Advice

Local Government Advice

District Council of Cleve

February 2024

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District Council of Cleve

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the District Council of Cleve's current and projected financial performance **sustainable** taking into account the council's forecast low expense growth increase over the next 10 years, property growth of 1.4% p.a. over this period and the planned average rate increases per property of 2.2% p.a. until 2032-33

RISKS IMPACTING SUSTAINABILITY

- Forecast inflation assumptions may be overstated
- If low forecast expense growth is not achieved, this may result in higher average rate increases than previously projected
- Forecast growth in rateable properties is not achieved

CONTINUE

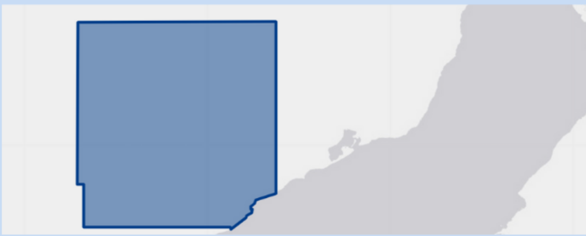
- Reviewing inflation forecasts in the budget and forward projections from 2023-24
- Monitoring cost growth in the budget
- Reporting any actual and projected cost savings in the annual budget
- Reviewing the estimates of asset lives and asset valuations

COMMISSION'S RECOMMENDATIONS

- Provide more funding to the renewal of assets
- Increase transparency about the assumptions underpinning the figures in the Annual Business Plans, Budgets and the long-term financial plan
- Provide ratepayers with a version of the long-term financial plan in nominal terms
- Consider limiting future increases in rates to no more than expected inflation in real terms
- Consider minimising average rate level increases if unanticipated grants are received

KEY FACTS

- Population in 2021 was **1,765**
- Council covers **4,507 square kilometres**
- **1,550** rateable properties in 2022-23
- **$3.8 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$55.6 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 Cleve
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 Cleve

Current financial performance:

Unsustainable	Potentially Unsustainable	Mostly Sustainable	**Sustainable**

Projected financial performance (future):

Unsustainable	Potentially Unsustainable	Mostly Sustainable	**Sustainable**

Previous financial performance (past ten years):

Unsustainable	Potentially Unsustainable	**Mostly Sustainable**	Sustainable

The Essential Services Commission (**Commission**) finds the District Council of Cleve's (**Council's**) short-term financial position sustainable and notes that it has taken steps to further consolidate a sustainable position in the medium to long-term. The Council's projected improvement to its financial performance is reliant on achieving its planned growth, the renewal of its asset stock and a period of service consolidation, with ongoing cost control while limiting further rate increases as forecast.

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 contains the extent of further rate increases:

Budgeting considerations

1. **Continue** to review its inflation forecasts in its budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.
2. **State** the basis for preparation of Annual Business Plans, Budgets and the long-term financial plan overtly in the accompanying documentation to increase transparency about the assumptions underpinning the figures.
3. **Provide** a version of the long-term financial plan in nominal terms, when developed using real terms, for the benefit of ratepayers.

Continuing to provide evidence of ongoing cost efficiencies

4. **Continue** to monitor cost growth in its budgeting, where possible, including related to employee expenses.
5. **Consider** minimising average rate level increases if unanticipated grants (not already accounted for in the long-term financial plan) are received.
6. **Continue** its practice of reporting any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Refinements to asset management planning

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.
8. **Continue** its practice of reviewing the estimates of asset lives and valuations in its long-term financial plan and asset management plans, to ensure that depreciation and renewal expenditure remain aligned in the longer term.

Containing rate levels

9. **Consider** limiting future increases in rates to no more than expected inflation in real terms based on the Council's strong financial position, to help reduce any emerging affordability risk in the community.

2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by the 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 Cleve (**Council**).

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

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2024-25 Annual Business Plan (including any draft Annual Business Plan) and subsequent plans until the next cycle of the scheme.[8] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[9]), nor is it compelled under the LG Act to follow the advice. The Commission thanks the Council for providing relevant information 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 sustainable and notes that it has taken steps to further consolidate a sustainable position. Historically, the Council has constrained costs to a lower level growth rate than income, achieving an operating surplus above the LGA target range. The Council forecasts that both income and expenses per property will remain in line with or below inflation in the period from 2023-24 to 2032-33.

