Local Government Advice

Municipal Council of Roxby Downs

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

Municipal Council of Roxby Downs

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the Municipal Council of Roxby Downs' current and projected financial performance **sustainable** taking into account the council's forecast low expense growth increase over the next 10 years and the planned average rate increases of 3.9% p.a. per property over this period

RISKS IMPACTING SUSTAINABILITY

- If services, facilities and existing infrastructure are kept at current levels, the Council will have cost control and affordability challenges potentially causing average rate increases at higher-than expected levels
- Infrastructure assets of a similar age, could require more repairs, maintenance and upgrades around the same time

CONTINUE

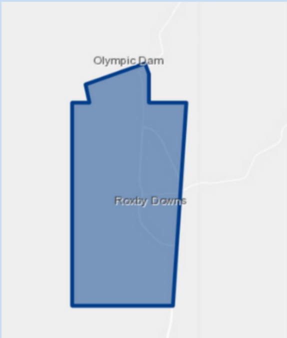
- Reviewing inflation forecasts in the budget and forward projections from 2024-25
- Ensuring income and expenditure data is consistent in the long-term financial plan and annual business plan
- Reviewing and updating the asset valuations and depreciation schedules regularly

COMMISSION'S RECOMMENDATIONS

- Undertake a review of the long-term financial plan each year
- Adopt inflation forecasts that align more closely with the RBA forecasts
- Include financial indicator reports in the long-term financial plan
- Introduce cost controls and monitor cost growth related to Roxby Link and capital expenditure
- Report actual and projected cost savings in the annual budget and long-term financial plan
- Update the infrastructure and asset management plans for each asset group, and ensure the timing of planned asset renewals/replacements are consistent with the remaining useful lives of existing assets
- Consider staggering future asset renewals to mitigate the risk of renewing assets simultaneously
- Consider limiting future increases in rates to below expected inflation

KEY FACTS

- Population in 2021 was **3,671**
- Council covers **110 square kilometres**
- **1,879** rateable properties in 2022-23
- **$5.8 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$159.4 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	Municipal Council of Roxby Downs
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 Pa per 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 Municipal Council of Roxby Downs

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**) considers the Municipal Council of Roxby Downs (**Council**) to be in a sustainable financial position because it has projected operating surpluses or small future deficits on a consolidated basis and total expenses increasing at a rate lower than inflation in the long term.

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, plans its asset needs appropriately, renews its asset base to meet sustainable service levels and constrains the extent of further rate increases:

Budgeting considerations

1. **Ensure** that the Council undertakes a review of its long-term financial plan each year as required by the *Local Government Act 1999*.
2. **Continue** to follow the good practice of reviewing its inflation forecasts in the budget and long-term financial plans each year, given the potential for changes in inflationary expectations over the forecast period.
3. **Start** to adopt CPI forecasts that align more closely with the RBA forecasts and the local government sector expectations.
4. **Start** to adopt the good practice of including financial indicator reports in the long-term financial plan, as required by the Regulations, to provide transparency to ratepayers.
5. **Continue** to ensure that the income and expenditure data in the long-term financial plan is consistent with the data in the Annual Business Plan.

Providing evidence of ongoing cost efficiencies

6. **Start** to introduce cost controls and to monitor the growth in costs where possible, especially those related to Roxby Link[1] and capital expenditure.
7. **Start** to follow the good practice of reporting any actual and projected cost savings in its annual budget and long-term financial plan as appropriate to provide evidence of containing the growth in expenses and achieving efficiencies across its operations.

Refinements to asset management planning

8. **Continue** to review and update its asset valuations and depreciation schedules regularly to achieve best practice by ensuring they reflect current values and asset life.
9. **Ensure** that its IAMP is updated for each asset group, and that the timing of planned asset renewals/replacements are consistent with the remaining useful lives of existing assets. Incorporate this data into the annual budget and long-term financial plan.

Containing rate levels

10. **Consider** whether it has given sufficient weight to the practical and logistical challenges in seeking to renew too much of its asset stock simultaneously, as well as considering whether there are alternative strategies which are longer term and enable a more staggered renewal profile.
11. **Consider** limiting future increases in rates to below expected inflation to reduce both affordability risk and intergenerational burden risk, while pursuing cost-savings initiatives to ensure expenses are controlled over the long-term.

[1] Roxby Link is part of the Roxby Council's operations that provides leisure, recreation and cultural support and services to 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.[2]

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**)[3] – both required as part of a council's SMP.[4] Financial sustainability is considered to encompass intergenerational equity,[5] as well as program (service level) and rates stability in this context.[6] The other main purpose is for the Commission to consider ratepayer contributions in the context of revenue sources, outlined in the LTFP.[7] 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.[8]

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 Municipal Council of Roxby Downs (**Council**).

