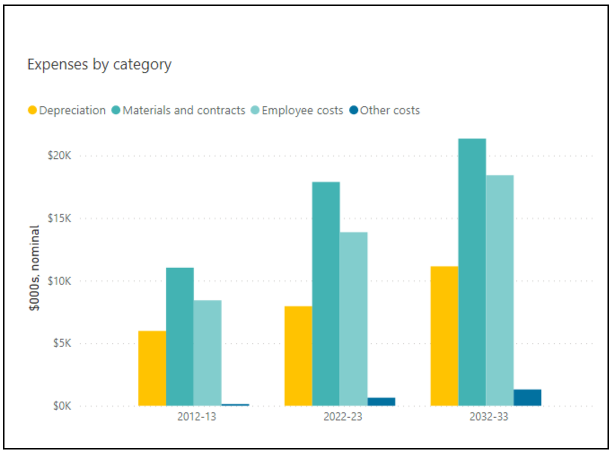
31 City of Whyalla, *Long Term Financial Plan 2021-2030,* March 2020, p. 2.

Commission notes that, in part, sustainability relates to cross-subsidisation of the airport via general rates, notwithstanding forecast user charges are expected to more than double by 2032-33 from 2022-23, recognising the change in funding for airport screening charges.[32]

Lower forecast average expense growth of 2.6 percent per annum is in line with the RBA-based forecast inflation growth,[33] represents a material change from the Council's past performance (with average annual growth of 4.7 percent in the 10 years to 2022-23); however these costs are projected to increase on a higher cost base. The Council states it already builds-in a reasonable level of savings into its budgets and increasing these allocations would not be achievable without scaling back services.[34]

Its LTFP assumption is to achieve $100,000 in ongoing savings,[35] and the Commission understands (from further information provided by the Council) that some reductions have been factored in depreciation expenses. Apart from this, it is not clear to the Commission what savings have been achieved historically, or what cost challenges it is placing on its budgets. Further these have not generally resulted lowering operating costs or lowering increases in rates.

Expenses per property (a metric which also accounts for growth) is also expected to increase by an average of 2.6 percent per annum over this period (as no rateable property growth is currently assumed). As discussed above, while operating expense growth is in line with the long-term increase in CPI, the Council is forecasting to have a much higher cost base going forward (see the right chart below).



The Council's template data shows that employee numbers are assumed to reduce by approximately 3 FTEs from its current 2023-24 budgeted levels (of 136 FTEs), reflecting its intention to reduce management positions from 2025-26 if its financial position doesn't improve prior to that time.[36] While there has been limited growth in the Council's region (from a rateable property perspective) it is not clear why the Council needed to increase its staffing numbers in the absence of growth in the region. There also may be scope for the Council to consider further rolling back FTEs to provide meaningful operating savings.

The Commission notes that unless the Council puts in place measures to constrain its costs and generally mitigate its financial sustainability risks (as it recognises in its plans),[37] significant burden will be placed on ratepayers through higher rate contributions. In general, the Council may wish to consider the following matters to improve its financial sustainability:

---

32 The Council advises that funding for security screening costs has been received from grants for the last 2 years, however this funding is coming to an end, and in lieu of this, security screening charges will be levied direct to the airline.
33 Footnote 32 applies.
34 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 2.
35 Ibid, p. 22.
36 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 36.
37 Ibid. pp. 23-24.

- focusing on cost control and reduction particularly in its 'employee' costs and 'materials, contracts and other' expenses, which have increased at almost twice the rate of historical CPI growth,
- consider the merits of seeking further State or Federal government funding, related to the proposed investment its community, tied to Federal and State Government industry investments in the region, but only to the extent that at least a reasonable proportion of these capital costs can be recouped through time, to ensure sustainability of the infrastructure,
- removing any potential for cross subsidies by its ratepayers, through seeking more cost reflective charging structures (and appropriate funding levels); and expanding user pays charging by separating out services (and associated costs) from general rates, and
- consider options for divesting some of its assets or services that do not provide benefit to the greater community, which can reduce operating and maintenance costs, depreciation charges and increase cash available to the Council.[38]

Against this background, it is noted that the Council states it is committed to developing a Service Review Framework focused on identifying community need, achieving efficiency and effectiveness with the aim to achieve ongoing savings that can be passed onto the ratepayer, or redirected to areas identified as requiring higher need.[39] This is a good initiative and the Council should look to complete this review as a priority and consider the above points. Further, in reviewing its plans, ratepayers could benefit from more transparency or reporting around the Council's budget to allow them to review the financial sustainability of the airport compared to the Council's other services.[40]

The Commission has found that it would be appropriate for the Council to:

3. **Complete** its planned Service Review Framework and report its actual and projected cost savings in its annual business plan and long-term financial plan, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.
4. **Implement** its planned long-term funding model for the airport to ensure appropriate recovery of the airport's costs, to reduce the burden on the Council's budgets and the potential for cross-subsidies by ratepayers.
5. **Improve** the transparency of the Council's budgeting and forecasts to remove any budget distortion associated with the airport.

C.2 Net financial liabilities

With the Council's frequent operating deficits over the last 11 years, its net cash flows after operating and investing (that is, capital-related) activities averaged negative $1.0 million annually between 2012-13 and 2022-23.[41] These are the cash flows generally available for debt repayments (and are after interest payments) and are different to the chart over the page which shows cash held by the Council at the end of each year, including financing activities, which has averaged $1.9 million.