The past rate increases above inflation, together with borrowing, have been used by Council to fund its capital renewal and upgrade programs while maintaining a high cash balance. Capital expenditure will remain high for three years commencing 2023-24 following expenditure on new/upgraded assets until 2024-25 as Council addresses cyclone damage utilising disaster recovery funding.

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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).

Its forward projections from 2023-24 (in its LTFP) indicate ongoing financial sustainability despite the forecast rate of operating revenue growth being less than expense growth and with:

- continued average rate increases per property below the Reserve Bank of Australia (**RBA**)-based forecast inflation rate,
- achieving the forecast growth in rateable properties,
- continued cost constraint with negative cost growth, and
- low spending on new or upgraded capital works with reduced spending on renewal and rehabilitation capital works.

It should be noted that the LTFP prepared by the Council is stated in 'real terms' as opposed to 'nominal terms'. As a result, (in the process of drafting this report) the Commission requested that the Council provide updated LTFP figures in nominal terms, based on its own assumptions of inflation and other relevant factors. Accordingly, the figures mentioned throughout the report may not align (but are based on) those figures published in the Council's ABP and LTFP documents. The conversion has provided the Commission an opportunity to compare actual past performance financial data, with projected forecast performance in nominal terms for the purpose of this report.

The Commission notes the Council's practice regarding the formulation of its financial projections in its LTFP, and disclosures around its assumptions and strategic directions, including ratepayer impacts. It is also reporting risks and non-financial measures through its Annual Business Plan documentation and the Commission supports this approach.

The Council's past and projected operating surplus ratio, net financial liabilities ratio, asset renewal funding ratio and average rate revenue per property calculations, together support these findings.

2.2 Detailed advice findings

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

In providing this advice, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**). The attachment explores these matters further.[10]

2.2.1 Advice on material plan amendments in 2023-24

Key Points:

- Additional $1.7 million (or 7 percent) for asset renewals and an additional $5.4 million (or 359 percent) for new and upgraded capital works.
- Additional spend on assets is mainly driven by comprehensive updates of Asset Management Plans.

The Council's 2023-24 LTFP includes amendments to operating performance due to inflationary pressures, and increases to its projected capital expenditure estimates, compared with the 2022-23 forecasts,[11] as follows:

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

- An increase in operating income by $4.0 million or by 5.3 percent, and an increase in operating expenses of $1.5 million or by 2.1 percent, mainly driven by the receipt of a grant payment made in advance (for income) and inflationary pressures.
- An additional $1.7 million (or 7 percent) for asset renewals, and an additional $5.4 million (or 359 percent) for new and upgraded capital works. Much of the increase is driven by a comprehensive update of asset management plans and includes the impact of significant storm damage caused in January 2022.

The Council noted Consumer Price Index (CPI) inflation increases of 7 percent in 2022-23 and that it believes actual cost drivers for LG are higher again. This upward revision may be overstated when compared to RBA forecasts – 3.6 percent in the year to the June 2024 quarter and 3.1 percent in the year to June 2025, leading to a forecast average of 2.6 percent over the reporting period.[12]

The Commission notes the practice of the Council in including its most up to date long term financial plan projections in its annual business plan and budget to provide more transparency to the community about any changes to forward projections, including rate projects, and the longer-term impacts of its short-term decisions. However, the publication of the LTFP in real terms is less transparent for ratepayers and the Council did not provide the inflation forecasts it used to convert its LTFP from real to nominal terms. Doing so, would provide a more meaningful context to the community regarding the Council's expectations with respect to rates and charges and allow for improved community input regarding their expectations of the Council about cost control and service levels. The Commission further notes that the Council's stated assumptions for indexation in its 2023-24 LTFP are transparent and based on its annual review of these forecasts but considers there is still uncertainty around its assumptions.

Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, and noting that the Council prepared its public documents using real terms as opposed to nominal terms, the Commission recommends that the Council:

1. Continue to review its inflation forecasts in its budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.
2. State the basis for preparation of annual business plans, Budgets, and the long-term financial plan overtly in the accompanying documentation to increase transparency about the assumptions underpinning the figures.
3. Provide a version of the long-term financial plan in nominal terms, when developed using real terms, for the benefit of ratepayers.