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

The Council is obliged under the 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.[9] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[10]), 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

Historically and into the future, the Council is dependent upon the level and success of the operations at Olympic Dam.[11] Most of the infrastructure was built when Roxby Downs was established in 1988, which means that most of its assets have a common age. The number of residents and rateable properties declined somewhat over the historic period (from 2,051 properties in 2012-13 to 1,986 in 2021-22), in line with the scale of activity at Olympic Dam.[12] The number of rateable properties is expected to remain stable at 1,881 over the forecast period 2023-24 through 2032-33.

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2 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).

3 Commonly referred to as asset management plans.

4 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.

5 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.

6 Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

7 LG Act s122(1f)(a) and (1g)(a)(ii).

8 LG Act s122(1f)(b) and (1g)(b).

9 LG Act s122(1h).

10 The Commission must publish its advice under LG Act s122(1i)(a).

11 Roxby Downs was established under the Roxby Downs (Indenture Ratification) Act 1982 (SA) to ratify a certain indenture between the State of South Australia and the Indenture Partner, which is currently BHP, which includes obligations upon the Partners and provisions in relation to local government.

12 Since Roxby Downs was established to service the operations at Olympic Dam, the population will change according to the site's requirements.

The Commission finds the Council's current financial position to be sustainable on balance, given the long-term outlook for Olympic Dam and the financial support provided through the Indenture Partners.[13]

The Council has produced operating surpluses since 2016-17 and forecast surpluses until 2025-26. From 2026-27 through 2032-33 however, the Council is forecasting deficits, because the average annual forecast growth in expenses of 3.6 percent (which is higher than the average annual forecast inflation rate of 2.6 percent) is greater than the forecast average annual growth in income of 2.0 percent.

This situation reflects a change in circumstances for the Council. Roxby Downs was established in 1988 to service Olympic Dam's operations and consequently, many of its assets have a similar age. Roxby Downs has an extensive range of facilities and amenities for its size, because it was built to attract and retain staff to work at Olympic Dam and provide the workforce for the mine. Historically, the Council has provided a high level of services and infrastructure,[14] despite its low population[15] and remote geographical location. These services and infrastructure impact the financial plans of its three business units (Municipal,[16] Power and Water) and the subsequent management of costs and cross-subsidisation between them.

The Commission notes that the Council faces a cost control and affordability challenge if it is to keep services and facilities at broadly existing levels. If the Municipal Deficit Arrangements remain static at $600,000 per annum[17] and cost escalation becomes harder to contain, there is a risk that the Council will need to increase rates and other charges more than anticipated in the 2023-24 LTFP to keep existing services and infrastructure condition at near current levels. If this is not affordable, some rationalisation of service and infrastructure quality might become necessary for the operations to remain sustainable.

The Commission also notes that the Council's assets renewal expenditure has not kept pace with its own assessment of actual requirements, and the annual depreciation charge is consistently higher than the Council's planned renewal expenditure.

The Council must also manage the risk associated with having infrastructure assets of a similar age, which could be expected to require more repairs or maintenance and upgrades, or new assets beyond the scope of LTFP and the Council's funding strategy.[18]

The Council's forward projections from 2023-24 (in its LTFP) forecast a gradually deteriorating financial sustainability outlook as a result of the forecast rate of expense growth outpacing the forecast rate of operating revenue growth with:

The population of Roxby Downs increased after the announcement in November 2008 that the Olympic Dam operations were expanding to include open-cut mining, but the population subsequently decreased after the plans were abandoned.
Also note that the population of Roxby Downs does not include the fly-in fly out workers who live temporarily at the Olympic Dam site.

13 Roxby Council was created and operates under the provisions of the Roxby Downs (Indenture Ratification) Act 1982 and is governed by an Administrator appointed by the Minister, who also has Chief Executive responsibilities.
Under the terms of the Indenture, BHP and the State Government both subsidise the Council's deficits with equal contributions of $300,000 per annum.

14 The Partner(s) in the Indenture (BHP and the Government of South Australia) have gifted the Council with infrastructure for the Council to manage and maintain.

15 The estimated resident population of Roxby Downs for 2022 is 4,102. See Population and dwellings | Roxby Downs Council | Community profile (id.com.au)

16 Which includes the operations of Roxby Link, which contributes to most of the operating deficit.
The commission understands that the Council intends to conduct service reviews for key Roxby Link areas over the next few years with the intention of reducing the cost of the Municipal business unit to an affordable level.

17 The Partners of the Indenture (the Government of South Australia and BHP) make equal contributions of $300,000 per year to cover the deficit. It follows that the Partners make no contribution if the budget is in surplus.

