Advice

Local Government Advice

District Council of Robe

February 2024

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District Council of Robe

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the District Council of Robe's current and short-term projected financial performance **potentially unsustainable** but notes that it is taking steps to move towards a more sustainable position in the medium to long-term, however not without risks associated with its low forecast expenses growth, corporate governance, and asset management practices

RISKS IMPACTING SUSTAINABILITY

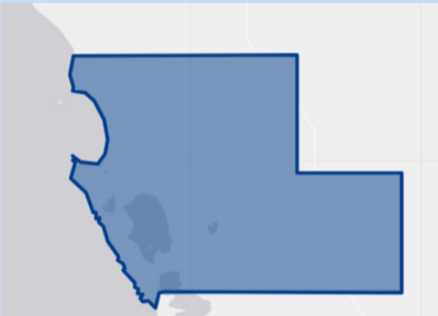
- ⚠ Inadequate financial forecasting arising from the lack of endorsed long-term financial plan and endorsed asset management plans
- ⚠ Understatement of depreciation due to unendorsed and incomplete asset management plans, particularly for Infrastructure (transport) assets which represents 58 percent of total assets
- ⚠ Out of date asset management plans and lack of certainty of asset stock conditions and useful lives
- ⚠ Low growth in forecast expenses (compared with historic levels) are not realised and the current expense trajectory continues
- ⚠ If instability in corporate governance continues
- ⚠ Underspending on future asset renewal expenditure

COMMISSION'S RECOMMENDATIONS

- Review and update the most recent long-term financial plan immediately for Council endorsement and publication as per the LG Act
- Align the long-term financial plan projections with the annual business plan and budget for 2024-25
- Consider options to increase its income to move towards a more financially sustainable position
- Review the annual budget and long-term financial plan immediately following the update of strategic direction, and endorsement of draft asset management plans
- Urgently review and adopt draft asset management plans to align with strategic directions to facilitate accuracy in asset related expenditure
- Provide more funding for the renewal of assets, rather than prioritising initiatives which involve new or upgraded infrastructure
- Urgently update the Infrastructure asset management plan (transport assets) to align with strategic directions and facilitate accuracy in asset related expenditure forecasts
- Review rate increases relative to proposed service levels to align with revised and endorsed asset management plans to ensure adequate revenue to maintain funding of council services at a sustainable level

KEY FACTS

- Population in 2021 was **1,542**
- Council covers **1,091 square kilometres**
- **2,537** rateable properties in 2022-23
- **$6.2 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$106.4 million**



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Glossary of terms

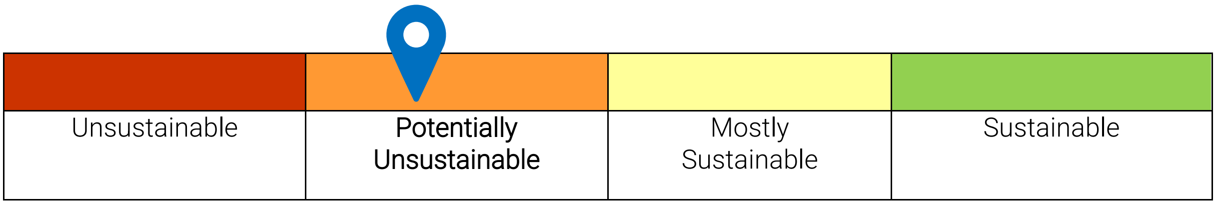
ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
Commission	Essential Services Commission, established under the *Essential Services Commission Act 2002*
CPI	Consumer Price Index (Adelaide, All Groups)
Council	District Council of Robe
CWMS	Community Wastewater Management System
ESC Act	*Essential Services Commission Act 2002*
F&A	Local Government Advice: Framework and Approach – Final Report
FTE	Full Time Equivalent
IAMP	Infrastructure and asset management plan (also called an AMP)
LG Act	*Local Government Act 1999*
LGA SA Financial Indicators Paper	Local Government Association of South Australia, Financial Sustainability Information Paper 9 - Financial Indicators Revised May 2019
LGGC	Local Government Grants Commission
LGPI	Local Government Price Index
LTFP	Long-term financial plan
Regulations	*Local Government (Financial Management) Regulations 2011*
RBA	Reserve Bank of Australia
SACES	The South Australian Centre for Economic Studies
SEIFA	Socio-Economic Indexes for Areas
SMP	Strategic management plan
SG	Superannuation Guarantee
The scheme or advice	Local Government Advice Scheme