[38] This is particularly important if economic growth opportunities, such as the hydrogen hub investment does not provide the expected upside to the Council's financial situation. Based on discussions with the Council in November 2023, there have been some positive events for the City of Whyalla, notably the State Government has appointed the proponent to deliver the Hydrogen Jobs Plan; and that Council has been asked to return care and control of a number of Crown Land parcels to allow for housing projects to be progressed.

[39] City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 26.

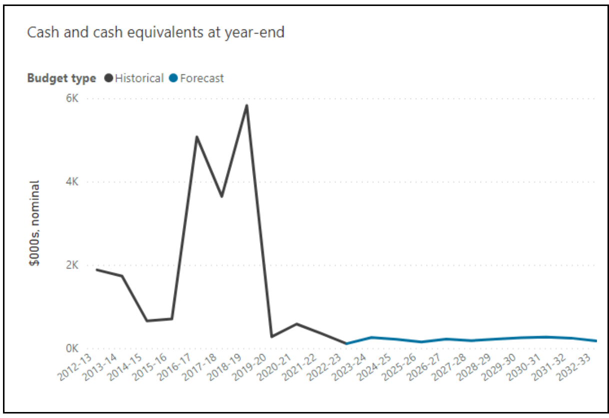
[40] This assumes the Council has an appropriate cost allocation methodology between the airport and other council services (so that all airport costs can be reasonably identified).

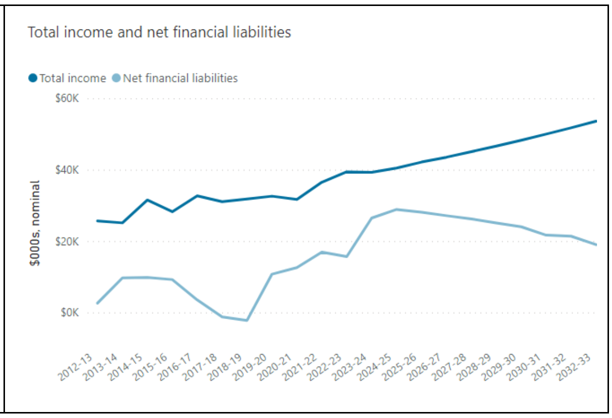
[41] This figure provides a general indication on whether the Council has a capacity to repay borrowings or has an emerging cash flow sustainability issue. A negative or relatively small figure should be viewed in the context of the Council's revenue base and existing cash balances, as it may be able to service these cash flow deficits over a period.

The Council has predominantly used loan borrowings with the Local Government Finance Authority of South Australia (LGFA) to fund its capital expenditure,[42] as well as cash flow deficits. In its 2023-24 ABP, the Council had forecast a net increase in borrowings of $5.6 million, which appears required to increase its liquidity and continue to fund its operating and infrastructure spending priorities. It is noted that the Council's reported cash balances were at the lowest level in the last 11 years, with $0.1 million on 30 June 2023 (this follows a $4.8 million net repayment in borrowings), suggesting the Council is also reliant on various borrowing facilities.[43]

The Council's net financial liabilities ratio has trended between negative 6.9 percent and 46.4 percent between 2012-13 and 2022-23 (see the bottom left chart over the page). This is within (or below) the suggested LGA target range for this indicator of between zero and 100 percent (averaging 24.7 percent over this period). When viewed in isolation, the ratio is at a level which demonstrates the Council has the financial capacity where its operating income can cover its net financial liabilities (see the top right chart over the page).[44] However, when viewed in the context of the Council's historical and forecast operating deficits, including any upward revisions to asset valuation and depreciation,[45] this could suggest the Council is at risk of being unsustainable (as councils have a continuing obligation to fund asset renewals and debt servicing costs).

The Council has estimated that the ratio will peak at 71.3 percent in 2024-25, with total borrowings projected of $29.0 million ($8.3 million related to the airport).[46] Based on the projections in its 2023-24 ABP, it is forecasting net repayment of borrowings totalling $1.7 million (with $0.6 million related to the airport borrowings). The ratio will then progressively decline to 35.5 percent in 2032-33, which reflects a marginally lower trend in borrowings and the projected operating income growth (an average of 3.1 percent per annum). The Council applies a target of 80 percent for its net financial liabilities ratio (below the 100 percent suggested by the LGA), but recognises that it may not have the capacity to service further debt funded asset costs.[47]





42 City of Whyalla, *General Purpose Financial Statements for the year ended 30 June 2023*, p. 30, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0039/1519689/Annual-Report-2023_FINAL_small.pdf.