18 Which appears to be to maintain an increasing level of cash reserves.

- average growth in rates and expenses per property above the Reserve Bank of Australia (RBA)-based forecast inflation rate (with rates above the Council's forecast inflation and expenses slightly below the Council's forecast inflation[19]),
- a decline in the operating surplus ratio, with negative values from 2026-27 through 2032-33,
- further declines in the net financial liabilities ratio and increasing cash reserves, and
- an average asset renewal funding ratio (net) that is volatile but with an average value for the forecast period that sits on the upper target value of 100 percent.

Over the years of the LTFP 2023-24 through 2032-33, the Council is projecting average rates increases consistent with the RBA targeted inflation for the first three years, and from 2026-27 onwards, at 3 percent per annum, which is higher than the long-term expected inflation rate used by the Commission.[20] This delivers an annual average of 3.9 percent per annum for the period, or the forecast CPI plus 0.7 percent per annum.

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

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Municipal Council of Roxby Downs area,[21]
- the current relatively high average rates (across most ratepayers),
- the Council's planned increases in rates per property of an average of 4.0 percent per annum over the forecast period, which sits above average expected inflation,[22] and
- The potential for additional revenue to be received from the State Government and BHP as subsidies to cover any operating deficits.

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.

The Commission considers that the Council did not follow its obligation to review its LTFP in 2022-23 as required under the Act,[23] which meant that the Council had to provide the Commission with estimates

[19] The Council's average annual forecast inflation for the 10 years of the LTFP is 3.88 percent, which sits above the RBA-based mid-range forecast average inflation of 2.6 percent.

[20] The Council has used the RBA Forecast table - February 2023 in its financial modelling, and adopted a long-term average CPI increase of 3.0 percent for June 2025 through June 2033, whereas the Commission has based its analysis upon the midrange of the RBA long-term target at 2.5 percent for June 2026.

[21] The Roxby Council area is ranked 59 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'through June 2033.incorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2021), where a lower score (eg 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/websitedbs/censushome.nsf/home/seifa.

[22] The Council's inflation forecast of an average of 3.0 percent sits above the Commission's forecast average inflation of 2.6 percent per annum for the period, which is based upon the RBA forecasts for the CPI (Australia-wide) to December 2025 and the Commission's calculations of average annual growth and the midpoint of the RBA's target range (2.5 percent) from 2025-26 onwards.

[23] See *Local Government Act 1999* section 122(4)(a) which states that a council is required to conduct an annual review of its long-term financial plan.

of the 2022-23 data for the purpose of this Advice.[24] Furthermore, the Council did not include any financial indicator target ratios in the 2023-24 LTFP,[25] as required by the Regulations.[26]

Additionally, the Council did not prepare an IAMP for 2018-22, which limited the Council's ability to assess their current levels of service delivery and plan for capital expenditure. At the time, however, the Council was implementing improvements to their asset management, including adopting the Assetic system in 2018 and reviewing and transferring asset data onto the system.[27]

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.[28]

2.2.1 Advice on material plan amendments in 2023-24

Key Points:

- ✓ Budgeted for a modest improvement in operating performance in the 2023-24 LTFP, with a higher surplus of $0.7 million compared to a surplus of $0.1 million projected in the 2022-23 data.
- ⚠ The 2023-24 LTFP shows an increase in total expenses of $9.62 million or 5.3 percent as compared with the estimates for the 2022-23 Plan.
- ✓ Increase in capital expenditure of $13.8 million on the renewal of assets, and an increase of $3.8 million or 38 percent from the estimated value of the previous LTFP.

The Commission has compared the Council's projections in its 2023-24 LTFP with those from the estimates provided by the Council as to the contents of its 2022-23 LTFP. The projections had been prepared and focused on the aggregate of the nine overlapping years' statistics 2023-24 to 2031-22[29] to ensure a comparable analysis of material amendments.

The Council budgeted for a modest improvement in operating performance in the 2023-24 LTFP, with a higher surplus of $0.7 million compared to a surplus of $0.1 million projected in the 2022-23 data calculated by Council based upon the eight overlapping years of data. The material changes are attributed to:

- adjustments in income, resulting from planned increases in rates to be aligned with the Council's higher-than-average CPI forecast (compared with the RBA forecast of an annual average of 2.6 percent,

[24] The Council estimated the 2022-23 data using an averaging method and entered this data on the Template provided to the Commission.
The Council also submitted two letters dated 29 September 2023 and 26 October 2023 which contained Council's estimates of key income and expenditure items as a proxy for the 2022-23 LTFP, calculated by averaging actual historical data, along with the reasons for material changes between their estimates for the 2022-32 LTFP data and the 2023-24 LTFP.

[25] The Council explained to the Commission that this was an oversight due to preparing multiple documents (ie the annual budget, LTFP and IAMP at the same time).

[26] The *Local Government (Financial Management) Regulations 2011*section 5 (1)(c) require a council to use and report the operating surplus ratio, net financial liabilities ratio and the asset renewal funding ratio in its annual budget and long-term financial plan.