Legend: Low-risk Moderate-risk High-risk

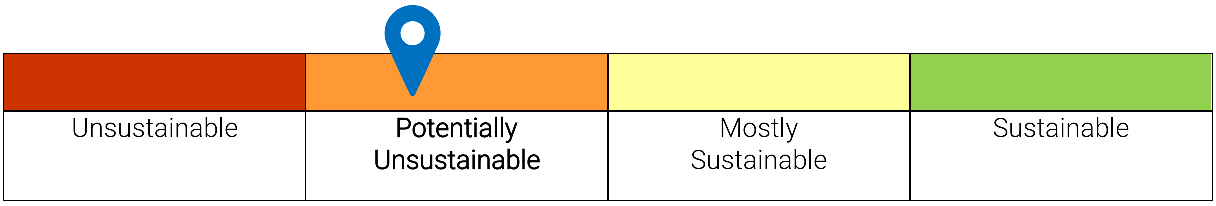
1 The Commission's key advice findings for the District Council of Robe

The Essential Services Commission (**Commission**) finds the District Council of Robe's (**Council's**) short-term financial position **potentially unsustainable** but notes that it has taken steps to improve sustainability in the medium to long-term. The Council's projected improvement to its financial performance is reliant on the renewal of its asset stock and a period of service consolidation, at a minimum, continued cost control and further rate increases.

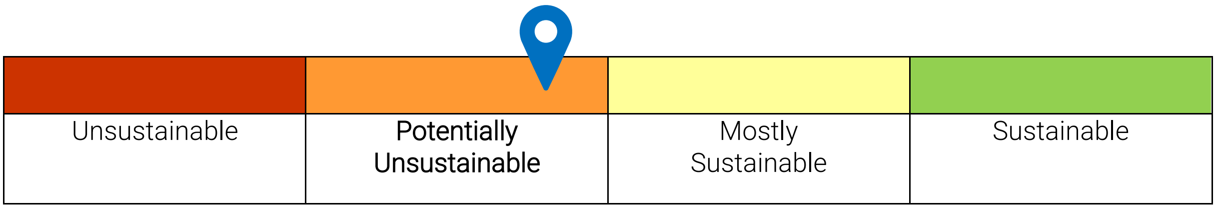
Current financial performance:



Projected financial performance (future):



Previous financial performance (past ten years):



Acknowledging the Council's outlook, the Commission considers it would be appropriate for it to undertake the following steps to ensure it budgets prudently and transparently, continues to manage its cost base efficiently, renews its asset base to meet sustainable service levels, plans its asset needs appropriately and constrains the extent of further rate increases:

Budgeting considerations

1. **Review and update** its most recent long-term financial plan immediately for Council endorsement and publication as required under the *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).

2. **Align** its long-term financial plan projections with its annual business plan and budget for 2024-25 to provide transparency to the community about any changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

Continuing to provide evidence of ongoing cost efficiencies

3. **Consider** options to increase its income to move towards a more financially sustainable position.

4. **Consider** decreasing costs by reducing service levels to remain within financial sustainability constraints.

5. **Review** its annual budget and long-term financial plan immediately following update of strategic direction, and endorsement of draft AMPs.

Refinements to asset management planning

6. **Urgently** review and adopt draft AMPs to align with strategic directions and facilitate accuracy in asset related expenditure.

7. **Provide** more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.

8. **Urgently** update the Infrastructure AMP (transport assets) to align with strategic directions and facilitate accuracy in asset related expenditure forecasts.

Containing rate levels

9. **Review** rate increases relative to proposed service levels to align with revised and endorsed AMPs to ensure adequate revenue to maintain funding of council services at a sustainable level.