The Council adopted its annual business plan and budget in July 2023, one month before it adopted its LTFP 2024-33 in August 2023. The Commission observes that the Council's LTFP identifies the risks to the financial estimates (due to economic factors, for example) and that the annual business plan also includes its 2023-24 estimates (from the LTFP) to show any further budget amendments to those estimates.

Additionally, the Council advised the Commission of material increases to its capital expenditure budget. The additional expenditure is due to the updated asset management plans and includes $1.6 million of funding from State Government's Disaster Recovery Fund to address the damages caused by ex-tropical cyclone Tiffany in January 2022 and Federal government stimulus grant funding.[13] The Council noted economic factors and maintenance of service standards as additional drivers for

[12] 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) and the Commission's calculations of average annual percentage growth; RBA forecasts available at: RBA, Forecast Table - November 2023, available at [Forecast table – November 2023 | RBA].

[13] Information obtained at meeting with the Council on 24 November 2023.

increased expenditure. The Commission encourages the Council to continue to monitor these matters, and where required, ensure that the community is consulted on further material budget adjustments.

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

- ✅ Operating surpluses consistently achieved between 2014-15 and 2021-22.
- ✅ The operating surplus ratio is forecast to meet the suggested LGA target range in each year to 2032-33 averaging 4 percent.
- ⚠ Operating expenses grew at an average of 6.1 percent per annum between 2012-13 and 2021-22.
- ✅ Forecast expenses are predicted to grow more slowly at an average of 1.2 percent per annum.

The Council has predominantly run operating surpluses from 2012-13 to 2021-22, with the operating surplus ratio[14] averaging 16 percent over this period, with a range between negative 0.9 percent (2013-14) and 36.1 percent (2016-17). In its forward projections, the operating surplus ratio is forecast to fall but continue to meet the suggested LGA target range (from 2023-24 to 2032-33) averaging 4 percent.

The Council received a combination of additional rates, statutory charges, user charges and 'grants, subsidies and contributions' income between 2012-13 and 2021-22 to generate its relatively strong operating income growth of 5.9 percent per annum.

Looking forward, the Council is projecting total income growth averaging 0.8 percent annually, which is well below the RBA inflation forecasts. Despite this, average annual rates revenue growth of 3.5 percent to 2032-33 is forecast, which is above the RBA forecast long-term inflation rate,[15] but includes growth in rateable properties of 0.8 percent. Increasing rates, offsets an average annual decline of 3.5 percent in income from grants, subsidies, and contributions, noting the Council's practice of only recognising grants once they are certain.

On the cost side, its 'employee costs', 'materials, contracts and other' and 'depreciation' expenses increased at 3.9 percent, 8 percent, and 6.3 percent per annum respectively between 2012-13 and 2021-22. Growth in total expenses averaged 6.1 percent for the period which was higher than average annual CPI growth of 2.6 percent for the same period.[16] Employee numbers (full-time equivalent (FTE) staff per year) decreased over the same period by 0.5 percent. The Commission notes the Council may use in-house resources for some capital works[17] which may capitalise what might otherwise be operational expenditures utilising unanticipated grant funding not included in the LTFP. In this context, the Council could review future average rate level increases.

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14 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).

15 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 June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2-3 percent) from 2026-27.

16 CPI (All groups). https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release#data-downloads;%20table%205:%20CPI:%20Groups,%20Index%20Numbers%20by%20Capital%20City

17 Information obtained at meeting with District Council of Cleve on 24 November.2023.

The rate of growth in operating expenses projected over the next 10 years is estimated to be an average of 1.2 percent per annum, which is below the RBA-based forecast inflation.[18] Combined with forecast growth in overall rates revenue of 3.5 per cent and minimal overall income growth over the same period (0.8 percent), the Council expects to maintain its operating performance within the suggested LGA target range. The associated impact on ratepayers is discussed further below.