[27] The Council advised that these activities are enabling them to conduct a significant review of their assets (including the estimated remaining asset lives for each asset group) and to update the records.

[28] The attachment will be available on the Commission's website with the Advice.

[29] The Council did not prepare a 2022-23 LTFP so for comparison purposes, calculated and provided estimated values to the Commission based on an average for 8 years of data plus an adjustment for average increase.

- a shift to the Municipal and Leisure Services of Council being funded directly from rates rather than relying upon power and water surplus funds directed towards Municipal services, [30] and
- a catch-up for the cost of waste collections and disposal services in the new contract.[31]

Employee costs have increased due to Council employing contractors to maintain services in some technical/specialist areas due to difficulties in attracting and retaining qualified staff. Materials, contracts and other expenses increased by 6.6 percent as the Council struggles to compete with BHP in terms of sourcing staff and contractors for similar work. Depreciation expenses are forecast to increase by 11 percent due to funding the construction of new asset programs from LGIPP, BBRG, Office for Sport and Recreation and LRCI.[32]

The Commission notes that the Council's stated assumptions for indexation in its 2023-24 LTFP are transparent, but that the Council has not complied with the requirement under the LG Act to produce a LTFP in 2022-23 that includes a report on performance of the actual and expected financial ratios.[33]

Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission has found that it would be appropriate for it to:

1. Ensure that the Council undertakes a review of its long-term financial plan each year as required by the *Local Government Act 1999*.
2. Continue to follow the good practice of reviewing its inflation forecasts in the budget and long-term financial plans each year, given the potential for changes in inflationary expectations over the forecast period.
3. Start to adopt CPI forecasts that align more closely with RBA forecasts and the local government sector expectations.
4. Start to adopt the good practice of including financial indicator reports in the long-term financial plan, as required by the Regulations, to provide transparency to ratepayers.
5. Continue to ensure that the income and expenditure data in the long-term financial plan is consistent with the data in the Annual Business Plan.

The Commission observes that the Council noted risks to its estimates arising from the impact of inflation upon expenditure, the cost of living and the anticipated burden of rates upon ratepayers.[34] In addition, there are no current regulatory requirements for it to publish its LTFP projections with its annual business plan and budget.

The Council's 2023-24 LTFP shows an increase in total expenses of $9.62 million or 5.3 percent as compared with the estimates for the 2022-23 Plan. Over the 10-year projections in the 2023-24 LTFP, the Council included an increase in capital expenditure of $13.81 million on the renewal of assets, an increase of $3.82 million or 38 percent from the estimated value of the previous LTFP, which includes asset renewal from the IAMP and supplementary projects that have been identified on the grounds of requiring renewal.

The 2023-24 LTFP also includes an additional $5.08 million on new and upgraded assets, where there was nil expenditure estimated for the 2022-23 LTFP. This results in new and upgraded assets now

[30] The Council is in a unique position where the Water and Energy units subsidise Municipal unit income under the Indenture.
[31] The Council operations are distinguished by business unit, where the Municipal business unit includes those services attributed to a traditional local government operation, including the management of local government infrastructure assets as well as services such as waste collection and dog and cat management; the two other business units are Power and Water, which together with Municipal, provide a consolidated surplus or deficit.
[32] The Local Government Infrastructure Partnership Program (LGIPP), Bridon-Bekaert The Ropes Group (BRGG), and the Local Roads and Community Infrastructure Program respectively.
[33] See *Local Government (Financial Regulations) 2011* section 5 (1)(c).
[34] Municipal Council of Roxby Downs Long Term Financial Plan 2024-2033 pp. 9 & 10.

representing nearly 27 percent of capital expenditure over the period. The Council can undertake this expenditure largely due to BHP providing supplementary grant funding for new and upgraded assets for new initiatives identified in the sewer reclaimed water optimisation and stormwater management plans.[35]

The Council has coordinated their long-term projections[36] with their annual budget process and publishes both on their website and includes their projections for inflation in their Annual Business Plan and Budget but have not included a report on the historical and expected performance of the financial ratios in their LTFP.[37] The Commission considers it would be appropriate for the Council to:

6. **Start** to introduce cost controls and to monitor the growth in costs where possible, especially those related to Roxby Link and capital expenditure.

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

- Operating surpluses consistently achieved between 2016-17 and 2021-22.
- The operating surplus ratio is forecast to be positive until 2026-27 where it is zero and then negative for the remaining forecast period.
- The Council faces a considerable cost control and affordability challenge if it is to keep services and facilities at broadly existing levels, given a lower rate base than anticipated prior to 2020.
- Forecast expenses are predicted to grow at an average of 3.63 percent per annum which is 1.03 percent higher than the expected inflation rate.