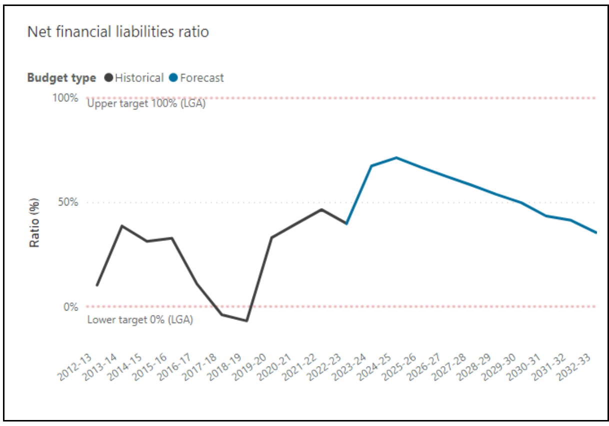
43 The Council has unrestricted credit facilities totalling $26.5 million, such as bank overdrafts, corporate credit cards and the LGFA cash advance debenture facility. See City of Whyalla, *General Purpose Financial Statements for the year ended 30 June 2023*, p. 31, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0039/1519689/Annual-Report-2023_FINAL_small.pdf.

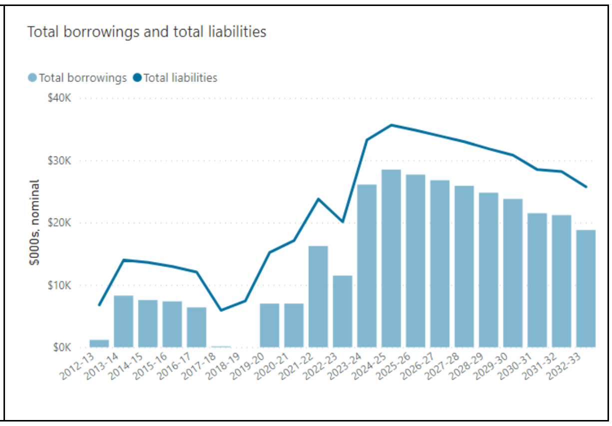
44 The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100 percent of total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

45 For example, if significant asset revaluations are needed to accurately reflect forward looking asset costs, the Council's LTFP looks unsustainable, based upon the Council seeking to keep the same asset stock and provide the same services. This is because the depreciation charge will increase, placing more pressure on the operating surplus ratio, and the Council will have less capacity to build cash reserves or finance additional borrowings.

46 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, pp. 43 and 62.

47 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p 24.





In relation to the airport (included in the assessment above) the Council forecasts a net financial liabilities ratio of 291 percent for 2023-24, and as previously stated its 10-year projections indicate minimal repayment of borrowings. While this may be a result of the funding arrangements of the airport, it is not clear in the Council's plans if it has the funding to amortise its debt (for example over the life of the assets) or if it is considering an exit strategy which could improve financial sustainability. It is also noted there is limited information on the Council's borrowing assumptions, for example in relation to average debt terms, refinancing assumptions, and level of fixed and variable borrowings, which could assist in understanding the Council's financial and sustainability risks.

Against this background, the Commission considers it would be appropriate for the Council to:

6. Improve the transparency of borrowings assumptions in its long-term financial plan and annual business plan, as appropriate.

C.3 Asset renewals expenditure

The Council has underperformed on its asset renewal funding ratio,[48] in eight of the 11 years between 2014-15 and 2018-19, and more recently in the last three years from 2020-21 to 2022-23. In these (underperforming) years the asset renewal funding ratio averaged 68.3 percent. Historically, it has been highly volatile. This suggests either a historical misalignment between the Council's asset management planning assumptions and actual asset renewal spending;[49] or at times the Council may not be prioritising assets renewals expenditure (compared to new or upgraded asset expenditure). The Council's updated projections in its 2023-24 ABP indicate the Council's intention to focus more on its asset renewal spending priorities (see the top charts over the page).

