Advice

Local Government Advice - Attachment

Municipal Council of Roxby Downs

February 2024

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A The Commission's approach

In providing the Advice for the Municipal Council of Roxby Downs[1] (**Council**), the Essential Services Commission (**Commission**) has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**).[2]

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.[3] Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.[4]

- Municipal Council of Roxby Downs - Annual Business Plan & Budget 2023-24
- Municipal Council of Roxby Downs - Annual Business Plan and Budget 2022-23
- Municipal Council of Roxby Downs - Long-term Financial Plan 2023-2033
- Municipal Council of Roxby Downs - Long-term Financial Plan 2021-2031
- Municipal Council of Roxby Downs Report for Audit Committee Meeting 20 August 2021
- Municipal Council of Roxby Downs Report for Audit Committee Meeting 29 October 2021
- Roxby Council CEO Statement of Financial Sustainability 2022-2023
- ESCOSA LG Advice MCRD Response Signed 29 September 2023
- ESCOSA LG Advice MCRD Response Signed 26 October 2023
- Roxby Council Infrastructure and Asset Management Plan 2023-33
- Roxby Council Strategic Plan 2021 – 2025

The Commission notes that most of the Council's asset base is covered by its existing infrastructure and asset management plans (**IAMPs**), and asset valuations for those assets have been conducted within the last four years.

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and long-term financial plans (**LTFPs**),[5] it has also considered the Council's performance in that context. Findings regarding the content of the Council's IAMPs and the alignment between its LTFP and IAMPs,[6] are discussed in section C.3.

1 Also known as 'Roxby Council'.
2 Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
3 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).
4 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.
5 *Local Government Act 1999* (**LG Act**) s122(1g) (a)(i).
6 As required under s122(1b) of the LG Act.

The Commission has also reviewed the Council's template data which contains its 2023-33 LTFP forecasts for 2023-24 to 2032-33, as well as its estimates for 2022-32 LTFP[7] forecasts, and historical financial data and number of rateable properties and council staff (Full Time Equivalent (FTE)) numbers from 2012-13 onwards.[8] All charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council audit committee reports, and other public information, as appropriate.[9]

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 the midpoint of the RBA target range (2.5 percent) thereafter.[10]

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Council, including its remote location, small and transient population, income level ($19.3 million) and zero expected growth in its rates base.[11]

The Commission has also had regard to the establishing of the Roxby Council under the *Roxby Downs (Indenture Ratification) Act 1982* to operate with all the powers, functions and duties of a South Australian Local Government Authority, the terms of the indenture agreement, including the joint venture partners, being the State Government of South Australia, and BHP Olympic Dam which jointly cover the cost of any Municipal Deficit.[12] The current annual Municipal Deficit contribution is $600,000, shared equally between BHP and the State Government.

The Council was established in 1988 and its operations are organised into three separate business units,[13] with the Municipal unit responsible for the usual council activities along with the Water and Power units (for the supply of water and power respectively), which contribute their operational surpluses to subsidise the Municipal unit (including Roxby Link) operations in the consolidated accounts. The primary, and potentially sole, purpose of Roxby Downs is to provide services and infrastructure to support the mining workforce of Olympic Dam.

Summary of the Municipal Council of Roxby Downs' 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[14] and the level of cost control and affordability risk identified for the Council over time.

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7 Roxby Council advised that it did not prepare a LTFP 2022-32 because of the uncertainty surrounding the Olympic Dam Resource Development Strategy and the component known as the Brownfield Expansion (BFX) Project, which would have had significant implications for the future of the Town of Roxby Downs.
As an alternative to the LTFP 2022-32 data, Roxby Council provided the Commission with estimates based upon the average values of the data contained in the LTFP 2021-31 for the purpose of this analysis.

8 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.

9 The Council's estimates for the 2022-23 financial year, relied upon at the time of preparing this advice, were un-audited.

10 The Commission has estimated a mid-range long-term inflation rate of 2.5 percent, while Roxby Council has used the higher value of 3.0 percent long-term.

11 Based on the estimated number of rateable properties in the 2023-24 LTFP.

12 The Municipal Deficit is defined as the net cost of operating the Council less the results of Roxby Power and Roxby Water. The requirements for the mutual deficit contribution by BHP and the State Government is specified in the Roxby Downs (Indenture Ratification) Act, and the intention is to cover the shortfall in revenue to cover expenditure.

13 The Municipal unit's operations are subsidised by income from the Water and Electricity units' operations.

14 LGA SA Financial Indicators Paper.

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%)	Volatile and below target---> Above target ---------------------------->		Above target -----> Below target ----------------->
Net financial liabilities ratio (target 0-100%)	Below lower target --->		Below lower target target ------------------------->
Asset renewal funding ratio (target 90-110%)	Volatile and below target -------------------->	Within target range	Volatile with average above upper target --------------------------------->
Identified Risks:			
Cost control risk	Increases in costs below inflation ------------------------>		Above forecast inflation ---------------------->
Affordability risk	Rates per property increases above inflation (3.2 percent average vs 2.0 average CPI) ------------------>		Rates per property above forecast inflation (4 percent per annum vs forecast average CPI 2.6 percent --------->

Ratio outside suggested LGA target range or higher risk

Ratio close to suggested LGA target range or medium risk

Ratio within suggested LGA target range or lower risk

B Material plan amendments in 2023-24

The Council advised the Commission that it did not review its LTFP during 2022-23[15] and that the last LTFP produced before the 2023-24 LTFP was the 2021-22 LTFP. Consequently, the Council provided the Commission with data for this analysis by calculating a proxy for the 2022-23 LTFP based upon the overlapping eight years of data through to 2030-31, which is used in this analysis.