2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by the State Parliament to provide advice on material changes proposed by local councils in relation to elements of their strategic management plans (**SMPs**) and on the proposed revenue sources, including rates, which underpin those plans.[1]

One of the main purposes of the Local Government Advice Scheme (**advice** or **the scheme**) is to support councils to make 'financially sustainable' decisions relating to their annual business plans and budgets in the context of their long-term financial plans (**LTFPs**) and infrastructure and asset management plans (**IAMPs**)[2] – both required as part of a council's SMP.[3] Financial sustainability is considered to encompass intergenerational equity,[4] as well as program (service level) and rates stability in this context.[5] The other main purpose is for the Commission to consider ratepayer contributions in the context of revenue sources, outlined in the LTFP.[6] In addition, the Commission has discretion to provide advice on any other aspect of a council's LTFP or IAMP it considers appropriate, having regard to the circumstances of that council.[7]

The first cycle of the scheme extends over four years from 2022-23 to 2025-26, and the Commission has selected 17 councils for advice in the second scheme year (2023-24), including the District Council of Robe (**Council**).

This report provides the Local Government Advice for the Council in 2023-24.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2024-25 Annual Business Plan (including any draft Annual Business Plan) and subsequent plans until the next cycle of the scheme.[8] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[9]), nor is it compelled under the LG Act to follow the advice.

The Commission thanks the Council for meeting with Commission staff and for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

In general, the Commission finds the Council's short-term financial position **potentially unsustainable,** following a period that included operating deficits with high spending on new capital initiatives. The Commission does note that the Council has taken steps to move towards a more sustainable position in the medium to long-term. However, it cannot be considered financially sustainable in the medium-longer term at this point, due to risks arising from its forecast costs and asset management practices. Historically, the Council has demonstrated effective cost constraint, but it has also failed to meet the ongoing renewal needs of its existing infrastructure base.[10] This now presents a backlog of deferred renewal and rehabilitation it needs to address in the future.

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

The Council adopted its annual business plan and budget in July 2023, and has not yet adopted its draft LTFP for 2023-24. The most recently adopted and published LTFP is for 2022-23 to 2031-32. Its forward projections from 2023-24 (in its draft LTFP) forecast ongoing but decreasing deficits until 2027-28, when the forecast rate of operating revenue growth will outpace expense growth but with:

- continued average rate increases above the Reserve Bank of Australia (**RBA**)-based forecast inflation rate (including growth in rateable properties) and increased user charges to facilitate cost recovery on specific assets,
- cost constraint, with lower average cost growth than it has experienced over the past 10 years (and below the rate of RBA-based forecast inflation),
- risks resulting from understating depreciation due to unendorsed and incomplete AMPs, particularly for Infrastructure (transport) assets which represents 41 percent of total assets, and
- low spending on new and upgraded capital works, with higher asset spending on renewal and rehabilitation capital works, including to partially address the accumulation of deferred renewals over the next 10 years.

The Commission considers that the Council is at risk from inadequate financial forecasting arising from the lack of an endorsed LTFP and from a lack of endorsed AMPs that reflect the current condition and renewal requirements for existing assets.

The Council has been transparent in providing information to the Commission about its governance issues and demonstrates a clear understanding of what it needs to do to achieve a sustainable financial outlook. The Commission has identified several opportunities to improve the financial forecasting and asset management planning.

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the Council's material changes to its draft 2023-24 plans (compared with the previous plans), its financial sustainability outlook (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure) and its current and projected rate levels.

In providing this advice, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**). The attachment explores these matters further.[11]

2.2.1 Advice on material plan amendments in 2023-24

Key Points:

⚠ A decrease in operating performance of $3.9 million compared with 2022-23 forecasts.

⚠ A decrease of $4.9m in asset renewals and $3.4 million in new/upgraded asset expenditure.

🛑 The draft 2023-24 long-term financial plan is not endorsed.

The Council's draft 2023-24 LTFP includes a decrease in its projected operating performance, and decreases to its projected capital expenditure estimates, compared with the 2022-23 forecasts,[12] as follows:

[11] The attachment will be available on the Commission's website with the Advice.
[12] The overlapping forecast period in both LTFPs (2022-23 to 2031-32 and draft 2023-24 to 2032-33).