The Council has run an operating surplus since 2016-17 by turning an operating deficit averaging -$0.78 million from 2012-13 through 2015-16 to a surplus of $1.4 million in in 2016-17 and thereafter, by maintaining an average annual surplus of $1.86 million over the last six years of the historical period. This resulted in the operating surplus ratio exceeding the upper threshold of 10 percent in recent years.[38]

Over the term of the LTFP, the historical trends are reversed. The operating surplus declines and stays below the lower target of zero percent from 2026-27 onwards. Total expenses are forecast to increase by an average of 3.63 percent per annum, above the average expected inflation rate of 2.6 percent per annum for the period, based upon the RBA forecasts. Forecast income, meanwhile, increases at the rate of 2 percent per annum, which is below inflation, so the growth in expenses outpaces the growth in income and the operating surplus ratio breeches the lower limit of zero percent from 2026-27 onwards.

35 Roxby Downs already has extensive infrastructure and facilities for a town of its size, which were built and continue to be expanded to attract and retain staff at this remote location, and these are maintained to a high standard.
36 The Council did not produce a LTFP in 2022-23, which is not consistent with requirements.
37 Although the assumptions appear consistent.
38 The Council is in the unique position where User Charges, which include income from the Water and Power units, were the source of around 58 percent of Council income over the historic period and are expected to be the source of 57 percent of total income over the forecast period. The Council has expressed the intention of relying more heavily upon income from rates over the forecast period (See table of income and expenditure changes p 8 of the LTFP, where General Rates are forecast to increase in line with the Council's forecast CPI increases, while income from Water and Power Units is forecast to increase at well below the forecast CPI increases.

Furthermore, as the number of rateable properties is forecast to be stable, both expenses and income per property increase, with expenses per property increasing faster than the rate of inflation projected by the RBA.[39]

The changing patterns over the forecast period relative to the historical reflect a change in circumstances for the Council. From the time of its establishment in 1988, Roxby Downs has had an extensive range of facilities and amenities for its size, because it was built to attract and retain staff to work at Olympic Dam and provide the workforce for the mine. Historically, the Council has provided a high level of services and infrastructure,[40] despite its low population and remote geographical location. These services and infrastructure impact the financial plans of its three business units (Municipal,[41] Power and Water) and the subsequent management of costs and cross-subsidisation between them.

The Commission notes that the Council faces a cost control and affordability challenge if it is to keep services and facilities at broadly existing levels, given a lower rate base than anticipated prior to 2020[42] to finance this. The Council advised the Commission that it intends to conduct service reviews for key Roxby Link areas over the next few years with the intention of reducing the cost of the Municipal business unit to an affordable level.[43]

Under the Indenture,[44] the Council already has Municipal Deficit arrangements to the level of $600,000 per annum.[45] If this remains static and cost escalation becomes harder to constrain, there is a risk that the Council will need to increase rates and other charges more than anticipated to keep existing services and infrastructure conditions at near current levels. If this is not affordable, some rationalisation of service and infrastructure quality might become necessary. Against such a background, the Commission considers it beneficial for the Council to develop a range of credible options, rather than the only one contained in the 2023-24 LTFP, which is for consultation with the community, BHP and the State Government.

To ensure the Council achieves best practice in line with the LGA target for the operating surplus, the Commission considers it appropriate for the Council to:

7. **Start** to follow the good practice of reporting any actual and projected cost savings in its annual budget and long-term financial plan as appropriate to provide evidence of containing the growth in expenses and achieving efficiencies across its operations.

39 That is, the expenses per property increase in real terms.
40 The Partner(s) in the Indenture (BHP and the Government of South Australia) have gifted the Council with infrastructure for the Council to manage and maintain.
41 Which includes the operations of Roxby Link, which contributes to most of the operating deficit. The Commission understands that the Council intends to conduct service reviews for key Roxby Link areas over the next few years with the intention of reducing the cost of the Municipal business unit to an affordable level.
42 An expansion of Olympic Dam's operations to include open-cut mining was announced in November 2008, which would have resulted in substantial growth in the population of Roxby Downs, but the plans were subsequently abandoned in 2020, resulting in a forecast of a stable population and a lower rate base.
43 As stated in the LTFP p. 6 and as advised by the Council during discussions held on 9 November 2023.
44 The Roxby Downs (Indenture Ratification) Act 1982 (SA), which currently has two Partners, the Government of the State of South Australia and BHP.
45 The Partners of the Indenture (the Government of South Australia and BHP) make equal contributions of $300,000 per year to cover the deficit. It follows that the Partners make no contribution if the budget is in surplus.