The Council made several amendments to its 2023-24 LTFP relative to its estimates provided for the 2022-23 LTFP, primarily to account for inflation, but also to account for increased grants funding for new projects. The material adjustments to some of its main financial forecasts are listed in the table below (in nominal terms).[16]

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	180.5	190.8	+10.3	+5.7
Total operating expenses	180.4	190.1	+9.6	+5.3
Operating surplus / (deficit)	0.1	0.7	+0.6	+600.0
Capital expenditure on renewal of assets[17]	10.0	13.8	+3.8	+38.3
Capital expenditure on new and upgraded assets[18]	0	5.1	+5.1	undefined

B.1 Changes to operating performance

The Council budgeted for a higher operating surplus of $0.7 million compared to a surplus of $0.1 million projected in the 2022-23 LTFP.[19] In aggregate, a comparison of the projections for the terms of the current and previous LTFPs[20] (that is, over the overlapping eight-year comparative period to 2031-32 as shown in the table above) indicate the Council's cumulative operating performance is expected to improve by $0.6 million or 0.4 percent. The material changes are attributable to adjustments in income, with rates set to increase in line with the Council's future CPI estimates,[21] and a shift to funding the Council's Municipal and Leisure Services more directly from rates rather than relying upon surplus funds

15 The Local Government Act 1999 section 122(4)(a) states that a council is required to conduct an annual review of its long-term financial plan.
16 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.
17 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).
18 Footnote 10 applies.
19 Based on Council estimates for the 2022-23 LTFP data.
20 Based upon estimates provided by the Council.
21 See chart on p. 8 of Municipal Council of Roxby Downs – Long-term Financial Plan 2023-33.

from the power and water units.[22] Increases in expenses for materials, contracts and other expenses, depreciation[23] and employee costs is also relevant to note in this regard.

For the 2023-24 budget year, the Council plans to deliver a modest operating surplus of $0.42 million, with total expenses of $18.91 million, with $1.754 million allocated to capital works, and income of $19.33 million, which includes income from rates of $6.24 million (an average residential rate increase per property of 7.1 percent) and user charges of $11.27 million.

Some of the amendments, compared to the 2022-23 notional LTFP, include:

- Rates increases in line with the actual and forecast CPI, where previous increases were low and kept below the CPI for the six years prior to 2022.
- An increasing reliance upon the Municipal and Leisure Services of Council being funded directly from the increase in rates since the 2021-22 LTFP, rather than surplus funds from the Water and Power units being directed towards Municipal services.[24]
- A significant increase in service charges of 15 percent and 13 percent over the next two budget years, contributing to the 17 percent increase in rates incomes, due to a catch up in the new contract for the costs of providing waste collection and disposal services.[25]
- A decline of 21 percent in statutory charges in the 2023-24 LTFP due to little development being undertaken in the area and fewer expiations for animals and parking.
- A decrease in income from user charges of 4 percent, which includes income from Electricity, Water and Sewer and Roxby Link,[26] with a forecast increase in income of only 2 percent in charges over the term of the 2023-24 LTFP.[27]
- An increase in income from grants, subsidies and contributions of 9.2 percent or $0.68 million over the 10 years of the LTFP.[28]

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[22] 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. Under the Indenture, BHP supplies water and power from the Olympic Dam operations to Roxby Downs, and the Council operates the electricity substation and water purification facilities and manages service provision and billing as Roxby Power and . Both Roxby Power and Roxby Water.
Both Roxby Power and Roxby Water are regulated by ESCOSA under the terms of the Indenture.

[23] Depreciation expenses are expected to increase by 11 percent due to the construction of new assets funding programs from LGIPP, BBRG, Office for Sport and Recreation and LRCI.
The adoption of the IAMP has seen improved forecasting and management of the Council's assets.

[24] The Council has advised the Commission in its letter dated 29 September 2023 that the change in the 2023-24 LTFP estimates show an adjusted 17 percent increase since the 2021-22 LTFP. See also the 2023 LTFP.

[25] See Roxby Council *Annual Business Plan and Budget 2023-24* p 3 and letter from Roxby Council dated 29 September 2023 regarding material changes and the increase in charges in the new waste contract with Veolia.

[26] The operations of Roxby Power (and the power distribution authority) and Roxby Water (the water distribution and sewerage authority)) are regulated under the Roxby Downs (Indenture Ratification) Act. Roxby Power does not pay a dividend but is allowed to make provision for future asset replacement, while Roxby Water is required to pay a dividend in addition to provision for future asset replacement. The current Roxby Water dividend is $1.05 million per year.