- A decrease in operating performance by $3.9 million, resulting in operating deficits until 2027-28 followed by a return to operating surplus. This is mainly driven by a 6.2 percent increase in income (higher rates revenue and user charges) not being sufficient to offset an 11.1 percent increase in expenses (higher employee, insurance, and depreciation costs).
- A decrease in capital expenditure for renewals by $4.9 million and for new/upgraded assets by $3.4 million. Although a decrease from the previous LTFP, forecast expenditure remains increased from historical levels (2012-13 to 2021-22). The Council has deferred expenditure pending the review and completion of draft AMPs that align with the strategic direction.[13]

The Council has adjusted its operating income and expense forecasts (in the draft 2023-24 LTFP) based on its adjusted inflation forecasts. However, it has not yet endorsed the draft 2023-24 LTFP. The increases in costs and revenues forecast, compared to its 2022-23 estimates, can be partly attributed to its inflation forecasts but also includes additional operating expenses, including depreciation from assets that were formerly excluded from asset registers but are now included within the first four years of the draft LTFP.[14]

The Council has assumed Consumer Price Index (**CPI**) inflation increases of 6.7 percent in 2023-24 and 3.6 percent in 2024-25, and 3.0 percent annually thereafter, and has factored additional cost recovery income into its draft LTFP projections (discussed further below). The Commission notes that at the time of LTFP update preparation, the most recent Statement of Monetary Policy from the RBA (May 2023) had CPI inflation estimates as 6.75% for the year ending June 2023, 3.5% for the year ending June 2024 and 3.0% for the year ending June 2025.[15]

The Commission nevertheless notes that the Council's stated assumptions for indexation in its draft 2023-24 draft LTFP are transparent and based on its annual review of these forecasts, and that its current four-year business plan updates[16] contain theassumptions which are included in the draft 2023-24 LTFP. However, there is still uncertainty around those assumptions, given their significant difference from forecast RBA assumptions, and lack of endorsement by Council. A key risk for ratepayers is that Council decision making may be based on outdated and unendorsed financial plans. The Commission recommends that the Council:

1. **Review and update** its most recent long term financial plan immediately for Council endorsement and publication as required under the *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).

There is no current regulatory requirement for Council to publish its LTFP projections with its annual business plan and budget; however, many councils do coordinate their long-term financial projections with their annual budget process. It may be useful for Council to republish updated 10-year financial estimates when it develops annual budget estimates for 2024-25, particularly if the extent of revisions to estimates in its annual business plan and budget are substantial following strategic management plan updates. The Commission recommends that the Council:

2. **Align** its long-term financial plan projections with its annual business plan and budget for 2024-25 to provide transparency to the community about any changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

The Commission has noted the revised AMPs, which are not yet endorsed, but have their financial impact included in the four-year budget plan. The draft LTFP 2023-24 includes only the impact of AMP revisions for the first four years, which suggests the current capital expenditure forecasts (for renewals and new/upgraded assets) may be understated in the longer term. As the AMP - Infrastructure Asset Management (transport assets) has not yet been redrafted and assets have not been revalued since

13 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
14 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
15 As per the council's error of fact check submission - *ESCOSA – LG Advice Fact review – February 22, 2024*
16 Four Year Business Plan 2023-24 to 2026-27 and Budget 2023-24, p23.

2018, any impact from the update of that plan is not included.[17] This relates to 41 percent of asset stock, which presents a risk of understated depreciation and additional financial liabilities associated with renewing those assets. Capital works have also been subject to deferral pending alignment with strategic direction and further updates to AMPs, which has created additional deferred renewal liabilities[18] (discussed further below in Asset Renewals Expenditure section).

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

- Operating surpluses predominantly achieved between 2012-13 to 2021-22, with the operating surplus ratio averaging 2.2 percent in that time.
- A small operating deficit of $0.4 million observed in 2022-23, and ongoing deficits forecast between 2023-24 and 2026-27.
- Average expense growth of 2.0 percent per annum is forecast between 2023-24 and 2032-33 which is 0.6 percent below the RBA-based forecast inflation growth, however this figure may be optimistic and hard to achieve given the Council's historic average annual expense growth of 3.1 percent per annum in the 10 years to 2021-22.

The Council has predominantly run operating surpluses from 2012-13 to 2021-22, with an average operating surplus of $0.16 million and an operating surplus ratio[19] averaging 2.2 percent over this period, followed by a deficit of $0.4 million in 2022-23. Its operating surplus ratio is not forecast to be positive again (with a surplus) until 2027-28.