Net financial liabilities

Key Points:

- For nine of the ten years of the historical period, the net financial liabilities ratio remained below the bottom of the target range of zero percent, averaging negative 49.6 percent.
- Over the forecast period from 2023-24 through 2032-33, the net financial liabilities ratio is forecast to remain negative and well below the zero percent lower target, with an average for the forecast period of negative 124.7 percent.
- The Council continues to hold significant and increasing levels of cash throughout the forecast period, even after undertaking planned capital expenditure, which presents an opportunity cost to ratepayers, since they are providing those funds, which could have been used for other purposes that benefit them.

For nine of the ten years of the historical period, the Council's net financial liabilities ratio remained below the bottom of the target range of zero percent, averaging negative 49.6 percent and reflecting the Council's low level of financial liabilities.

Over the forecast period from 2023-24 through 2032-33, it remains negative and well below the zero percent lower target, with an average for the forecast period of negative 124.7 percent. This is due in part to cash and cash equivalents growing by an average 4 percent per annum over the forecast period, while liabilities decrease by an average 1 percent per annum. This data trend shows that the Council will continue to hold significant and increasing levels of cash throughout the period, even after undertaking planned capital expenditure.

The Council's reason for holding cash is to cover the risk of replacement of ageing assets on an urgent basis. The Commission notes, however, that the Council's asset stock is relatively new, given that Roxby Downs was established in 1988. The Council's level of cash holdings might also lack balance with respect to inter-generational equity, given the transient nature of the population. While both rates and cash holdings increase each year to fund potential future capital expenditure, the benefits may not be seen by those currently paying rates.[46]

There is merit in the Council reviewing their projected cash requirements with a view to reducing them to restrain their increases in rates. Holding cash results in an opportunity cost to ratepayers, since they are providing the funds which could have been used for other purposes that benefit them.

Asset renewals expenditure

Key Points:

- The asset renewal funding ratio averaged 57.7 percent over the 10-year historical period but has averaged 90.4 percent between 2018-19 and 2021-22.
- The Council intends to broadly meet its planned renewals expenditure over the LTFP and to maintain a depreciation charge higher than planned renewal expenditure needs. This results in the forecast asset renewal ratio, using the depreciation method, being consistently below the lower threshold target of 90% over the LTFP.
- Asset renewals have been low due to the relatively young age of assets, but a review of asset condition (especially underground assets) and their remaining asset lives should be undertaken.

46 The population of Roxby Downs is relatively transient, with an annual turnover of 20 percent.

Revaluations of assets are scheduled every five years, although the Council has advised that in periods of higher inflation, the Council undertakes a desktop revaluation every two to three years, with condition and useful lives undertaken every five years.

Historically, the Council's actual assets renewal expenditure has not kept pace with its own assessment of actual requirements. This is reflected in its asset renewal funding ratio, which is based upon comparing actual renewal expenditure with planned renewal expenditure, which averaged 57.7 percent over the 10-year historical period, well below the lower target threshold of 90 percent. Although there was an improvement over the last five years of the historic period, the asset renewal ratio averaged only 90.4 percent, which sits just within the target range.

The result worsens when comparing the asset renewal funding with depreciation rather than planned expenditure because the annual depreciation charge is consistently higher than the Council's planned renewal expenditure over the historic period. In this respect, the Commission notes that in the absence of debt and increasing cash and cash equivalents, the Council appears to be holding some of the excess as reserves.

These trends align with the Council noting 'the historic level of asset renewal expenditure was low due to the common age of the infrastructure assets',[47] which means that many of the Council's existing assets have the same age, and consequently each asset group will require repairs and replacement at approximately the same time.[48] This suggests that significant renewal lies in the future because much of the asset stock was established in the late 1980s. As such, the patterns seen in the measures of the asset renewal ratio reflect the Council adopting a strategy of accumulating reserves in the near term, which may or may not be used to fund greater renewals in the future.

The age structure of the asset stock also indicates that the Council should be developing credible strategies to manage the risk of infrastructure assets with a similar age, which could be expected to require more repairs/maintenance and renewal/replacement within the same timeframe in the future. In this respect, the Council has advised that extensive work has been done to verify Council assets and condition ratings together with compiling up-to-date valuations utilising the Assetic system. This was expedited though 2022-23, with 'extensive research, modelling, stakeholder consultations, presentations to Audit & Risk Committee, BHP and State Government, along with community engagement'.[49]

The Council has also provided the Commission with the IAMP 2023-2033[50] which is used to guide the planning, construction, maintenance and operation of each of their asset classes and identify the predicted asset renewal date, along with possible expansion/upgrade of assets.[51] The revaluation schedule in the IAMP indicates that revaluations of assets are scheduled every five years, although the Council has advised that in periods of higher inflation, the Council undertakes a desktop revaluation every two to three years, with condition and useful lives undertaken every five years.

