Advice

Local Government Advice - Attachment

District Council of Robe

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

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A The Commission's approach

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

The Commission has considered the Council's strategic management plan (**SMP**) documents (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]

- Four Year Business Plan 2023-24 to 2026-27 and Annual Budget 2023-24 - adopted
- General Purpose Financial Statements (audited) 30 June 2023
- Annual Report 2022-23-finalised
- Adopted Long Term Financial Plan 2022-23 to 2031-32 (Adopted 19 January 2022)
- 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template) (draft LTFP)
- Asset Management Strategy 2013-2023
- Infrastructure Asset Management Plan 7.3.2020
- Presentation to ESCOSA at meeting on 9 January 2024

The Commission notes that most of the Council's asset base is covered by its existing asset management plans (**AMPs**), and that revised draft AMPs have been prepared (excluding for transport assets) but not endorsed by Council. Most asset revaluations have been carried out within the last four years although the outcomes of reviews are not included in documentation that is endorsed by Council.

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 District Council of Robe's AMPs, and the alignment between its LTFP and AMPs,[5] are discussed in section C.3.

The Commission notes recent issues in governance arrangements for the Council that have included a significant turnover in CEOs and other personnel and created difficulties in achieving Council approval of AMPs and other documentation to meet legislated requirements[6] and has impacted the corporate governance functions and responsibilities related to effective asset management.

The Commission has also reviewed the Council's template data which contains its draft 2023-24 LTFP forecasts for 2023-24 to 2032-33, as well as its 2022-23 LTFP forecasts, and historical financial data

[1] Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

[2] The indicators are specified in the *Local Government (Financial Management) Regulations 2011*. Since 2011, each council has been required to refer to these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. The councils can adopt their own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

[3] The F&A listed 29 analytical questions that the Commission has answered in assessing the Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

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

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

[6] Meeting between ESCOSA and District Council of Robe on 9.1.2024.

and number of rateable properties and council staff (Full Time Equivalent (FTE)) numbers from 2012-13 onwards.[7] [8] All charts and tables in the Advice are primarily sourced from these datasets.

The Commission has reported estimates in nominal terms, for consistency with the Council's plans and actual rate levels, but it has compared estimated inflation impacts to these trends as a guide to identify 'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (CPI) line shows the cumulative growth in the CPI (Adelaide) series from 2012-13, and then projections of this series from 2023-24 based on the Reserve Bank of Australia (RBA) (Australia-wide) inflation forecasts (to the June quarter 2025), and 2.6 percent thereafter.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Council, including its location as a regional council, its income level ($8.9 million) and the size of its rates base (more than 2,561 ratepayers[9]).

7 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.
8 The Council's estimates for the 2022-23 financial year, relied on at the time of preparing this advice, are audited.
9 Based on the estimated number of property assessments in 2022-23.

Summary of the District Council of Robe's financial sustainability performance and the Commission's risk assessment

The 'heat map' diagram below summarises the Commission's findings with reference to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators,[10] and the level of cost control and affordability risk identified for the Council over time.

Financial sustainability indicators:	Last 10 years from 2012-13 (Actual performance)	2022-23 estimate	Next 10 years from 2023-24 (Council forecasts)
Operating surplus ratio (target 0-10%)	Operating Surpluses / Improved performance but volatile ——>	Operating deficits	Operating deficits / Improved performance ——>
Net financial liabilities ratio (target 0-100%)	Ratio met historically ——>	Ratio below target	Ratio within target ——> / Ratio below target ——>
Asset renewal funding ratio (target 90-110%)	Renewal works spending below target range ——>		Volatility in renewal works spending & some years above or below target range ——>
Identified Risks:			
Cost control risk	Operating expenses per property average growth 2.5% pa to 2022-23 (CPI 2.0%) ——>	Growth 12.6%	On average, operating expenses growth equal to forecast CPI but with risks ——>
Affordability risk			Projected rate revenue per property average growth of 3% ——>

Red: Ratio outside suggested LGA target range or higher risk

Amber: Ratio close to suggested LGA target range or medium risk

Green: Ratio within suggested LGA target range or lower risk

10 LGA SA Financial Indicators Paper.

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).[11] To ensure a comparable analysis of estimates between the 2022-23 to 2031-32 and draft 2023-24 to 2032-33 LTFPs, the Commission has reviewed the nine overlapping years' statistics (2023-24 to 2031-32) and identified material amendments accordingly.

Selected Financial Item	Sum of 2023-24 to 2031-32 estimates in 2022-23 LTFP ($ million)	Sum of 2023-24 to 2031-32 estimates in 2023-24 LTFP ($ million)	Change in 2023-24 estimates ($ million)	Change in 2023-24 estimates (percent)
Total operating income	90.4	96.0	5.6	6.2
Total operating expenses	85.3	94.8	9.5	11.1
Operating surplus / (deficit)	5.1	1.3	-3.9	-74.5
Capital expenditure on renewal of assets[12]	21.7	16.8	-4.9	-22.7
Capital expenditure on new and upgraded assets[13]	5.4	2.0	-3.4	-63.3

B.1 Changes to operating performance

The Council has budgeted (in 2023-24) for a decrease in its operating performance, with an aggregate surplus of $1.3 million compared to an aggregate surplus of $5.1 million in the 2022-23 LTFP. In aggregate, the projections in its current and previous LTFPs (that is, over the nine-year comparative period to 2031-32, as shown in the table above) indicate the Council's cumulative operating performance declined by $3.9 million.