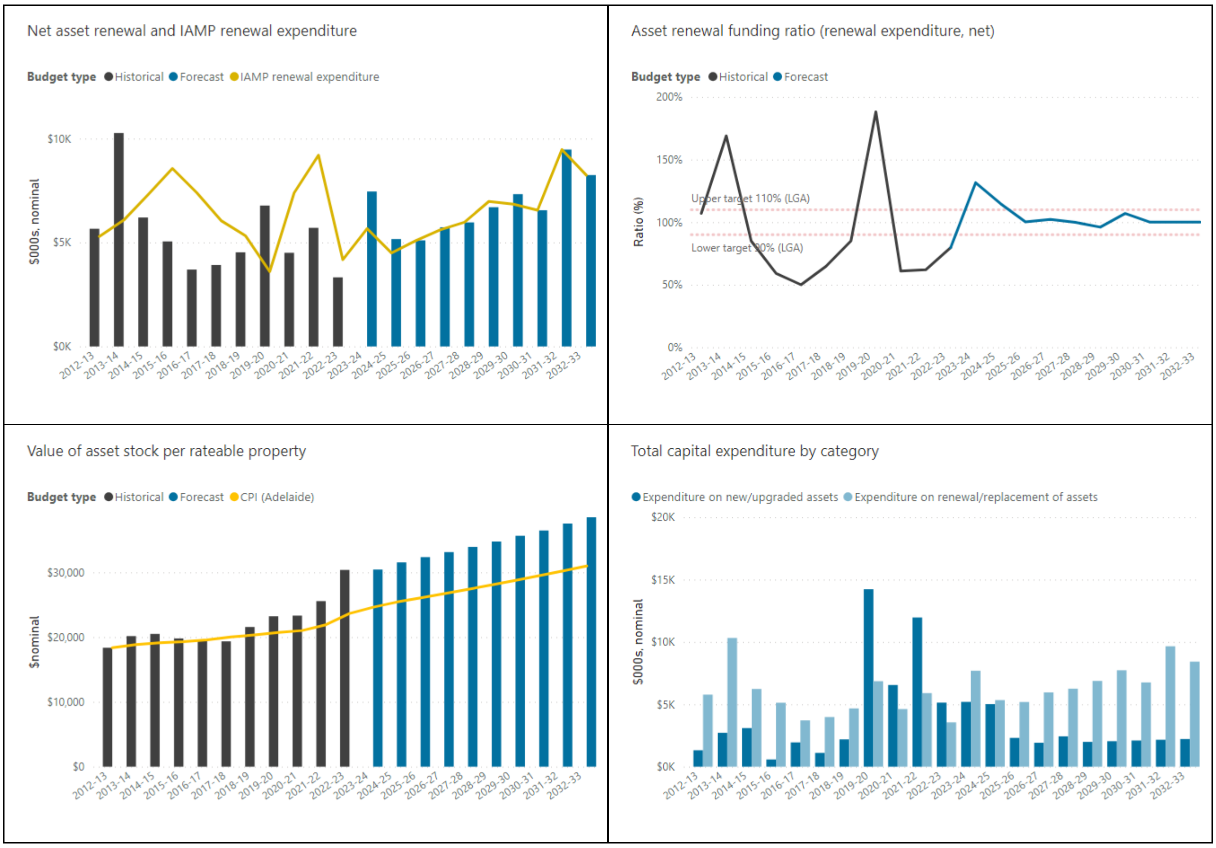
Overall, between 2012-13 and 2022-23, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 85 percent,[50] signifying an underspend on the renewal and rehabilitation needs of its asset stock over this period. The Council's spending on renewal and rehabilitation of assets averaged $5.5 million each year (over this period). From 2023-24 to 2032-33, the ratio is forecast to average 104 percent, in part reflecting the additional expenditure in 2023-24 (compared to the projections in its Asset Management Strategy) related to previous years' retimed expenditure.[51] Average annual spending on the renewal or rehabilitation of assets is projected to increase to $7.0 million (in nominal terms).

48 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).
49 This can be impacted by the deferral of asset renewal spending from prior year or the brought-forward asset renewal spending (for example driven by brought forward grant funding timing).
50 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'.
51 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 40.

The Council has grown its asset base, particularly over the last five years (from 2018-19 to 2022-23) with total capital expenditure averaging $13.1 million per annum, predominantly being allocated to new or upgraded asset expenditure, which averaged $8 million per annum over this period (see the bottom right chart over the page). It is noted, during this period, the airport accounted for approximately 38 percent of total expenditure on new or upgraded assets, with significant projects (in the last three years), being the airport Runway, Apron and Taxiway Upgrade ($6.9 million), Airport Terminal Upgrade ($6.8 million), and Point Lowly Lighthouse Cottages ($1.9 million). Increasing new or upgrade capital expenditure has led to a reasonably large increase in the value of the Council's asset stock per property of $2,206 or 9.4 percent for each year over the 5 years to 2022-23 (see the bottom left chart over the page).

The Council recognises in its ABP that it has a sustainability risk,[52] and that new and upgraded asset investment will incur ongoing costs, such as interest, maintenance and depreciation. The Commission considers that the Council could be better placed (from a financial and asset sustainability perspective) if it were more focused on the renewal of its existing asset stock, rather than increasing investment in new and upgraded assets. While the Council is focused on ensuring preparedness to capitalise on growth opportunities, this direction appears unaffordable for ratepayers without further funding commitments on appropriate terms or reductions in the existing asset stock (which it has recently expanded) and/or service levels and operating expenses.[53] For these reasons, the Commission considers that it would be appropriate for it to:

7. **Adhere** to the principles underpinning its long-term financial plan projections to provide more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure (particularly without funding commitments such as grants (on appropriate terms), contributions, or subsidies).

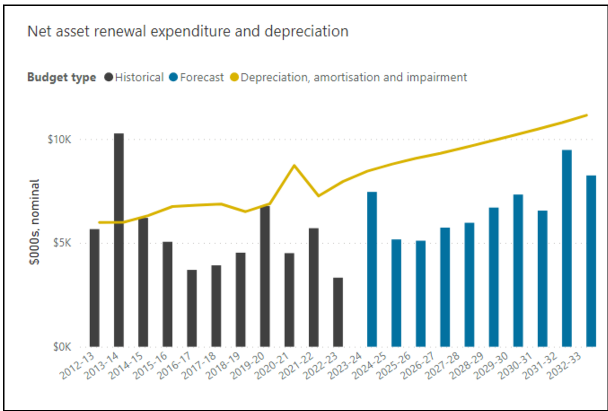


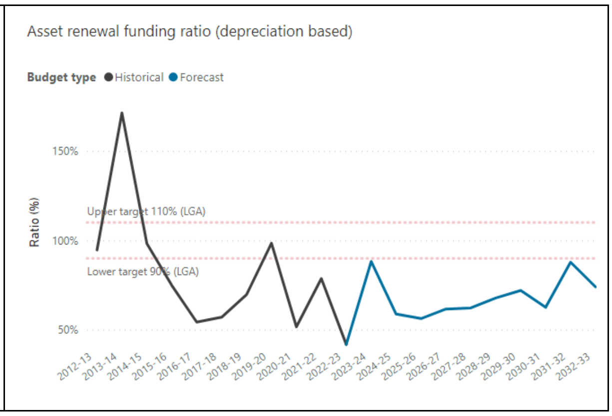
52 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 24. Includes the CEO Report on Financial Sustainability.