Over the period from 2012-13 to 2021-22, rates revenue increased by an annual average of 3.4 percent, with average annual increases in 'statutory' and 'user charges' (15.1 and 4.8 percent respectively). Grants decreased over the period by 0.9 percent and are forecast to continue to decrease, as a percentage of total income, from a maximum of 13 percent in 2017-18 to an average of 6 percent between 2023-24 and 2032-33. The Council is projecting average annual rates revenue growth of 3.8 percent to 2032-33 (based on the draft 2023-24 LTFP excel template which included forecast average growth in rateable properties of 0.7 percent), a variation from the 4.1 percent set out in the draft LTFP documentation.[20] The Council is also considering more cost recovery in relation to its CWMS and Marina assets to generate additional income.[21] The Commission supports the approach of moving towards full cost recovery for applicable assets.

The Council's operating expense growth (from 2012-13 to 2021-22) was primarily due to an average annual increase of 3.5 percent in 'employee' expenses and 3.3 percent in 'materials, contracts and other' expenses. The forecast average expense growth of 2.0 percent per annum is below both the RBA-

[17] Meeting between ESCOSA and District Council of Robe on 9.1.2024 and Infrastructure Asset Management Plan Version 7 March 2020.
[18] Meeting between ESCOSA and District Council of Robe on 9.1.2024.
[19] 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).
[20] Long Term Financial Plan 2023-24 to 2032-33, p24.
[21] Meeting between ESCOSA and District Council of Robe on 9.1.2024.

based forecast inflation growth[22] and the Council's past performance (with average annual growth of 3.1 percent in the 10 years to 2021-22 compared to CPI of 2.0 percent[23] for the period).

The four-year decrease in the Council's projected operating performance at the start of the LTFP forecast period is attributed to the anticipated growth in expenses being greater than the anticipated growth in income. Some of these changes are increased depreciation expenses associated with asset reviews, and budgeting for a gradual implementation of a user-pays model for CWMS and Marina services, resulting in nearer term income growth not offsetting expenses growth.[24] However, as the forecast rate and user charges increases are realised and expense growth slows, the Council expects to return to, and maintain, operating surpluses from 2027-28. The Council notes however, that depreciation from recent AMP reviews has only been included in forecasts until 2026-27 which, when updated, will cause the operating surplus to be less than forecast, unless income forecasts are increased.[25]

It is not certain that Council will be able to contain costs to the levels it forecasts given the uncertainty about AMPs which, when updated, may require additional depreciation and operational maintenance expenditure, or an acceptance of lower service levels.

In this respect, the Commission notes that the draft AMPs include assets that were formerly excluded from the Council's asset registers. Provisions for management of those additional assets may now be partially included in the draft LTFP forecasts; however, the revision of strategic plans and update of the AMP related to transport assets may require additional budget provisions. To constrain or decrease costs, the Council may need to reconsider the service levels provided or find alternative strategies to reduce expenses.

The forecast income, combined with uncertainty in forecast expenditure, constitutes a significant risk to sustainability. The forecasts rely on growth in rateable properties, increased charges and constrained expenditure, as well as the development of confidence in forecast asset management future requirements – which is likely to be reliant on stronger governance structures and leadership stability to implement future asset management strategies. It is not certain this can be achieved in the near-term, which presents a risk to ratepayers of unexpected rate rises, or assets that do not meet desired service levels. The Commission recommends that the Council:

3. **Consider** options to increase its income to move towards a more financially sustainable position.
4. **Consider** decreasing costs by reducing service levels to remain within financial sustainability constraints.
5. **Review** its annual budget and long-term financial plan immediately following update of strategic direction, and endorsement of draft AMPs.

[22] RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html.
[23] ABS data historical time series. Available at: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023#capital-cities-comparison.
[24] Meeting between ESCOSA and District Council of Robe on 9.1.2024.
[25] Meeting between ESCOSA and District Council of Robe on 9.1.2024.

Net financial liabilities

Key Points:

- The net financial liabilities ratio has trended between 46 and 11 percent between 2012-13 and 2022-23 averaging 29.5 percent in this period.
- Cash held at the end of 2022-23 was $3.9 million, with the forecast to continue to hold cash for each year end between 2023-24 and 2032-33 at an average of $3.4 million when this cash could be better utilised to address the deferral of its asset renewals.
- Borrowings are low and are at levels that can be easily serviced by the Council.