The Commission has observed the current good practice of the Council in conducting regular service level reviews of its operations, focused on achieving increased productivity, efficiency, and effectiveness to achieve sustainability.[19]

To ensure the Council is positioned to achieve the real terms reduction in its cost base that it has forecast and maintain its operating performance (without the need for further rates per property increases above inflation), the Commission encourages it to:

4. Continue to monitor cost growth in its budgeting, where possible, including related to employee expenses.
5. Consider minimising average rate level increases if unanticipated grants (not already accounted for in the long-term financial plan are received.
6. Continue its practice of reporting any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Net financial liabilities

Key Points:

⚠ The net financial liabilities ratio has been below the LGA target range between 2012-13 and 2021-22.

⚠ The forecast net financial liabilities ratio is predicted to average negative 16 percent between 2023-24 and 2032-33, remaining below the LGA target range.

✓ Debt decreased between 2012-13 and 2021-22 and will be retired by 2026-27.

Predominantly achieving operating surpluses from 2012-13 (including depreciation expenses), the Council's net cash flow after operating and investing (that is, capital-related) activities averaged $0.5 million per annum.

The Council has partly used borrowings to fund its capital expenditure program (including acquisition of new and upgraded assets) over this period. Borrowings peaked in 2015-16 and steadily decreased over the period 2016-17 to 2020-21 and are forecast to be repaid by 2026-27.

The NFLR between 2012-13 and 2021-22 averaged negative 84 percent which is below the LGA target range. The forecast NFLR is predicted to average negative 16 percent between 2023-24 and 2032-33 which shows a decrease in cash held but remaining below the suggested LGA target range.[20]

18 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) and the Commission's calculations of average annual percentage growth; RBA forecasts available at: RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html.

19 District Council of Cleve IAMP 2024-33, August 2023 pp7-9 and District Council of Cleve ABP 2023-2024.

20 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 and 8).

The Council has historically maintained a net cash position averaging $1.8 million between 2012-13 and 2021-22 and forecasts to continue this practice with an average net cash position of $1.5 million between 2023-24 and 2032-33. The strong cash position provides the Council with options to utilise surplus cash to further address its asset renewal expenditure requirements and keep rates increases at lower levels or reduce them in real terms.

Through discussions with the Council, the Commission notes that the Council has various ongoing development strategies. Accordingly, an option available to the Council may be to raise the NFLR by accepting a lower operating surplus ratio than normal.

Asset renewals expenditure

Key Points:

- The asset renewal funding ratio averaged 101 percent between 2012-13 and 2021-22 although volatile from year to year.
- The forecast asset renewal funding ratio until 2032-33 is 94 percent with spending averaging $2.7 million per annum on renewal/replacement of assets.
- Capital expenditure in the past has been higher on renewal/replacement of assets than new/upgraded assets.
- Capital expenditure is forecast to be lower on new/upgraded assets with an average spend of $0.7 million per annum to 2032-33.
- The value of the council's assets has risen historically and is forecast to remain steady in the future.

Between 2012-13 and 2021-22, the Council's total capital expenditure averaged $2.9 million per annum (including $1.9 million on asset renewals and $1 million on new and upgraded assets). The expenditure on asset renewal and rehabilitation aligned with the requirements specified in its AMPs.

The Council's asset renewal funding ratio (IAMP-based) was typically within the suggested LGA target range of 90 to 110 percent over these years[21] averaging 108 percent between 2012-13 and 2021-22 (however there was considerable volatility in actual expenditure with half of those years outside the LGA target range). The Council met its asset service sustainability requirements over this period when considered as a whole. Furthermore, the Commission notes the Council's regional issues of materials and staffing resource scarcity that may impact the timing of capital expenditure projects.[22]

Looking forward, from 2023-24, the Council is forecasting an increase in its asset renewals spending profile (with projected annual renewal expenditure averaging $2.7 million to 2031-32). This coincides with lower forecast spending by the Council on new or upgraded assets (estimated to average $0.7 million per annum to 2032-33), decreasing by an average of 12.3 percent per annum. Its asset renewal funding ratio (IAMP-based) is expected to remain within the suggested LGA target range (averaging 100 percent from 2023-24 to 2032-33) reflecting the Council's intention to continue meeting its renewal needs based on revised asset management plans. The lower forecast spending on new/upgraded assets will result in a decrease in the value of asset stock in real terms; however the Commission notes the practice of the Council in building new assets based on successful grant funding[23] which is only recognised in the LTFP when certain and may cause the value of asset stock to vary from the forecast.