For the 2023-24 budget year, the Council has stated that the decrease in the operating deficit (compared to the 2022-23 LTFP) results from a combination of a 6.2 percent increase (or a $5.6 million increase) in income, not offsetting an 11.1 percent increase (or a $9.5 million increase) in expenses.[14] Some of the amendments, compared to the 2022-23 LTFP, include:

- Higher rates revenue FY24 and increases in statutory charges.
- Higher user charges as Council progresses towards cost recovery for CWMS and Marina.
- Increased investment income from long-term cash holdings.
- Increased employee costs due to inflation and forecast enterprise bargaining agreement costs.
- Increased insurance expenses and depreciation related to asset revaluation (increased) and the inclusion of assets formerly excluded from asset registers.

11 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.
12 The capital expenditure estimates are based on the draft 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).
13 See footnote 12.
14 See footnote 12.

- Material increases in electricity expenses and broader inflationary pressures.

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

B.2 Indexation adjustments

The Council applies differing CPI-based inflation adjustments to its cost and revenue estimates. It assumed CPI inflation increases of 6.7 percent in 2023-24, 3.6 percent in 2024-25, and 3.0 percent thereafter.[15] The Commission notes that the CPI rates are assumptions for its draft 2023-24 LTFP estimates and that Council has not endorsed the LTFP due to internal issues.[16]

The increases in costs and revenues in its draft 2023-24 LTFP, of 11.1 percent and 6.2 percent respectively, over the 2023-24 to 2032-32 forecast period,[17] compared with the same estimates in its 2022-23 LTFP, can partly be attributed to higher inflation forecasts. However, they are also influenced by asset valuations that increased operating expenses (depreciation) as assets that were formerly excluded from asset registers are now included for the first four years of the plan.[18]

The Council has factored additional cost recovery income into its draft LTFP projections, discussed in section C.1. However, the lack of a current adopted LTFP presents a risk of using outdated financial information for decision-making. Additionally, its current inflation forecasts also present a risk to its cost and income projections in the current inflationary environment as they are higher than the RBA forecasts. The RBA currently forecasts the CPI (Australia-wide) to increase by 3.9 percent in the year to the June 2024 quarter and by 3.5 percent in the year to June 2025. Thereafter, it is reasonable to anticipate a return to long-run averages (and growth of 2.6 percent per annum from 2025-26, based on the RBA's 2 to 3 percent target range).[19]

The Commission recommends 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).

B.3 Decrease to capital expenditure estimates

The Council's draft 2023-24 LTFP indicates a decrease in capital expenditure for asset renewals (by $4.9 million or 22.7 percent), and for new and upgraded assets (by $3.4 million or 63 percent), compared to the previous LTFP (for the period from 2022-23 to 2031-32). Over the 10-year projections in the draft 2023-24 LTFP, the Council has factored in a total of $21.5 million in capital renewal and replacement works and $2 million in new and upgraded capital works, accounting for 93 percent and 7 percent of the total capital expenditure program respectively.

The Council has deferred expenditure pending the review and completion of draft AMPs that align with strategic directions.[20] Historical under expenditure on asset renewal has given rise to a significant amount of deferred renewals for capital investment and while some new draft AMPs have been prepared, they are not yet endorsed by council or aligned with LTFP funding.[21] The draft 2023-24 LTFP includes conservative grant funding estimates and capital project deferrals that reduce forecast capital expenditure[22] pending revised strategic directions, and review and endorsement of draft AMPs.

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

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15 Four Year Business Plan 2023-24 to 2026-27 and Budget 2023-24, p23.
16 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
17 The set of nine years forecast in both the 2022-23 and draft 2023-24 LTFP projections.
18 See footnote 17.
19 RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html
20 See footnote 17.
21 See footnote 17.
22 See footnote17.

B.4 Changes between 2023-24 LTFP and annual business plan

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. The Council proposed further material amendments to its 2023-24 budget which included rate increases of 7.7 percent;[23] however, the calculated increase from 2022-23 (audited accounts) to 2023-24 based on the draft LTFP template shows a rate increase per property of 6.4 percent.

The Commission notes that the Council's 2022-23 LTFP identifies the risks to its estimates after it is adopted (due to economic factors, for example) and that its current four-year business plan updates its assumptions.