53 It is noted that one of the Council's budget parameters is to prioritise 100 percent funding of renewal at end of life except where a service level change has been specified, or where renewal would be inconsistent with an adopted Council plan or resolution. See City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 23.

Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,[54] which has generally tracked below the recommended minimum level (for the IAMP-based ratio) of 90 percent. Over the period between 2015-16 and 2022-23 this ratio averaged 69 percent per annum and is forecast to continue at this level over the period 2023-24 to 2032-33. The depreciation-based asset renewal funding ratio indicator shows that depreciation expenses outpace renewal capital expenditure, notwithstanding the Council has historically increased investment in new and upgraded capital expenditure (evident from 2019-20).

In this context is it important to understand the extent to which the depreciation values reflect the current cost of the asset, and if the Council's spending priorities are being appropriately allocated to the renewal and rehabilitation of its assets. When considering the historical metrics for both the IAMP-based and depreciation-based asset renewal ratios it appears that the Council had deferred or under invested on its asset renewal needs.[55] This could also be because assets are no longer needed or in some instances renewals are done to a lower specification.





Further, based on discussions with the Council in November 2023, it states that asset revaluations for 2023-24 are approximately 11 percent higher than the asset indexation applied in its ABP. The implication being that if significant asset revaluations are needed to reflect forward looking asset costs, depreciation charges placing more pressure on the operating surplus ratio. In addition, the Council has advised:

- it considers its current renewal programs are appropriate and sufficient,
- it is committed to ensuring a renewal backlog for transport asset does not occur again (as occurred in the past), and
- that it relies on expert opinion in relation to asset values and depreciation rates and believes transport asset depreciation could be reduced with some adjustment to useful lives, however, is likely to be a maximum of a 5 percent reduction (or $0.2 million per annum).

54 The Council's asset renewal funding ratio by the depreciation-based method (where asset renewal/replacement expenditure is divided by depreciation expenses). This ratio shows the extent to which capital expenditure on the renewal and replacement of assets matches the estimated rate at which these assets are used or consumed. Prior to 2013, the calculation of the ratio in the sector was based on the 'depreciation method' and was known as the asset sustainability ratio until 2018.

55 The Council recognises it does not have the capacity to fund the existing infrastructure for a city that was designed for a larger population. See City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 23. The Commission has not undertaken a detailed historical assessment of depreciation and impairment of the Council's asset base, or whether it has been maintaining an asset base to support a larger population base (currently 21,000 residents).

There appears to be some scope to reassessing asset lives, which could indicate that for some assets the asset lives are shorter in the depreciation calculation than occurs in practice. However, the Council may also not be renewing assets at the pace required by its asset management planning (or sufficiently updating its plans for the current cost of renewing assets) indicating a potential asset sustainability risk. Therefore, the Commission considers that it would be appropriate for the Council to:

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

The Council currently has an Asset Management Strategy which covers most of its asset classes,[56] and advises it has detailed information contained within operational documentation. The Council does not have individually published asset management plans for major asset categories; however, its strategy document is similar in content to an AMP.[57]

The asset values included in its strategy document are sourced from an asset register as of 30 June 2019; and the Council has in place an asset revaluation schedule (with condition assessments) occurring on a 5-year cycle.[58] It is noted that the Council has reported desktop valuations for most of its assets as of 30 June 2023, and condition audits were carried out over the last 4 years, for example:[59]

- Land, Land improvements and Playgrounds, audited as at 30 June 2020 (18 percent[60])
- Buildings and Other Structures, audited as at 30 June 2020 (13 percent)
- Roads, Footpaths and Runway Assets, audited as at 30 June 2023 (58 percent)
- Stormwater Drainage, audited as at 1 July 2018 (6 percent)
- Irrigation, audited as at 30 June 2021 (2 percent)

In general, the Commission's review of the Council's asset management planning practices (along with discussions with the Council) indicate that asset condition and valuations are appropriately understood and considered. However, further updates to its Asset Management Strategy (adopted in March 2020) may be needed to align to the current economic environment and/or possible changes in service levels and rationalisation to achieve financial sustainability (as previously discussed). Further, it is noted that councils are required to undertake a comprehensive review of its strategic management plans (including asset management plans) within two years after each general election of the council.[61]

Against this background, the Commission considers that it would be appropriate for it to:

9. Complete the planned reviews of its asset management plans, with consideration of desired service levels, the level of the asset stock, and financial sustainability objectives, as appropriate.

56 City of Whyalla, *Asset Management Strategy 2021 – 2030*, March 2020, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0041/647798/Asset-Management-Strategy-2021-2030-Endorsed-16.03.2020.pdf. The assets covered include: transport, stormwater, irrigation, plant and equipment, recreation and open space, furniture and fittings, and building assets.

57 Under s.122(1a)(b) of the LG Act the Council must in effect develop and adopt an IAMP, relating to the management and development of infrastructure and other major asset classes by the council for a period of at least 10 years.