[27] User charges include charges for Roxby Power, Roxby Water and Roxby Leisure.
Income from Roxby Power is forecast to increase by 2 percent per annum from 2025-26 through 2032-33 and income from Water and Sewer by 2 percent per annum from 2024-25 through 2032-33.
Income from Roxby Link is forecast to increase by 6 percent in 2023-24, as income recovers after the drop in usage during COVID-19, with an annual average of 2.4 percent over the forecast period 2023-24 through 2032-33. See chart in Municipal Council of Roxby Downs – Long-term Financial Plan 2023-33 p. 8.

[28] The estimate appears conservative, because Commonwealth Financial Assistance Grants increase each year in line with the CPI.

- An increase in investment income of $4.9 million from the funds invested due to higher interest rates over the last 12 months, with moderate interest rate increases forecast to continue over the ten years of the LTFP.
- The separation of reimbursements from other income in the accounts, which are expected to reduce by 24 percent in the 2023-24 LTFP estimates.
- An additional increase in employee costs of $0.16 million or 0.3 percent to attract and retain qualified staff in some technical/specialist areas.[29]
- An increase of 6.6 percent overall in the cost of materials, contracts and other expenses due to competition from BHP in resourcing staff and contractors.
- An increase of 11 percent in depreciation arising from new assets constructed with significant grant funding.[30]
- Substantial increases (38.3 percent) in capital expenditure for the renewal of assets, including asset renewal identified in the Asset Management Plan and supplementary projects identified as requiring renewal.
- Significant increases on new and upgraded assets with available funding for sewer reclaimed water optimisation and stormwater management supplemented by funding provided by BHP for the construction of the new and upgraded assets.
- An overall increase of 1.7 percent in the asset base in the 2023-24 LTFP relative to the previous plan, and a significant increase in total liabilities of 83.9 percent due to increased trade and other payables of 230.4 percent due to expenditure on projects,[31] timing of payments and grant funding received in advance.

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

B.2 Indexation adjustments

The Council applied its CPI-based inflation adjustments to its cost and revenue estimates, including indexation based on the December 2022 CPI of 8.6 percent and the March 2023 CPI of 7.9 percent[32] as well as their forecast CPI increases from 2024-25 onwards[33], which sit above the forecast increases for the local government sector used by the Commission.

[29] The Council found it difficult to rebuild staff numbers post-COVID, because the rates offered to workers at Olympic Dam are higher than those at Roxby Link. Although the Council has not been able to compete with the remuneration offered elsewhere, it offers other benefits, including flexible working arrangements, diverse work opportunities and the working environment, which appeals to many of its employees.

[30] Grant funding for the construction of the assets was received from the Local Government Infrastructure Partnership Program (LGIPP), the Building Better Regions Fund (BBRF), the Office for Sport and Recreation and the Local Roads and Community Infrastructure Program (LRCI program).

[31] The major capital projects over the term of the LTFP 2023-24 include power assets transformers and switches at $2.5 million and transport infrastructure assets at $1.8 million, followed by Sewer Reclaimed Water Optimisation at $740k, business system migration at $500k, lighting upgrades at the Sports Precinct at $350k and Indoor Pool upgrades at $250k.

[32] ABS CPI Adelaide, all groups, 12 months to December 2022 and March 2023.

[33] See table on p 8 of Municipal Council of Roxby Downs – Long-term Financial Plan 2023-33. The Council did not cite a source for their inflation forecasts, which result in a total increase in prices of 46.1 percent over the 10-year period, compared with a total increase in prices of 31 percent for the same period when using the RBA forecasts.
Although the Council clearly labels the price index as 'CPI,' there might be some confusion between the forecast CPI (ie consumer prices) and the Council's forecast increases in income and expenditure, most of which increase at a rate different from the CPI shown in the table.

Although the Council did not increase its rates income when inflation was low over the years 2017-18 through 2020-21,[34] it started to raise rates again after the recent high CPI increases[35] impacted its costs and limited its increase in rates to 7.5 percent in the 2023-24 Annual Business Plan and Budget and also adjusted its planned increases in expenditure with known price increases and planned service delivery levels.[36]

Since income from the larger sources of income, including General Rates,[37] are increasing and since the number of rateable properties is expected to remain constant at 1,881 over the period of the LTFP, the growth in revenue from rates will only arise from the actual rate in the dollar set.

Income from Roxby Link, which contributes to the Municipal unit income, is expected to increase at an average annual rate of 2.44 percent, which is lower than the forecast rate of inflation of 2.6 percent for the forecast period. Although investment income only made a small contribution to total income over the historic period, it contributed 5 percent of total income in 2022-23 due to higher interest rates but is expected to decrease in value over the term of the LTFP to contribute 2.9 percent of income over the period[38] although cash reserves will increase.[39]

The income from the waste charge is expected to increase at a rate higher than inflation in the years 2023-24 through 2025-26 to reflect increases in charges in the new contract with Veolia, and both electricity and water and sewer income is forecast to increase by less than the rate of inflation over the forecast period.[40]

All increases in expenses except for FTEs[41] and some long-term contract provisions[42] are forecast to increase at a rate lower than the CPI.