The Council's net cash flows after operating and investing (that is, capital-related) activities has averaged $0.2 million annually between 2012-13 and 2021-22. Cash held by the Council at the end of 2022-23 was $3.9 million. It forecasts that it will continue to hold cash for each yearend between 2023-24 and 2032-33 at an average of $3.4 million per annum.

The Council repaid its borrowings in the period 2012-13 to 2020-21 and forecasts it will borrow more to partly fund capital expenditure in 2023-24.

The Council's net financial liabilities ratio has trended between 46 and 11 percent between 2012-13 and 2022-23. This is within the suggested LGA target range (averaging 29.5 percent over this period) and is at a level which demonstrates that the Council is only accumulating liabilities that its operating income can reasonably service.[26] However, the forecast ratio is dependent on reliable information which as explained above is not certain.

The Council has estimated that the ratio will peak at 44 percent in 2024-25 then decline to a negative ratio by 2029-30.

The accumulation of significant cash reserves by a council is generally not desirable; however, the conservative income and expenditure forecasts, together with uncertainty in forecast expenditure requirements (and specifically for asset-related expenditure) relevant to the Council, suggests that cash reserves may support it to address deferred renewals in the short term, contributing to a more sustainable outlook. The Commission would not support increasing cash reserves beyond the levels proposed in the LTFP.

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

Asset renewals expenditure

Key Points:

- Between 2012-13 and 2021-22, $2.4 million was spent on average per annum on renewals and new/upgraded assets; however, this was not enough to cover the asset renewals as required in the AMP.
- The Council is proposing to spend an average of $2.1 million per annum on its renewals. However, this is not enough to address renewals expenditure required (per the AMPs) or the deferred asset renewals backlog.
- The Council's asset renewal funding ratio (IAMP-based) was below the suggested LGA target range of 90 to 110 percent between 2012-13 and 2021-22, averaging only 55 percent.
- The asset renewal funding ratio (IAMP-based) is forecast to increase, from 2025-26 to 2031-32 averaging 105 percent, after a spike in 2023-24 (of 164.1 percent), reflecting the Council's intention to partly address the accumulation of deferred renewals.
- The Infrastructure AMP is out of date and likely to increase operational and capital expenditure budgets once updated.

Between 2012-13 and 2021-22 the Council's total capital expenditure averaged $2.4 million per annum (including $1.2 million on asset renewals and $1.2 million on new and upgraded assets) but this was not sufficient to cover the asset renewal and rehabilitation requirements specified in its AMPs. The Council's asset renewal funding ratio (IAMP-based) was below the suggested LGA target range of 90 to 110 percent over these years,[27] and averaged 55 percent between 2012-13 and 2021-22. This indicates that the Council underperformed in meeting its asset management sustainability requirements over this period.

From 2023-24, the Council is adjusting its asset renewals spending profile (with higher projected annual renewal expenditure averaging $2.1 million to 2032-33, in nominal terms). As a result, its asset renewal funding ratio (IAMP-based) is expected to increase, averaging 105 percent from 2025-26 to 2031-32 – after a spike in 2023-24 (164.1 percent), reflecting the Council's intention to partly address the accumulation of deferred renewals. This coincides with much lower forecast spending by the Council on new or upgraded assets, estimated to total $2 million between 2023-24 and 2028-29, and then zero until 2032-33.

That forecast may be unrealistic, given the historical performance and the Council's known coastal erosion issues. The Commission notes that a focus on the renewal of assets rather than expenditure on new/upgraded assets will assist the Council to move towards a more financially sustainable position.

The Council has identified an accumulation of deferred renewals[28] and a corresponding funding shortfall (referred to as a 'renewal funding gap') across all asset classes in its AMPs. This gap is estimated to be $10.6 million (or 47 percent of total renewals) in 2021-22, which is not currently covered in the 2023-24 draft LTFP projections. By 2032-33, the forecast indicates that this gap will widen to $11 million; however, the Council's cash reserves could be utilised to address deferred renewals.

27 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).