58 City of Whyalla, *Asset Management Strategy 2021 – 2030*, March 2020, p. 15.

59 Excluding assets recorded on a cost basis. See City of Whyalla, *General Purpose Financial Statements for the year ended 30 June 2023*, pp. 26-27, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0039/1519689/Annual-Report-2023_FINAL_small.pdf.

60 Percentages refer to the proportion of the Council carrying value of infrastructure, property, plant and equipment at 30 June 2023 (totalling $349.7 million).

61 LG Act s122(4)(a) and (b). General elections were last held for SA Councils on 11 November 2022.

D Current and projected rate levels

D.1 Historical rates growth

The Council's rate revenue per property growth has averaged 4.1 percent or $63 per annum for each property over the past 10 years,[62] to reach an estimated $1,855 per property in 2021-22 (see the left chart over the page). This has exceeded CPI growth of an average of 2.0 percent per annum over this period,[63] and encompasses negligible growth in rateable property numbers in the Council's region. Current rate levels partially reflect its recent history of spending growth, including on capital expenditure (such as growth in new and upgraded assets),[64] higher employee costs and 'materials, contracts and other' expenses. The airport, operated by the Council, also accounts for a substantial part of the Council's overall operations (representing 9.5 percent of total operating expenditure, excluding depreciation, in 2022-23),[65] and is primarily funded from a passenger levy, with the operating deficit covered via other income sources with respect to the Council's overall business operations.

The majority of the Council's income comes from ratepayers (approximately 64 percent on average over the period 2012-13 to 2021-22, see the right chart over the page), however the Council also remains reliant on its user charges (primarily airport fees),[66] and grant income for its operating sustainability.

The Commission notes that the Council has relatively low average 'general rates' compared to similar councils (and compared to the Statewide average), however it is noted this does not include other charges such as for waste management (which accounts for 17.5 percent of the Council's total rates income).[67] The Council also obtains income from some heavy industry ratepayers reflecting higher site values associated with these ratepayers.[68]

62 From 2012-13 to 2021-22.

63 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.

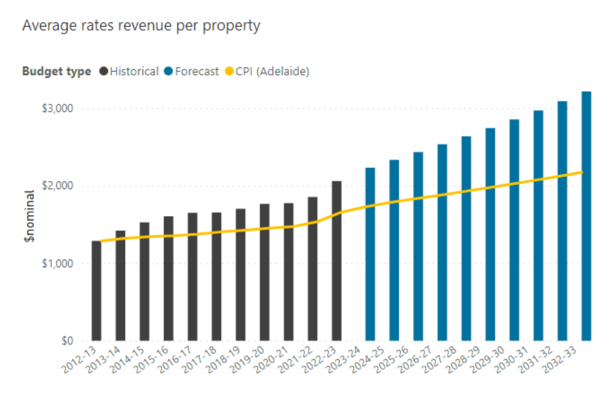
64 The Council advises that its major capital projects over the last three years included the airport Runway, Apron and Taxiway Upgrade ($6.9 million), airport Terminal Upgrade ($6.8 million) and Point Lowly Lighthouse Cottages ($1.9 million).

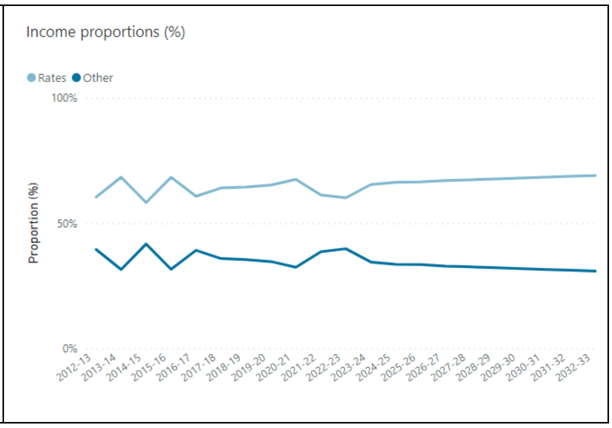
65 Based on the Commission analysis of: Whyalla City Council, *Audit and Risk Committee Meeting Agenda – 3 October 2023, Item 2.5 Budget Review 2023/24 Q1 incorporating Financial Results 2022/23,* available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0032/1476374/0-audit-committee-agenda-COMPLETE-3-October-2023.pdf.

66 User charges relate to the recovery of service delivery costs through the charging of fees to users of the Council's services. They include airport fees, childcare fees, hire of community facilities and property leases. See City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 48.

67 Refer to Councils in Focus rates data for 2021-22 available at https://councilsinfocus.sa.gov.au/councils/corporation_of_the_city_of_whyalla. The Commission is not relying on these rate comparisons for its advice; the data source provides one indicator, among many, which has informed its advice on the appropriateness of the rate levels. Other rate charges such as for waste management and the regional landscape levy do not form part of this comparison.

68 The Council has three rateable properties associated with Heavy Industry and include Santos' sites at Port Bonython with total rates raised from this category of approximately $0.6 million in 2022-23. Liberty Primary Metals Australia's (**Liberty's**) iron ore mining sites, located in the Middleback Ranges, are outside of the Council's area, and are part of the State's pastoral unincorporated area. Liberty's integrated Whyalla steel works and port are also outside the Council area, being unincorporated land and are subject to the operation of the *Broken Hill Proprietary Company's Indenture Act 1937* and the *Broken Hill Proprietary Company's Indenture Act 1937*. The Council advises that Liberty pays it an annual amount by mutual agreement recognised as 'other income'.