The three indicators discussed in these sections are specified in the *Local Government (Financial Management) Regulations 2011,* but the Council did not include any financial indicator reports or targets in the LTFP as required by the Regulations.[43]

34 The Council increased rates for 2022/23 by 4.7 percent, in line with the Adelaide CPI of 4.75 percent for the year to 31 March 2022.

35 The CPI (Adelaide) for the year to 31 March 2023 was 7.9 percent and the Council has projected an increase in general rates income of 7.55 percent in 2023.24, followed by an increase of 6.65 percent in 2024-25. See Municipal Council of Roxby Downs Long-term Financial Plan 2023-33 p 8 for the Council's CPI forecasts over the 10 years of the LTFP and the planned increases in rates income.

36 The proposed construction of new buildings or houses in Roxby Downs is limited due to restrictions around land use. This has implications for the Council, since the natural growth in the number of rateable properties that commonly occurs in local government areas cannot be factored into planning for natural revenue growth.

37 Property valuations, which form the basis for the distribution of the rates burden, increased by 2.58 percent last year, flow through into rates revenue, which is forecast to increase in line with inflation. The number of rateable properties is expected to remain constant over the period at 1,881, which means that all growth in revenue from rates will arise from a combination of the recent increased property valuations and the differential rate.

38 And to contribute only 1.7 percent in 2032-33, the final year of the forecast period.

39 The council has indicated that the cash surpluses are related to funding depreciation through its rates revenue and electricity and water pricing and not having to replace much of its assets for many years.

40 The income from electricity is projected to increase over the 10 years of the LTFP by 2.0 percent each year from 2025-26 onwards and water and sewer by 2.0 percent from2024-25 onwards.

41 The Council's FTE requirements are based upon an assumption of 'business as usual' and will be reviewed if the circumstances of Olympic Dam or the broader Copper SA province change, and Roxby Downs is impacted.

42 The increases applied to other Council charges are varied. The service charge - waste collection for each residential property is being increased in 2023-24 and 2024-25 to cover the increased disposal and transport costs, and although the Council is planning no change to electricity tariffs and solar buy-back or water tariffs (usage) in the short term, these and water supply and sewerage supply charges will continue to be monitored.

43 Under the *Local Government (Financial Management) Regulations 2011* section 5(1)(c), councils are required to use and report the operating surplus ratio, net financial liabilities ratio and asset renewal funding ratio in the annual budget and long-term financial plan. The Council advised the Commission in correspondence following the meeting on 9 November 2023 that this oversight occurred due to the pressures of preparing and adopting the ABP, LTFP and AMP concurrently.

The Commission notes that the Council's stated assumptions in the LTFP are transparent and based on its current review of forecasts.[44] Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission found 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 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.

B.3 Increase to capital expenditure estimates

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. The 2023-24 LTFP estimates include both asset renewals from the IAMP and expenditure on additional 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, due to BHP providing supplementary grant funding for new and upgraded assets for new initiatives identified in sewer reclaimed water optimisation and stormwater management.

The LTFP includes the IAMP 2023-33 data, which contains the Council's estimates of the remaining useful life of each asset as well as forward estimates for asset replacement[45] and improvement. The IAMP also contains, an Improvement Plan[46] schedule for completion of data quality tasks within the current financial year, which is expected to inform the next IAMP.

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

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

The Council adopted its 2023/24 Annual Business Plan and Budget on 16 June 2023, and the LTFP 2024-2033[47] on 16 October 2023.

The Commission notes that that the income and expenditure data contained in the 2023-24 LTFP is consistent with the data contained in the Annual Business Plan and Budget prepared in June 2023.

The Commission considers it appropriate that the Council:

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.

[44] The Council did not review its LTFP in 2022-23 and provided the Commission with estimates of the data to undertake this analysis.
[45] The asset data has been collated and entered into the new Assetic system - see Roxby Council Infrastructure and Asset Management Plan (IAMP) 2023-33 p 8.
[46] See IAMP p 27.
[47] The Commission notes that there are no current regulatory requirements that the Council publish its LTFP assumptions with the annual business plan and budget.

C Financial sustainability

C.1 Operating performance

Over the historical period, the Council improved its operating surplus by turning an operating deficit averaging negative $0.78 million from 2012-13 through 2015-16, to a surplus of $1.4 million 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 was achieved through increasing income by an average of 1.6 percent per annum above the average rate of inflation, through to 2019-20, and by decreasing expenses by an average of 1 percent per annum, thereby keeping the growth in expenses well below the rate of inflation. This resulted in the operating surplus ratio consistently exceeding the upper threshold of 10% in recent years.

The main source of income over the 2012-13 to 2021-22 was user charges, at over 62 percent of total income, which increased at an annual rate of 1 percent. This is followed by rates, which averaged around 30 percent of total income and increased by an average of 2.8 percent per annum. Over the same period, income from statutory charges declined due to little development being undertaken in the area, and income from expiations for animal and parking also declined. This contributed to a reduction in income from these sources, while the contribution of rates increased.