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. Council might want to consider republishing updated 10-year financial estimates with its adjusted annual budget estimates for 2024-25, particularly if the extent of revisions to estimates in its annual business plan and budget are substantial compared to its draft 2023-24 LTFP. 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 also 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 significantly understated in the longer term. Specifically, the AMP Infrastructure Asset Management (transport assets) has not yet been redrafted (most recent AMP approved in 2020 using valuations from July 2018[24]) and this plan covers 41 percent of assets.[25] Any additional impact from the update of this plan is not included,[26] further increasing the 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.[27] Section C further discusses asset renewals.

23 Four Year Business Plan 2023-24 to 2026-27 and Budget 2023-24, p23.
24 General Purpose Financial Statements (audited) 30 June 2023, p21.
25 General Purpose Financial Statements (audited) 30 June 2023, p17.
26 Meeting between ESCOSA and the Council on 9 January 2024 and Infrastructure Asset Management Plan Version 7 March 2020.
27 Meeting between ESCOSA and the Council on 9 January 2024.

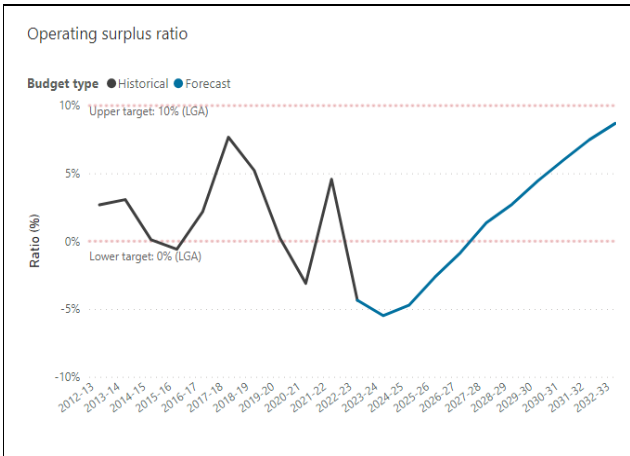
C Financial sustainability

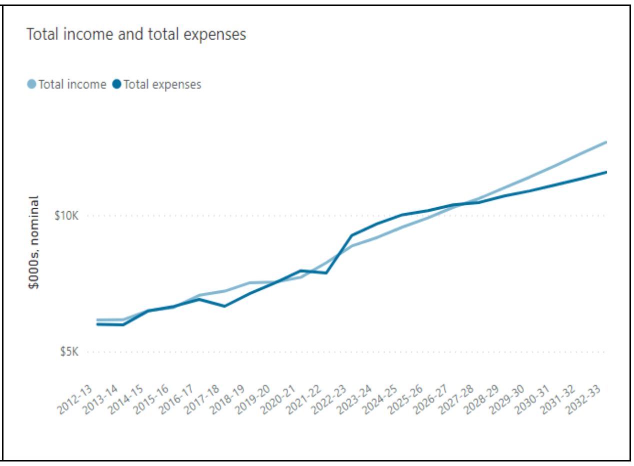
C.1 Operating performance

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 averaging 2.2 percent over this period. It incurred a deficit of $0.4 million in 2022-23. The operating surplus ratio[28] is not forecast to be positive again (with a surplus) until 2027-28 (see the left chart below).

Operating income growth averaged 3.3 percent per annum from 2012-13 to 2021-22, slightly higher than the rate of operating expense growth (averaging 3.1 percent per annum) resulting in a 9.6 percent growth in operating surplus over the period.

The four-year decrease in its projected operating performance at the start of the LTFP forecast period, is attributed to the anticipated growth in in expenses being greater than the anticipated growth in income. Some of these changes include increased expenses associated with asset reviews (such as depreciation and maintenance) together with budgeting for a gradual implementation of a user-pays model for CWMS and Marina services,[29] resulting in nearer term income growth not offsetting expenses growth. 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 (see the right chart below). The Council notes however, that depreciation from recent AMP reviews has only been included in forecasts until 2026-27, which will cause the operating surplus[30] to be less than forecast, unless income forecasts are increased.





Rates revenue has increased on average by 3.4 percent per annum from 2012-13 to 2021-22[31] (when rateable property growth averaged 0.6 percent and CPI growth averaged 2.0 percent). Over the same period 'statutory' and 'user charges' (accounting for 15 percent of total operating income) increased by an average of 15.1 and 4.8 percent per annum respectively. 'Grants, subsidies and contributions' have decreased over the period by 0.9 percent and on average, accounted for 11 percent of income. The Commission notes the Council's perspective that it has been disadvantaged in receiving Financial Assistance Grants, which are calculated based on high property valuations and a considerably smaller permanent population.[32] Grants as a percentage of income have decreased from a maximum of 13

28 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).

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

30 See footnote 29.

31 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).

32 See footnote 29.

percent in 2017-18 to 7 percent in 2022-23 and are forecast to decrease further to 6 percent between 2023-24 and 2032-33.

The Council is projecting average annual rates revenue growth of 3.8 percent to 2032-33 which is above the forecast long-term inflation,[33] but includes growth in rateable properties of 0.7 percent. This average growth in annual rates revenue is higher than expected expense growth for the same period (rates are discussed in more detail in section D). Throughout the forecast period, rates are forecast to remain at a stable 73 percent of total income, a small increase on the historical value of 71 percent (from 2012-13 to 2021-22).