D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 8.7 percent or $123 per residential property and $751 per commercial property in 2023-24,[69] which was higher than it has anticipated charging for this year in its 2022-23 ABP projections (that is, the Commission estimates a 4.0 percent increase in average rates was previously forecast for 2023-24).[70] The rates increase reflects the Council's expected financial pressures across its service delivery, and is higher than the increase in CPI (and other factors, such as LGPI, and interest rates) during the previous 12 months at the time the budget was developed.[71]

The rates increase also reflects an additional 0.8 percent above CPI which supports the Council to achieve its budget parameters, including to reach a break-even operating position in the LTFP by 2026-27 or earlier.[72] This allows the Council to continue service provision at current levels and provides some contribution toward the upgrade of infrastructure.[73] The Council has also assumed no growth in rateable properties for the purposes of its current planning (with approximately 11,500 rateable properties assumed), but anticipates upside (for example in terms of its rate revenue and its associated operating position) related to the proposed hydrogen hub investment in Whyalla. Once these developments become firm and rateable property growth is evident, the Council intends to build-in growth assumptions in its long-term planning.[74] It is also noted that Council is preparing to review service levels focusing on identifying community need and achieving efficiency and effectiveness with the aim of achieving ongoing savings;[75] and this will be important particularly if the growth prospects for the Council does not materialise.

Notwithstanding, different (or differential) rate categories apply to ratepayers based on the land use category (or locality) of rateable property;[76] the Council seeks to ensure that the rate burden (or increases from year-to-year) remains constant between classes of properties. As such, most ratepayer categories will experience the same or similar average increases in 2023-24 (of 8.7 percent), which

---

69 City of Whyalla, *Annual Business Plan 2023-24,* July 2023, pp.67-68. Individual rate level changes may be higher or lower depending on the rates category and property value.

70 Based on the Council's 2022-23 ABP (including its revised forecasts) comparing the change in rates income forecast for 2023-24 against 2022-23 (its budget year at the time), and assuming no growth in rateable properties. The Council did not disclose its long-term assumptions in its 2022-23 ABP.

71 CPI Adelaide (All groups) increased by 7.9 percent in the year to March 2023. Available at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023.

72 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 23.

73 Whyalla City Council, *Special Council Meeting Agenda – 29 May 2023, Item 4.2.3 Submissions on Draft 2023/24 Annual Business Plan and Budget,* p. 45, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0035/1347956/agenda-COMPLETE-29-may-2023.pdf.

74 CEO Report on Financial Sustainability, included in the City of Whyalla, *Annual Business Plan 2023-24*, July 2023, pp. 23-24.

75 City of Whyalla, *Annual Business Plan 2023-24*, July 2023, p. 26.

76 'Land use' categories consist of residential, commercial, industry and primary production. The Council also uses 'locality' categories (applying to 320 rateable properties in 2023-24) which consists of rural living, coastal living, special industry and regional centre.

suggests the relative movements in the site valuations (or land value) are currently a secondary consideration.[77] The Commission notes that residential ratepayers are on a relatively lower differential rates, for example representing a discount of 56 percent (on a site valuation basis) compared to commercial and industrial ratepayers.[78]

On a proportional revenue basis, residential ratepayers account for around 80 percent of 2023-24 budgeted rates revenue, followed by business and industry (14 percent), and heavy industry (3 percent). On a site valuation basis, residential land use represents 82 percent of aggregate site value in the Council area, followed by business and industry (9 percent), and heavy industry (0.03 percent). In general, there may be some scope to review the 'rate in the dollar' charge across its rateable property base to ensure it aligns to the principles of equity and capacity to pay. Also, it is not clear in the Council's plans the basis (or reasons) for its current differential rating policy affecting the different categories of ratepayers.

The Commission notes the Council will be moving to a capital valuation approach (from site valuation approach) for rating purposes from 2024-25, and therefore it will be undertaking a rating review. As part of this it will be prudent for the Council to review other aspects of its rate charging structure, for example relating to the extent of fixed charges and the effect of its rate capping level.

Further there may be benefit in the Council reviewing its mutual agreement with Liberty (GFG Alliance) to ensure an equitable contribution is received, noting that any increases in its fly-in fly-out workforce resulting from their proposed projects which may further impact on the use of the Council's critical infrastructure and services.[79]

Other than 'general rates' revenue (which represents around 79 percent of total rates revenue in 2022-23),[80] the Council collects income from waste management,[81] and the Regional Landscape Levy (around 17 and 4 percent of total rates revenue respectively).

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average rates increases for its existing ratepayers of approximately 4.1 percent per annum from 2023-24 to 2031-32,[82] similar to its average historical increases, which continues to represent real terms increase in rates. The increases reflect the Council's forecast rate increases of CPI plus 1.9 percent per annum, which it states is for sustainability and funding purposes,[83] however this will not provide a forecast breakeven operating result until the end of the decade.