Meanwhile, the number of rateable properties decreased from 2,051 in 2012-13 to 1,986 in 2021-22, a decrease of 65 properties, or 3.2 percent.[48] As a result the average rates revenue per rateable property increased from an average of $2,122.87 per property to $2,791.54 over this period, an increase of $668.67 or 31.5 percent.

Despite the decline in rateable properties over this period, expenses per rateable property decreased by $458 or 5.22 percent over the entire historical period, which is below historical inflation. This occurred because the rate of decrease in expenses offset that in rateable properties, due to declining materials, contracts, and other expenses. Although these were the largest contributor to total expenses, averaging 58 percent over the period, they decreased at an average rate of 4.58 percent per annum. In contrast, employee expenses averaged around 25 percent, and were increasing at an average of 9.35 percent because FTEs nearly doubled, from 27 FTE in 2012-13 to 53 in 2021-22. Over the historic period, depreciation, amortisation, and impairment formed nearly 15 percent of total expenses and increased at an average rate of 3.45 percent per annum. (See chart on page 12).

Looking forward over the Council's 2023-24 LTFP, the historical trends reverse. From being beyond the 10% upper threshold, the Council's operating surplus ratio declines and stays consistently around, or lower than, zero per cent. Rather than declining, total expenses are forecast to increase by an average of 3.63 percent per annum, which sits above the average expected rate of inflation of 2.6 percent for the period based upon the RBA benchmark. Forecast income increases of 2 percent per annum, which is below the average rate of expected inflation, cover some of this.[49] As expenses growth outpaces that of income, the operating surplus ratio breeches the lower limit threshold of zero percent from 2026-27 onwards. Further, as the number of rateable properties is forecast to be stable, both expenses and income per rateable property increase, with expenses per property rising faster than RBA inflation projections. (See chart on page 12).

In terms of the Council's main sources of income, user charges are forecast to increase at 2.1 percent[50] and contribute an average of 57.2 percent to total income over the period. Rates are expected to increase by an average of 4.1 percent per annum, averaging 35.1 percent of income. The Commission

48 The number of properties at any time is directly related to the scale of BHP operations.

49 Although the Council has not provided their inflation assumptions for the period 2023-24 through 2032-33, ESCOSA calculated the expected rate of inflation for the period 2023-24 through 2032-33 based upon the RBA projections of 4.2 percent for 2023-24 and 3.7 percent for 2024-25 and 2.5 percent thereafter.

50 User charges, including electricity and water and sewer charges, are forecast to increase at a rate below expected inflation – see the schedule in Roxby Council LTFP 2023-32 p 8.
Historically, revenue from these units subsidise the operations of the Municipal unit. The provisions of the Indenture Act give the Council to exclusively reticulate and retail power and water within Roxby Downs, in addition to traditional local government rating capacity. See also pp 6 & 7.

notes the Council has been slowly increasing its reliance upon rates, as its proportion of total income reaches 36 percent by 2030-31, in comparison to 27.36 percent in 2012-13.[51]

The Council forecasts that total expenses will increase at an annual average rate of 3.63 percent over the forecast period, which is around 1 percentage point above the forecast average annual rate of inflation. Employee costs are forecast to increase at an average annual rate of 3.76 percent (with no change in FTEs) and are expected to account for around 30 percent of total expenses over the forecast period. Materials, contracts, and other expenses are expected to increase by an average annual rate of 3.8 percent and account for another around 54 percent of total expenses. Depreciation, amortisation, and impairment are close to 17 percent of total expenses [52] and are forecast to increase by an average of 3 percent per annum. (See chart on page 12).

The changing patterns over the forecast period relative to history 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 a town of its size, because it was built to attract and retain staff to work at Olympic Dam and provide the workforce for the city.[53] Historically the Council has provided a very high level of services and infrastructure despite its low population and remote geographical location. The Council, however, is now managing the consequences of expanding services and infrastructure to accommodate an anticipated population increase that did not materialise, which originated from a mining expansion declared in November 2008 and abandoned in 2020. This impacts the financial plans of its three business units (Municipal, Power and Water) and the subsequent management of costs and cross subsidisation between them.[54]

A major part of municipal business is Roxby Link. This provides facilities including a library, theatre, auditoriums, café, childcare facilities, and numerous sporting venues. This contributes most to the operating deficit because these services are provided on a low or no fee basis. The Council intends to conduct service reviews for key Roxby Link areas, including the library and youth services, over the next few years with the intention of reducing the cost of the Municipal business unit to an affordable level.[55]

Despite this, 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 to finance this. The Council already has in place Municipal Deficit arrangements to the level of $0.6 million. If this remains static and cost escalation becomes harder to constrain, there is a risk the Council will need to increase rates and other forms of charging more than anticipated to keep existing services and infrastructure condition at near current levels. If this is not affordable, some rationalisation of service and infrastructure quality may become necessary. Against such a background, the Commission considers it beneficial for the Council to develop a range of credible options, rather than the single one contained in this LTFP, which is for the Council to consult with its community, BHP, and the State Government.