As discussed above, grants are declining, rates are relatively static and options for increased revenue are being pursued through recovery of other charges. The Council noted at the meeting with the Commission that it intends to pursue more cost recovery in relation to its CWMS and Marina assets, and that it could potentially better utilise the Marina asset to generate more income.[34] The Commission supports the consideration of options that can increase revenue, contributing to a more financially sustainable position.

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 (see the changes by expense type in specific time periods in the left chart over the page noting that forecast depreciation is likely to be underestimated).

The forecast average expense growth of 2.0 percent per annum is less than RBA-based forecast inflation growth[35] and is less than the Council's past performance (with average annual growth of 3.1 percent in the 10 years to 2021-22) and as mentioned above, does not include all known depreciation expenses. Council is also responsible for the Marina which is a high-cost asset used primarily by commercial fishing enterprises. It requires significant operational expenditure for routine dredging and is subject to environmental considerations and degradation in addition to high asset renewal capital expenditures.[36] Furthermore, the Council experiences significant financial impact of a large non-resident ratepayer population (63 percent) and a seasonal influx of population (from 1,500 to more than 15,000) in peak holiday seasons that places additional pressure on budgets and infrastructure.[37]

Expenses per property (a metric which also accounts for growth) are expected to increase by an average of 1.3 percent per annum over this period, which would represent a cost reduction in real terms (based on current inflation projections) (see the right chart over the page).

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. The Commission notes that the draft AMPs include assets that were formerly excluded from Council asset registers.[38] Provisions for management of those additional assets may now be partially included in their LTFP forecasts, however revision of strategic plans and an update of the AMP related to transport assets may require additional increased budget provisions. To contain or decrease costs, Council may need to reconsider the service levels provided or find alternative strategies to reduce expenses.

Overall, 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 requirements – which relies on stronger governance structures and leadership stability to implement future asset management strategies. It is not certain that this can be achieved in the near-term, which provides a risk to ratepayers of unexpected rate rises or assets that do not meet desired service levels.

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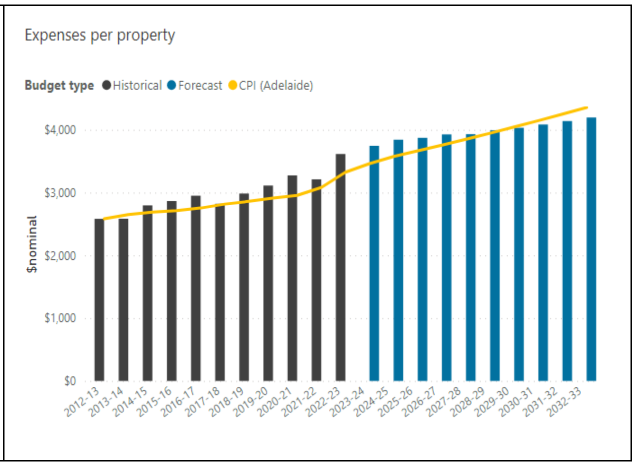
33 RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html
34 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
35 RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html
36 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
37 Presentation to ESCOSA at meeting 9.1.2024.
38 See footnote 33.



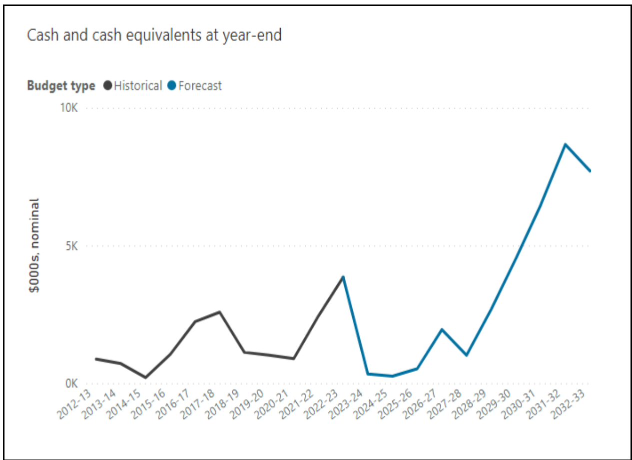
The Council's template data (provided to the Commission) shows that employee numbers are assumed constant at current levels (of 31 FTEs) over the forecast period. The Commission recommends that the Council:

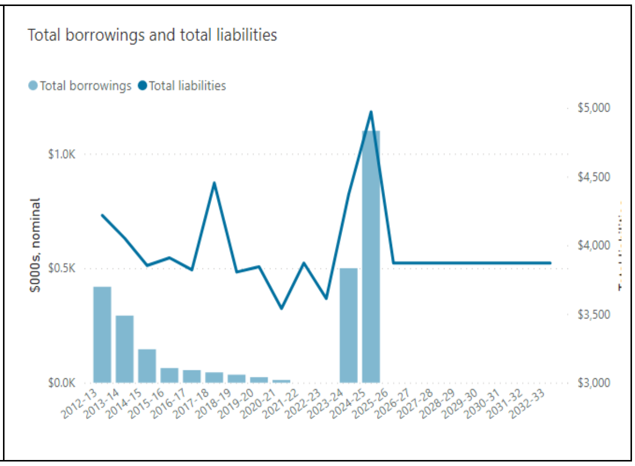
3. **Consider** options to increase its income to move towards a more financially sustainable position.
4. **Consider** decreasing costs by reducing service levels to remain within financial sustainability constraints.
5. **Review** its annual budget and long-term financial plan immediately following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