28 Meeting between ESCOSA and District Council of Robe on 9.1.2024.

The Council currently has an outdated AMP for Infrastructure (transport assets including stormwater and CWMS covering 41 percent of assets[29]), and only draft AMPs for buildings and other structures, plant and equipment, CWMS, Lake Butler Marina and Open Space assets. These AMPs cover most of the Council's asset base and asset valuations were carried out in July 2022 (apart from transport assets). In formulating its draft AMPs, the Council has considered matters such as customer levels of service, utilisation and demand of its assets, life cycle management, and risk management planning; however, the AMPs are not finalised nor adopted by Council.

The failure to finalise and update AMPs provides a significant risk for Council, as a solid understanding of assets (and associated depreciation, maintenance and renewal costs) is critical for long-term sustainability. The immediate risk to Council is that understated depreciation allows the operating result to be more favourable than it would otherwise be, while the longer-term risks are that assets will deteriorate, and Council will not have sufficient funds to renew them. The Council is required to provide adequate funding for the renewal of assets to maintain current service levels. An alternate option is to review and gain community acceptance for lower service levels. The Commissions notes that the Council planned to address strategic direction and continue to update AMPs as discussed at its January meeting.[30]

The Commission recommends that the Council:

6. Urgently review and adopt draft AMPs to align with the strategic direction and facilitate accuracy in asset related expenditure.
7. Provide more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.
8. Urgently update the Infrastructure AMP (transport assets) to align with the strategic direction and facilitate accuracy in asset related expenditure forecasts.

Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,[31] which is projected to track below the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 82.6 percent per annum between 2023-24 and 2032-33. While the forecast rate may narrow the gap between asset lives as predicted by depreciation and asset renewals required (as evidenced by renewal expenditure), there remains a risk that depreciation expenses are incorrect or that asset lives are over or understated (refer to Attachment for additional discussion). This reflects Council's lack of understanding about its asset profile and needs to be addressed when undertaking a review of corporate governance functions and responsibilities.

2.2.3 Advice on current and projected rate levels

Key Points:

- ⚠ Rate revenue per property growth has averaged 2.8 percent per annum for each property in the period between 2012-13 and 2021-22, which is 0.8 percent above CPI for the same period.
- ⚠ Rates per property growth is forecast to increase by 3.0 percent per annum between 2023-24 and 2032-33, which is 0.4 percent above the RBA-based forecast of inflation over the same period.

29 District Council of Robe, General Purpose Financial Statements for the year ended 30 June 2023, p17
30 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
31 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.

Affordability risk among the community for these further increases may be low, for the following reasons:

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area, and
- the current relatively stable average rate revenue per property with forecast increases of 0.4 percent above RBA forecast inflation for ratepayers.

The Council's rate revenue per property growth averaged 2.8 percent, or $52 per annum, for each property in the period between 2012-13 and 2021-22. This exceeded CPI growth of an average of 2 percent per annum over the period but also encompassed 0.6 percent average annual growth in rateable property numbers.

The Council has budgeted for an average rate increase of 6.4 percent, or $156 per property, for its existing ratepayers in 2023-24.[32] The Council has also assumed growth in the area will be minimal, at 1 percent from 2023-24 (based on the draft 2023-24 excel template). In the longer term, the Council proposes a 3 percent per annum growth in rates per property ($79.20 per annum on average), resulting in average rates of $3,369 per annum per ratepayer.

Affordability risk among the community for the further rate increases appears to be low, based on a range of factors including:

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area,[33] and
- the current relatively stable average rate revenue per property with forecast increases of 0.4 percent above RBA forecast inflation for ratepayers.

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

9. Review rate increases relative to proposed service levels to align with revised and endorsed AMPs to ensure that the Council raises adequate revenue to maintain funding of council services at a sustainable level.

2.3 The Commission's next advice and focus areas

In the next cycle of the scheme, the Commission will review and report upon the Council's:

- financial performance relative to updated long term financial plan based on improvements to corporate governance and alignment with strategy,
- revisions to AMPs including alignment with strategic plans and budgets,

32 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 $6.667 million (in 2023-24 budgeted rates revenue) compared to audited 2023-23 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.

33 The District Council of Robe area is ranked 56 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 (e.g., 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

- reprioritisation of its capital spending towards asset renewal and rehabilitation works, and how it has addressed the backlog of asset renewal expenditure, and
- understanding of its asset profile and how it is embedded in its corporate governance functions and responsibilities.

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