21 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).

22 Information obtained at meeting with the Council on 24 November 2023.

23 Information obtained at meeting with the Council on 24 November 2023.

Acknowledging this shift in proposed asset spending priorities by the Council, reflected in its LTFP projections, and noting that additional grant funding may influence future capital expenditure on new/upgraded assets, the Commission considers that it would be appropriate for it to:

7. Adhere to the principles underpinning its long-term financial plan projections to focus on funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.

When the asset renewal funding ratio is instead calculated by the depreciation-based method, between 2012-13 and 2021-22, it has historically been an average of 120 percent over the period. The projected performance for 2023-24 to 2032-33 is for an average of 97 percent (although with volatility from year to year) suggesting that the level of spending recommended by the AMP is reasonably aligned with asset valuations and useful life assumptions, as used for depreciation purposes over the longer-term.

From 2028-29 to 2032-33, depreciation expenses are forecast to be consistently higher than renewal expenditure although below the LGA target range and with a decreasing trend. This presents a risk that asset lives could be assumed to be shorter (in the depreciation calculation) than occurs in practice; however overall, there does not appear to be a pattern of divergence.

Noting the stated practice of the Council in revaluing its assets frequently to ensure both depreciation and the fair value of assets is accurate,[24] the Commission recommends that Council:

8. Continue its practice of reviewing the estimates of asset lives and valuations in its long-term financial plan and asset management plans, to ensure that depreciation and renewal expenditure remain aligned in the longer term.

2.2.3 Advice on current and projected rate levels

Key Points:

- Rate revenue per property growth has averaged 3.8 percent between 2012-13 and 2021-22 (1.8 percent above CPI).
- The forecast rate revenue increase for 2023-24 is 9.8 percent per property.
- Rateable properties are forecast to grow by 1.4 percent until 2025-26 and then remain constant.
- Based on the forecast of rateable property increases between 2023-24 and 2032-33, the average rate revenue per property is forecast to increase by 2.2 percent per annum which is below the RBA-based forecast average of inflation of 2.6 percent per annum.

The Council's rate revenue per property growth averaged 3.8 percent or $66 per annum for each property in the period between 2012-13 and 2021-22, which exceeded CPI growth at an average of 2 percent per annum over this same period. However, the Council still has relatively low rate levels for residential categories, and slightly higher rates for non-residential ratepayers compared with similar councils.[25]

24 Information obtained at meeting with the Council on 24 November 2023.

25 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_cleve. The Commission is not relying on these rate comparisons for its advice; the data source provides just one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

In 2023-24 to 2032-33, the Council's rate revenues are estimated to result in growth of 3.5 percent per annum increase, which is above than the RBA forecast inflation of 2.6 percent for the same period[26] but includes growth in rateable properties. When adjusted for the projected growth in rateable properties, rate revenue per property is forecast to increase by 2.2 percent. Overall, the 2023-24 LTFP forecasts an average increase of rates per property per annum of $80 from 2023-24 to 2032-33 (to an average of $3,245 per property per annum).

The Commission notes that the rates forecast is based on the achievement of growth in rateable properties which presents a risk of higher rates if the forecast growth is not achieved. However, it is further noted that the strong economic development strategy is already achieving population growth results (as noted in meeting with Council).[27]

As the current economic environment is putting more pressure on most communities' capacity to pay for further rate increases, including those of the Council, the Commission recommends the Council:

9. Consider limiting future increases in rates to no more than expected inflation in real terms based on the Council's strong financial position, to help reduce any emerging affordability risk in the community.

2.3 The Commission's next advice and focus areas

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

- ongoing performance against its LTFP estimates (including review of growth assumptions),
- achievement of cost savings and efficiencies and its continued reporting of these in its plans,
- reprioritisation of its capital spending towards asset renewal and rehabilitation works, and
- actions to address any misalignment between the capital expenditure and depreciation estimates in its LTFP and various AMPs.

[26] 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) and the Commission's calculations of average annual percentage growth; RBA forecasts available at: RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html.

[27] Information obtained at meeting with the Council on 24 November 2023.

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