C.2 Net financial liabilities

The Council's net cash flows (annual net cash flow movements) after operating and investing (that is, capital-related) activities has averaged $0.2 million annually between 2012-13 and 2021-22. (This is different to the chart (see left chart below) which shows the stock of cash held by the Council at the end of each financial year.

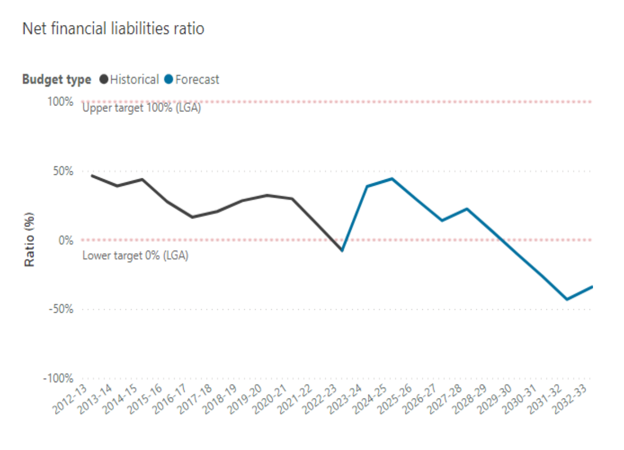
The Council repaid its borrowing in the period 2012-13 to 2020-21 and proposes to borrow more in the first two years of the draft 2023-24 LTFP to fund projects.[39]

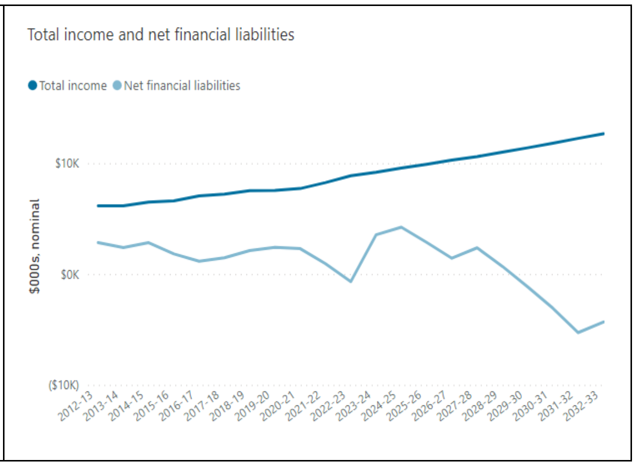




39 Four Year Business Plan 2023-24 to 2026-27 and Budget 2023-24, p21.

The Council’s net financial liabilities ratio has trended between 46 and 11 percent between 2012-13 and 2021-22 (see the left chart below). The ratio is within the suggested LGA target range for the indicator of between zero and 100 percent (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 (see right chart below).[40]





The Council has estimated that the ratio will peak at 44 percent in 2024-25, then decline to a negative ratio in 2029-30. Council has maintained a position of having cash reserves with an average of $1.3 million between 2012-13 and 2021-22 and forecasts to increase that over the period 2023-24 to 2032-33 to an average of $3.4 million. However, the forecast ratio is dependent on reliable information which is not certain in this case.

The accumulation of significant cash reserves by a council is generally not desirable; however, the conservative income forecasts, together with uncertainty in forecast expenditure requirements (and specifically for asset-related expenditure) relevant to the Council, suggests that cash will be needed to address deferred renewals in the short term and that further borrowings may be required for new/upgraded capital expenditure. The Commission would not support increasing cash reserves beyond the levels proposed by the LTFP.