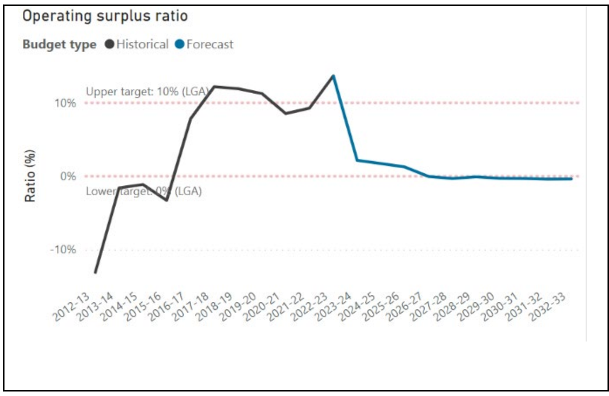
[51] Roxby Downs is in a unique position due to its location and its relationship to BHP in that it supplies the town with both power and water, and that the income from those sources subsidises the usual council operations (ie the Municipal unit).

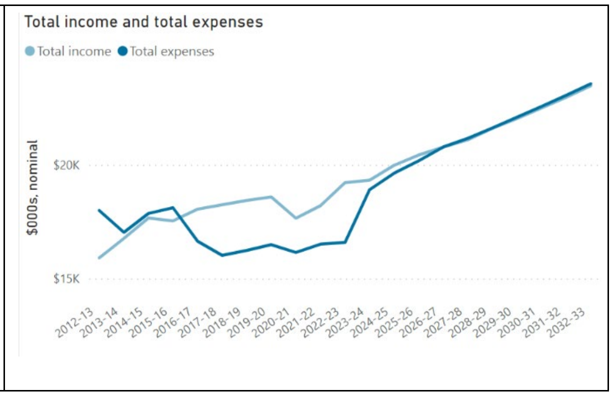
[52] See above.

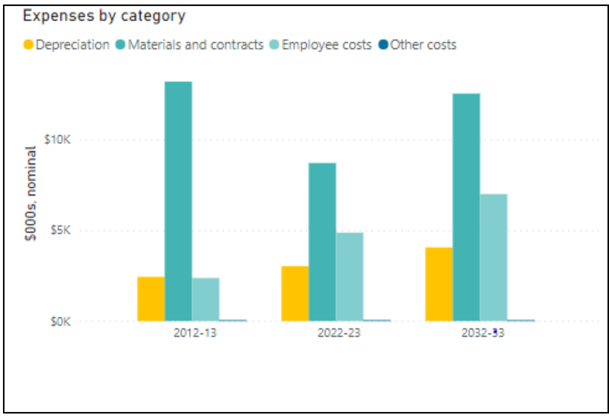
[53] Much of the infrastructure has been built by BHP and the State Government jointly or by/ financed by BHP, progressively since 1987/88, and handed over to the Council to manage, which involves repairs and maintenance financed by the Council.
Following this procedure, expenditure on new assets is expected to be funded by grants received for specific purposes from BHP and other sources.

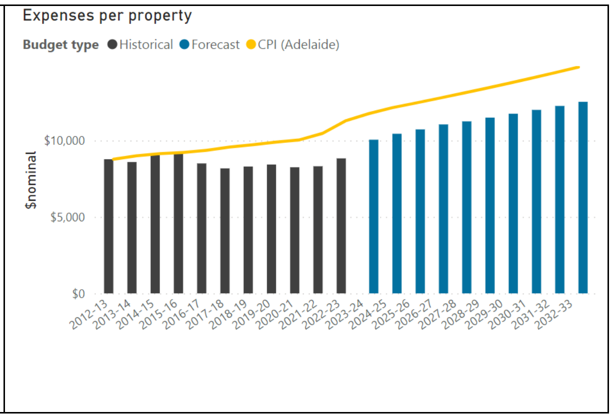
[54] The Municipal business unit of Council includes those service attributed to a traditional local government organisation, including the management of infrastructure assets such as transport, drainage, parks and gardens and community facilities and buildings, as well as the delivery of services such as waste collection and dog and cat management. The Municipal unit usually operates at a deficit.

[55] The Council advised during the meeting with ESCOSA on 9 November that the Council is undertaking work to ensure the services of the Municipal section are more self- sufficient, and consequently costs have been projected to increase at a lower rate than the CPI to provide services more efficiently.









To ensure that the Council is positioned to achieve cost savings and deliver value for money to its ratepayers, and to potentially contain rate increases to under the rate of inflation, the Commission encourages 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.

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.

C.2 Net financial liabilities

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.