Overall, the above factors indicate that the recent asset assessments, valuation exercises and the IAMP should provide a robust indication of implications of the Council's renewal and upgrade/new asset plans

47 See Roxby Downs AMP 2023-33 p. 6.
48 Under the terms of the Indenture, The Partner (BHP) builds the assets and then hands them over to the Council to manage, which includes responsibility for repairs and maintenance.
49 As explained by the Council during discussions and communications in November 2023.
50 Roxby Council *Infrastructure and Asset Management Plan 2023-2033* (IAMP).
51 The IAMP covers eight groups of assets, including transport, water, wastewater, stormwater, power, buildings and other structures, parks and gardens and plant and equipment, with a replacement value of $174 million and annual depreciation of $3 million.

for the LTFP. They also provide an indication of likely future renewals beyond the scope of the LTFP and the Council's funding strategy.

In this respect, the Commission notes the continual decline in the value of the asset stock per rateable property over the LTFP suggesting the peak in renewals extends beyond this LTFP. This is because the number of rateable properties is static and there is negligible forecast capital expenditure on new/upgraded assets. The Council's has stated that the reason for low forecast spend on new/upgraded assets is 'the current population level to support BHP operations can be accommodated within the existing residential area,'[52] and the infrastructure required for future development will be met by BHP and/or the State Government as required under the terms of the Indenture.[53]

The Commission also notes the intention of the Council to broadly meet its planned renewals expenditure over the LTFP and to maintain a depreciation charge higher than planned renewal expenditure needs. This results in the forecast asset renewal ratio, using the depreciation method, being consistently below the lower threshold target of 90% over the LTFP, with the opposite for the asset renewal ratio measure using planned renewal expenditure. The implication of this, alongside the continuation of low to zero debt and negligible capital expenditure on new/upgraded assets is the increasing cash reserves noted in the previous section on net financial liabilities.

In part, the Council's reasoning for holding ever increasing reserves is that while it is relatively easy to conduct spot checks on the condition of above-ground assets, the Council has significant assets underground, including electricity assets, that also require monitoring. The Council has advised the Commission that it is concerned that urgent asset renewal might be required at scale and at considerable cost in the future.

The Commission also observes the considerable practical difficulties and logistical challenges in seeking to renew or replace a large proportion of the asset stock simultaneously. Given this, there is a need for the Council to consider strategies to address this, alongside funding. There may be benefit in the Council considering a longer-term, more staggered approach to renewal, which would likely be less disruptive for the community and more manageable for the Council.

Additionally, the Commission considers there may be benefit in the Council reviewing any misalignment in the asset lives used to calculate depreciation and those used in the IAMP, with a view to creating more parity. The Council's work undertaken recently in understanding asset condition, life and value underpins its future renewal expenditure, which is significantly less than implied by the depreciation charge. This suggests the asset lives between the two are misaligned, with those being used for depreciation purposes potentially being lower.[54]

Notwithstanding, the Commission does acknowledge the Council's recent work in improving it's understanding of the condition, life, and value of the assets under the Council's stewardship that benefit the community. While the Commission considers this a positive step, how this will develop is not yet known. Given this, the Commission considers it prudent to review progress once this approach becomes more embedded in the Council's processes, strategic planning, and implementation. How rates evolve on the back of the Council's updated approach is also of relevance.

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

8. Continue to review and update its asset valuations and depreciation schedules regularly to achieve best practice by ensuring they reflect current values and asset life.

9. Ensure that the IAMP is updated for each asset group and that the timing of planned asset renewals/replacements is consistent with the remaining useful lives of assets. This data should be incorporated into the annual budget and long-term financial plan.

52 Municipal Council of Roxby Downs Long Term Financial Plan 2023-32 p.13.

53 See Municipal Council of Roxby Downs IAMP 2023-32 pp. 12 & 13 The Council anticipates an annual increase in population of 1.25 percent (or 50 new residents) per annum with an associated increase in repairs and maintenance costs.

54 The Council advised that it is currently undertaking significant work to move data to the Assetic software, which is expected to assist with asset management and planning.

10. **Consider** whether it has given sufficient weight to the logistical and practical challenges in seeking to renew a large proportion of the asset stock simultaneously, as well as considering alternative strategies which are longer term and enable a more staggered renewal profile.

2.2.3 Advice on current and projected rate levels

Key Points:

- ⚠ The Council currently has the highest residential rates per property in South Australia, with average rates per property in 2020-21 at $2,931, which is nearly 44 percent higher than the State average.
- ⚠ Rate revenue per property growth has averaged 3.2 percent between 2012-13 and 2021-22 (1.2 percent above CPI).
- ✅ The forecast rate revenue increase for 2023-24 is 7.55 percent per property which is in line with inflation.
- ⚠ Between 2023-24 and 2032-33, the average rate revenue per property is forecast to increase by 3.9 percent per annum, which is above the RBA-based forecast average of inflation of 2.6 percent per annum.