In total, the Councils 2023-24 ABP effectively projects a cumulative increase of $983 per existing ratepayer (to $3,216 per annum) by 2032-33, meaningfully above the RBA-based inflation forecast of an average of 2.6 percent per annum[84] (refer to the previous chart on the left side).[85] As a result of further

77 The Commission notes a council can use a range of charging structures, and our advice generally relates to all financial contributions made by ratepayers.

78 Rate in the dollar applied to the site value of the property in the Council area. City of Whyalla, *Annual Business Plan 2023-24,* p. 68.

79 The Commission understands Liberty remains the largest employer in Whyalla with approximately 1,100 FTEs.

80 Before discretionary rebates.

81 The Commission notes the increase in the solid waste levy over the last 10 years, which has impacted waste management costs in the local government sector.

82 Based on the Council's Excel template provided to the Commission. This appears more conservative than the Council's forecast rate increase assumptions published in its 2023-24 ABP, indicating annual rate increases ranging from 4.9 percent (in 2024-25) to 4.4 percent (in 2032-33).

83 City of Whyalla, *Long Term Financial Plan 2021-2030,* March 2020, p. 2.

84 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.

85 The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum), which are different to Council's inflation and rate increase assumptions (as was discussed in section B.1).

rates increases, the percentage of the Council's total income contributions from ratepayers is projected to average around 69 percent, which is higher than its historical average of around 64 percent.

The Commission notes the Council's overall approach has been to consider a significant increase in population growth the most likely scenario, expand the existing level of infrastructure now based upon this, so incurring costs. Simultaneously, however, it is not including any population growth in its forecast planning assumptions over the coming 10 years, so is expecting the existing community to finance the council's decisions from this point forward for the coming 10 years. Effectively, this immediately passes the risk of the council's decisions to the existing community who have no choice but to pay. There is no commitment from the council to lower rates if the population increases expected do not arise. There also appears to be no clear strategy of reducing the rate burden on the community, which has relatively lower access to economic resources than other South Australian council regions, if the Council's most likely scenario regarding population growth does not happen. The Commission notes this shifting of risk to the community bears similar characteristics to that of monopoly firms shifting risk to customers that they are more equipped to manage.

D.4 Affordability risk

Affordability risk among the community for these further rates increases appears to be high, on balance, when considering:

- the Council's relative low socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area;[86] also evidenced by higher unemployment and lower property values (than metropolitan areas),
- the need to review the Council's rate charging structure (and the incidental risk associated with the redistribution of charges),
- the effect of cumulative increases in rates per existing ratepayer of approximately 4.1 percent per annum to the period 2031-32, higher than the forecast rate of inflation, and
- a number of community concerns, with various written submissions received during the 2023-24 budget process; some expressing concerns about further rate rises, affordability, cost of service provision, and preferences to review or reduce expenditure.

The Commission notes that the Council's community consultation processes are comprehensive and are focused on understanding concerns on rates affordability and service provision. The Council has also used a range of approaches and media channels to inform its community on its proposed plans and, as a result, received a high level of engagement.[87] In general, the written responses showed that a significant proportion of respondents preferred the Council to improve affordability, and to effectively look for ways to reduce costs particularly on services or assets which may be considered by the community to be non-core. Overall, the Commission considers it would be appropriate for it to:

10. Continue the good practice of consulting with the community on its strategic management plans, with a focus on understanding the community's preferences on service levels and managing emerging affordability risk.

86 The City of Whyalla area is ranked 7 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2021), where a lower score (e.g., 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

87 The Council sought community engagement through public information sessions, a focus group session, and allowed interested parties to view its proposed plans and make written or verbal submissions. See City of Whyalla, *Special Council Meeting Agenda – 29 May 2023, Item 4.2.3 Submissions on Draft 2023/24 Annual Business Plan and Budget,* pp. 51-52, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0035/1347956/agenda-COMPLETE-29-may-2023.pdf.

Affordability risk can also be viewed in the context of the Council's financial sustainability risks, evident from the forecast operating deficits (to 2029-30), and uncertainty around its future asset renewal, service levels, and new investment needs driven principally by the proposed development of a hydrogen industry in Whyalla.[88] The associated implications for the Council's funding requirements (for capital expenditure, borrowings, and depreciation) could mean the community may be exposed to further rate increases, if additional external funding is not sourced (on appropriate terms) or further efficiencies are not realised. It is noted the Council is seeking to work with State and Federal Governments on an alternative funding model to support its financial sustainability and this is particularly important to support the potential large investment in the City.

As the current economic environment is putting more pressure on many communities' capacity to pay, including those of the Council, the Commission considers it would be appropriate for the Council to:

11. Continue to review and consider options in limiting any further average rate increases above inflation, including through considering alternative funding models with the support of State and Federal Governments, as appropriate.

[88] Additionally, several other projects are in the pipeline, and include the expansion and renewal of existing industry, for example associated with Liberty's integrated steelworks, and iron ore mining activities (major projects include the Cultana Solar Farm, new Rolling Mill for the steelworks, and the Magnetite Expansion Project). See also City of Whyalla, *Economic Development Strategy 2022-2030*, available at https://www.whyalla.sa.gov.au/__data/assets/pdf_file/0035/1251989/EconomicStrategicPlan_CURRENT-VERSION_01072022.pdf.

The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444
E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au