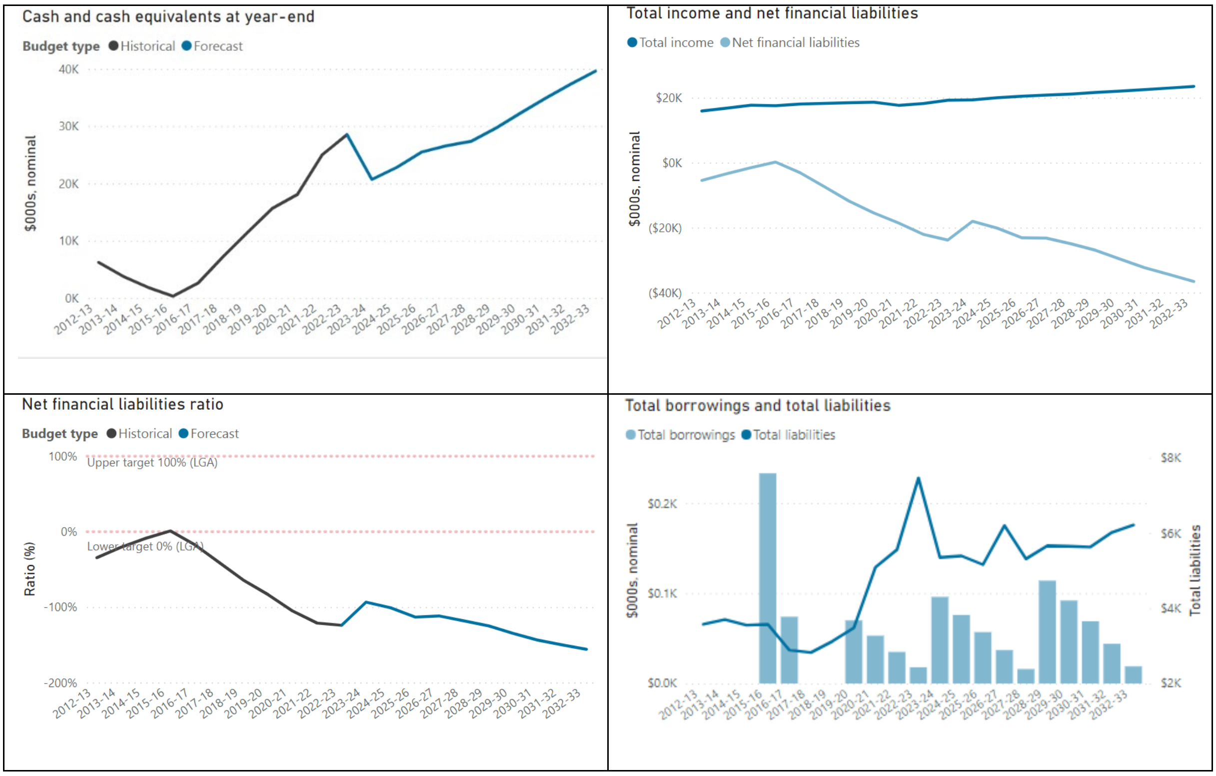
Over the forecast period 2023-24 through 2032-33, it remains negative and well below the zero percent lower target, with an average for the forecast period of negative 124.7 percent. This is due in part, to cash and cash equivalents growing by an average of 4 percent per annum over the forecast period, while liabilities decrease by an average 1 percent per annum.[56] (See chart below bottom right). Overall, the trends in the data (in the chart below left) show 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 it holding cash is to cover the risk of replacement of ageing assets on an urgent basis.[57] However, the Commission, notes that the Council's asset stock is relatively new, given Roxby Downs was established in 1988. The Council's level of cash holdings might also lack balance

56 Although borrowing increases by a low 1.9 percent per annum over the same period.
57 During the meeting between the Council and the Commission on 9 November 2023.

with respect to inter-generational equity, given the transient nature of the population.[58] 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.[59]

Overall, there is potential 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 be used for other purposes that benefit them.



C.3 Asset renewals expenditure

Historically, the Council's actual asset renewal expenditure has not kept pace with its own assessment of actual requirements. This is reflected in its asset renewal funding ratio,[60] based upon comparing actual renewal expenditure to planned renewal expenditure, which averaged 57.7 percent over the 10-year historical period. This is well below the lower target threshold of 90 percent. Over this 10-year period, this ratio has been volatile year-on-year and although there has been an improvement over the last five years, the asset renewal ratio averaged only 90.4 percent (just within the target range – see chart on page 16).

58 And, given the high annual population turnover, many residents paying rates in the current year will not be present to experience the benefits of future projects.

59 The population of Roxby Downs is not only relatively transient, with an annual turnover of 20 percent, but only around 1/3 of the residential properties are occupied by the owners, with an additional 1/3 owned by BHP and the remaining 1/3 by investors, and the population is composed primarily of working age residents.

60 See LGA *SA Financial Indicators Paper*, p. 9. Since 2013, the asset renewal funding ratio has been defined as: Asset Renewal Expenditure ÷ IAMP Renewal Expenditure. The suggested LGA target range for the ratio is 90 to110 percent. Ideally, this ratio will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan.