The Council currently has the highest residential rates per property in South Australia, with average rates per property in 2020-21 at $2,931,[55] which is nearly 44 percent higher than the State average. The Council's rate revenue per property grew by an average of 3.2 percent per annum over the 10-year historic period 2012-13 through 2021-22, which resulted in rates increasing by around 1 percentage point, more than the average annual inflation of 2.6 per cent over the period. [56] While it can be argued that Roxby Downs ratepayers have a better than average capacity to pay their rates because the towns' SEIFA rating is 59 out of 71[57] (for the state), this cannot alone explain the historical high level of rates.

As noted previously, the Council is now managing the consequence of expanding services and infrastructure to accommodate an anticipated population increase that did not materialise. Also, the Council provides a high level of services and infrastructure, despite its low population and remote geographical location. Providing this with limited scale means that the Council is at risk of being unsustainable without access to the Municipal Deficit funding and a high-rate burden on the community. This will not change without service rationalisation and a lowering of infrastructure condition.

The Council has budgeted for an increase in total rates income of 7.64 percent in 2023-24, which results in an average rate increase of 7.55 percent or $232.23 per property for its existing ratepayers,[58] in line

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55 Based on total residential rates excluding CWMS rates per rateable residential property for each council in SA as shown in SA Local Grants Commission Excel spreadsheet Report 6 – Council Rating Arrangements for 2021-22 Financial Year.

56 As per the table *Total Residential Rates (excluding CWMS Rates) per Rateable Residential Property* – SA Local Government Grants Commission Report 6 *Council Rating Arrangements for 2021-22 Financial Year*.
See also Councils in Focus data for 2020 available at Municipal Council of Roxby Downs | Councils in Focus where Roxby Council's general rates were reported as $2.31k net per property, compared to $1.73k per property for the similar council average and $1.81 per property for the state average.

57 The Socio-Economic Indexes for Areas (SEIFA) is produced by the ABS and ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census.
The SEIFA ranking of 59 of 71 indicates that Roxby Downs residents have a better capacity to pay rates than 58 of the other councils in South Australia.
See https://www.abs.gov.au/websitedbs/censushome.nsf/home/seifa for more information about the indexes.

58 See Municipal Council of Roxby Downs – Long-term Financial Plan 2023-33 p. 8 and data in its Excel template (with the 2023-24 forecasts) provided to the Commission.

with inflation. This is higher than its average historical rates of increase at 3.21 percent per rateable property and is the result of a change in the Council's budgetary approach to increasing rates income in line with inflation, rather than under the rate of inflation.

Over the years of the LTFP 2023-24 through 2032-33, the Council is projecting average rates increases consistent with the RBA targeted inflation for the first three years, and from 2026-27 onwards, at 3 percent per annum, which is higher than long-term expected inflation. This delivers an annual average of 3.9 percent per annum for the period, or the forecast CPI plus 0.7 percent per annum.

No growth in rateable properties is expected and total rates revenue per property is forecast to increase from an average of $3,086.75 per rateable property in 2022-23 to $4,579.48 in 2032-33, which is an increase of $1492.73 or 48.4 percent above the average rates per rateable property at the start of the 10-year forecast period.

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

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Municipal Council of Roxby Downs area,[59]
- the current relatively high average rates (across most ratepayers),
- the Council's planned increases in rates of around 3.0 percent per annum over the forecast period, which sits above average expected inflation,[60] and
- the potential for additional revenue to be received from the State Government and BHP as subsidies to cover any operating deficits.

However, 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 considers it would be appropriate for the Council to:

11. Consider limiting further increases in rates to below expected inflation to reduce both the affordability risk and intergenerational burden risk, while pursuing cost-saving initiatives to ensure expenses are controlled over the long-term.

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 Roxby Council's:

- ongoing performance against its current LTFP estimates,
- development of strategies and setting targets for cost savings and reporting achievements in its plans,
- development a strategy to reduce the risks associated with the Council's assets having a similar age,
- alignment of asset and depreciation values in the IAMP, to be coordinated with planned expenditure in the LTFP,

The Grants Commission database lists residential rates as $2,391 for 2021-22, which includes the waste collection and Landscape Levy.

59 The Roxby Council area is ranked 59 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2021), where a lower score (eg 1) denotes relatively lower access to economic resources in general, compared with other areas, available at [Socio-Economic Indexes for Areas (SEIFA), Australia, 2021 | Australian Bureau of Statistics (abs.gov.au)]

60 The forecast of an average 3.0 percent sits above the Commission's forecast inflation of 2.6 percent per annum for the period.

- development of plans for asset renewal,
- a reassessment of its cash requirements, and
- the Council's efforts to minimise any emerging affordability risks.

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