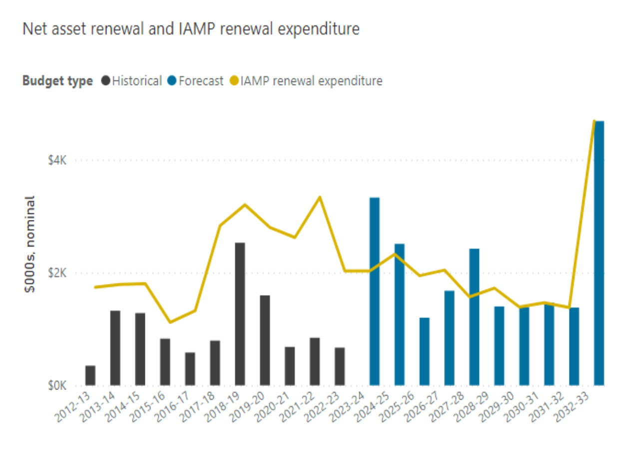
C.3 Asset renewals expenditure

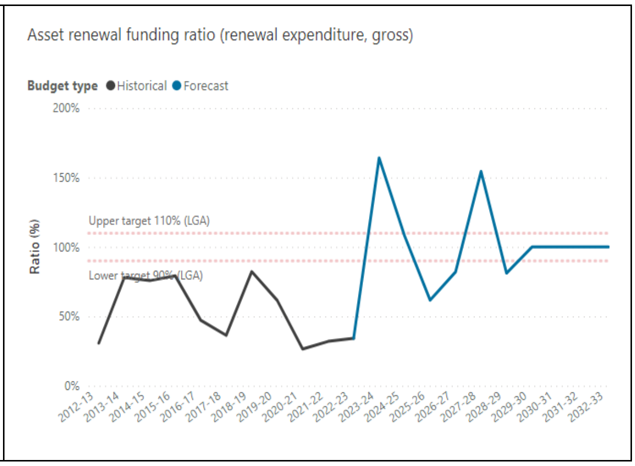
The Council has significantly underperformed on its asset renewal funding ratio[41] between 2012-13 and 2021-22 and the 2023-23 audited results[42] continue the trend (see the left chart over the page).

40 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, p. 7-8).

41 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).

42 General Purpose Financial Statements (audited) 30 June 2023.





Between 2012-13 and 2021-22, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 55 percent,[43] signifying a substantial 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 $1.2 million each year (over this period – see right chart above).

From 2023-24 to 2032-33, the ratio is forecast to average 105 percent, reflecting additional expenditure to partly address previous years' deferred renewal expenditure. Average annual spending on renewal or rehabilitation of assets is projected to increase to $2.1 million (in nominal terms). Expenditure on new and upgraded assets is forecast to average $0.2 million between 2023-24 and 2032-33. However, Council has noted significant environmental degradation risks to its coastal paths and infrastructure[44] which implies that new asset investment may be understated. The Commission notes that a focus on renewal of assets rather than expenditure on new/upgraded assets will assist the Council to move towards a more financially sustainable position and that the Council's cash reserves could be utilised to address deferred renewals.

The Council has recognised that its historical capital spending profile has given rise to an accumulation of deferred asset renewals (indicated by actual asset renewal expenditure being lower than required under the AMPs). The substantial increase in forecast renewal expenditure is based on reviews of AMPs (not finalised nor endorsed by Council).

The Council currently has an outdated AMP for Infrastructure and transport assets were last valued at 1 July 2018,[45] although the AMP was not adopted until March 2020. It has draft AMPs for buildings and other structures, plant and equipment, CWMS, Lake Butler Marina and Open Space assets. The AMPs cover most of the Council's asset base and asset valuations have been carried out in July 2022 excluding for transport assets. In formulating its draft AMPs, the Council has considered several 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. Noting that the Commission is unclear as to the asset expenditure inclusions/exclusions in the draft 2023-24 LTFP spreadsheet provided; for example, it is possible that CWMS is included twice as it is included in the outdated Infrastructure AMP and a new standalone draft CWMS AMP also exists. In addition, the infrastructure AMP (covering 41 percent of assets, including transport assets) once updated, may require additional operational and capital expenditure.

The Commission is aware that some financial information from the draft AMPs has been included in the draft 2023-24 LTFP spreadsheet provided. The Commission's review of the AMPs has found that the Council's strategic planning processes do not align with effective asset management and financial

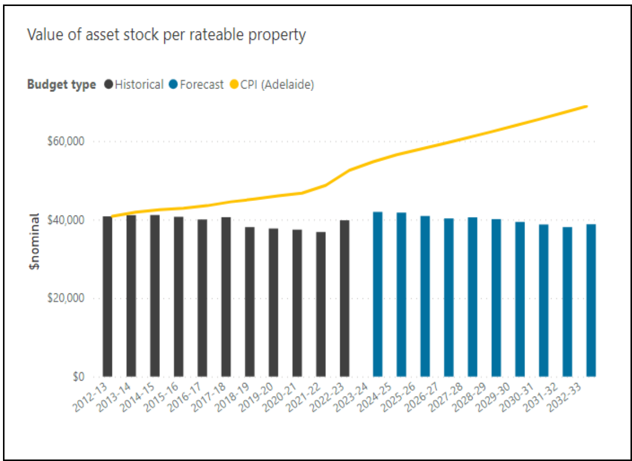
43 The quoted averages for the ratio are based on 'gross asset renewal expenditure' (before the sale of replaced assets) rather than 'net asset renewal expenditure'.
44 Meeting between ESCOSA and District Council of Robe on 9.1.2024.
45 District Council of Robe GPFS for year ended 30 June 2023, p20.

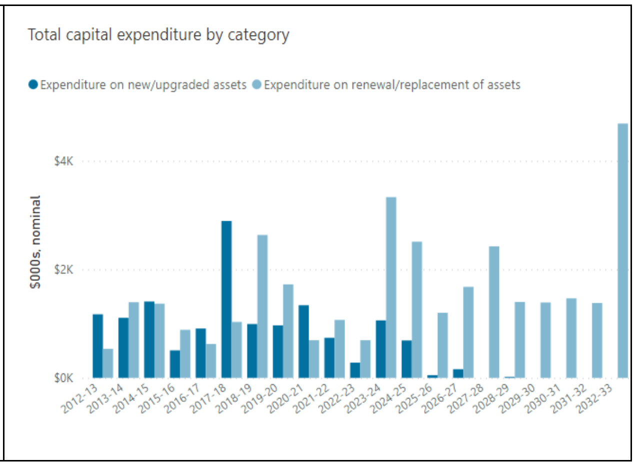
planning which provides a significant risk to ratepayers given the complexity of managing Council assets and environmental risks.

The failure to finalise and update AMPs provides a significant risk for Council as an 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 will lead to recording an operating result that is more favourable than it would otherwise be, while the longer term risks are that assets will deteriorate more quickly, and Council will not have sufficient funds to renew them. The Council is required to provide adequate funding for renewal of assets to maintain current service levels. An alternate option is to review and gain community acceptance for lower service levels. The Commission notes that the Council plans to address the strategic direction and continue to update AMPs as discussed at the January meeting.[46]

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.





The Council's asset base has marginally decreased over the past 10 years notwithstanding total capital expenditure averaging $2.4 million per annum (including $1.2 million per annum on new or upgraded assets) between 2012-13 and 2021-22 (see the above right chart). This has led to a decline in the value of the asset stock per property of $3,991 or 1.1 percent for each year over the 10 years to 2021-22 (see left chart above). By implication, the Council's asset stock has declined in real terms (as the decrease is more than historical inflation) or alternatively, assets have not been adequately revalued.

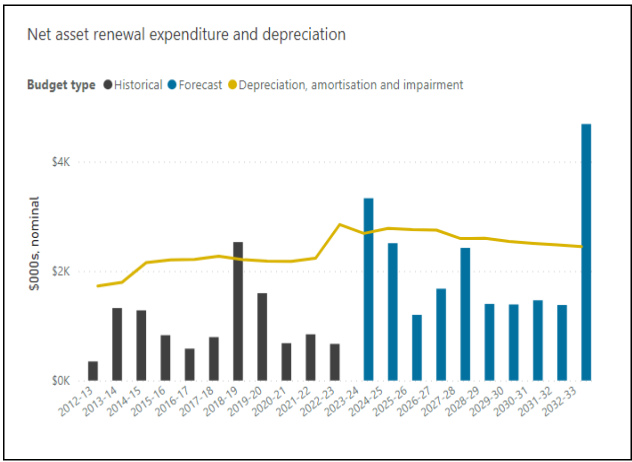
Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,[47] which is projected to track below the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 82.6 percent per annum to 2032-33 (see charts over the page). While the forecast rate may 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. This reflects Council's lack of understanding about its asset profile

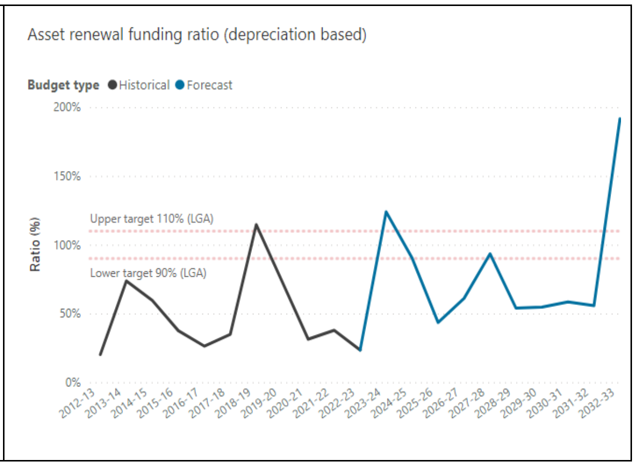
46 See footnote 46.

47 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.

and needs to be addressed when undertaking a review of corporate governance functions and responsibilities.

Historically (between 2012-13 and 2021-22) depreciation expenses have outpaced renewal capital expenditure by a significant margin (totalling $0.9 million per annum over ten years). This earlier period may indicate an intergenerational equity[48] risk, as the Council had partly funded capital expenditure (through depreciation) but had deferred or under invested on its asset renewal needs.





As previously noted, the Council has identified an accumulation of deferred renewals[49] with 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) in 2021-22, which is not currently covered in the draft 2023-24 LTFP projections. By 2032-33, the forecast indicates that this gap will widen to $12.4 million.

48 ‘Intergenerational equity’ relates to fairly sharing services and the revenue required to fund the services between current and future ratepayers.
49 Meeting between ESCOSA and the Council on 9 January 2024.

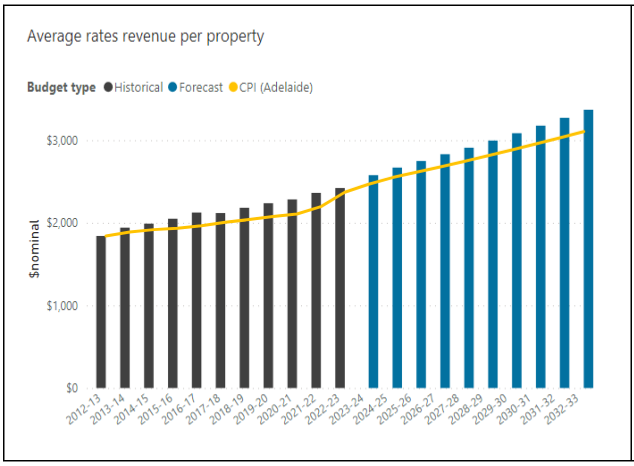
D Current and projected rate levels

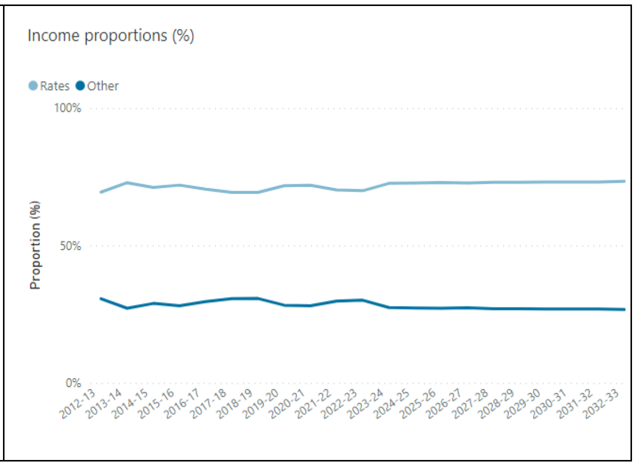
D.1 Historical rates growth

The Council's rates revenue per property growth has averaged 2.8 percent or $52 per annum for each property over the past 10 years,[50] to reach an estimated $2,363 per property in 2021-22 (see the left chart below). This has exceeded CPI growth (an average of 2 percent per annum over this period), but also encompasses 0.6 percent average annual growth in rateable property numbers. Current rate levels partially reflect its recent history of spending growth, predominantly on higher employee-related costs, and the Council's decreasing grant funding.

The Council remains reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 73 percent of budgeted operating income in 2022-23 (and thereafter), compared with 69 percent of income in 2011-12.

The Commission notes that the Council has average rates higher than similar councils but has relatively stable rate levels for residential categories and increasing rates for other ratepayers.[51]





D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 6.4 percent or $156 per property for its existing ratepayers in 2023-24.[52] The Council has also assumed growth in the area will be minimal (at 1 percent since 2023-24).

Different rate categories are subject to varying charges, with residential, industrial, primary production, vacant and other land ratepayers to pay a lower differential rate than commercial and Marina berth ratepayers. The Council proposes to decrease differential rates in the dollar by approximately 18 percent for 2023-24 based on increased property values.[53]

On a proportional revenue basis, residential ratepayers account for around 33 percent of 2022-23 budgeted rates revenue, followed by primary production and commercial ratepayers (at 30 percent

50 From 2012-13 to 2021-22.

51 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_robe. 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.

52 Based on the Council's 2023-24 annual business plan and its Excel template (with the draft 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.

53 Rate in the dollar applied to the capital value of the property in the Council area. Four Year Business Plan 2023-24 to 2026-27 and Budget 2023-24, p27.

each), and other categories of ratepayers (7 percent). On a capital valuation basis (in 2023-24), primary production and residential land use represent 42 and 46 percent of the aggregate capital value in the Council area respectively,[54] despite their relatively lower rate contributions (as groups) than other ratepayers.

Other than 'general rates' revenue (which represents around 75 percent of total rates revenue in 2021-22),[55] the Council collects income from waste collection and water supply, special rates (underground powerline), CWMS charges, and the Regional Landscape Levy.

D.3 Projected further rate increases

Over the forward years of its draft LTFP, the Council is projecting average rate revenue increases of approximately 3.8 percent per annum from 2023-24 to 2032-33 which includes growth in rateable properties of 0.7 percent.

In total, the draft LTFP effectively projects a cumulative increase of $792 per existing ratepayer or 3 percent per ratepayer per annum (to $3,369 by 2032-33), which is above the RBA-based long-term inflation forecast of an average of 2.6 percent per annum[56] for the same period (refer to the previous page chart on the left side).

As a result of further rates increases, the percentage of the Council's total income contributions from ratepayers is projected to average around 73 percent, compared to a historical average of around 71 percent.

D.4 Affordability risk

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

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area,[57] and
- the current relatively stable average rate revenue per property 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 adequate revenue to maintain funding of council services at a sustainable level.

54 Four Year Business Plan 2023-24 to 2026-27 and Budget 2023-24, p27.
55 After discretionary rebates.
56 RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html
57 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/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

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