In terms of meeting the lower target threshold of 90 percent, this worsens if the asset renewal funding ratio is measured using the depreciation approach. Instead of comparing actual historical renewal expenditure with the Council's planned renewal expenditure, it compares it with depreciation (see chart on page 16). The worsening indicates that the annual depreciation charge is consistently higher than the Council's planned renewal expenditure over the 10-year historical 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'.[61] That is, 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.[62] This suggests significant renewal lies further 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 Council's 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 Assetic software.[63] This was expedited though 2022-23, with 'extensive research, modelling, stakeholder consultations, presentations to Audit & Risk Committee, along with BHP and State Government and community engagement'.[64]

The Council has also provided the Commission with the IAMP 2023-2033[65] 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.[66] (See chart on page 16). 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 recent asset condition assessments, valuation exercises, and the IAMP should provide a robust indication of implications of the Council's renewal and upgrade/new asset expenditure plans 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 suggests 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 its reason for low forecast spend on new/upgraded assets is because 'the current population level to support BHP operations can be accommodated within the existing residential area,'[67] and the infrastructure required for future development will be met by BHP and/or the State Government as per the Indenture Act.[68] (See chart on page 16).

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

61 See Roxby Council *IAMP 2023-2033* p 6.

62 Under the terms of the Indenture, the Partner (BHP) builds the assets and then hands them over to the Council to manage, which includes being responsible for repairs and maintenance.

63 A software package designed for asset management, including asset maintenance and planning activities.

64 As explained by the Council in discussions and communications in November 2023.

65 Roxby Council *Infrastructure and Asset Management Plan 2023-2033* (IAMP).

66 The IAMP covers 8 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.

67 Municipal Council of Roxby Downs *LTFP 2023-32* p13.

68 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.

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 holding 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 the 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 substantial proportion of the asset stock simultaneously. Given this, there is a need to place sufficient weight on this factor, alongside funding. In this respect, there may be benefit in the Council considering whether adopting a longer-term more staggered approach to renewal is 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. Based upon the information provided in the approved plans and data submitted by the Council, summarised in Section A, renewal expenditure appears significantly less than implied by the depreciation charge. This suggests the asset lives between the two are potentially misaligned, with those being used for depreciation purposes potentially being lower.

At the same time, however, the Commission also acknowledges the value of the Council's recent work in understanding asset condition, life and value that underpins future renewal expenditure (and depreciation). The Commission also notes the Council has recently advised[69] that it is planning to develop asset renewal plans using the predicting tool in the Assetic software. The Commission understands that the Council expects this to ensure the alignment of useful lives of the Council's assets across the IAMP and depreciation schedules.

While the Commission considers this to be a positive step, how it might develop is of course not yet known. As such, the Commission considers it prudent to review progress once the approach becomes more embedded in the Council's processes, strategic planning, and implementation, including consideration of any impact on rates.

Overall, the Commission considers that it would be appropriate that the Council:

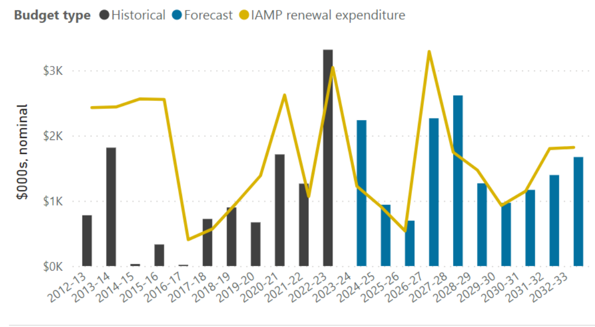
8. **Continue** to review and update its asset valuations and depreciation schedules regularly to achieve best practice by ensuring they reflect current values and asset life.

9. **Ensure** that its IAMP is updated for each asset group and that the timing of planned asset renewals/replacements is consistent with the remaining useful lives of existing assets. This data should be incorporated into the annual budget and LTFP.

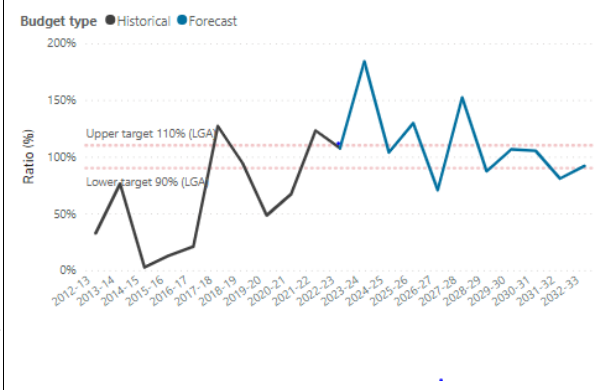
10. **Consider** whether it has given sufficient weight to the logistical and practical challenges in seeking to renew a large proportion of the asset stock simultaneously, as well as considering alternative strategies which are longer term and enable a more staggered renewal profile.

[69] In communications dated 13 February 2024.

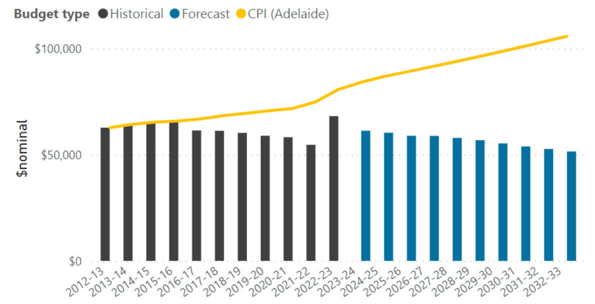
Net asset renewal and IAMP renewal expenditure



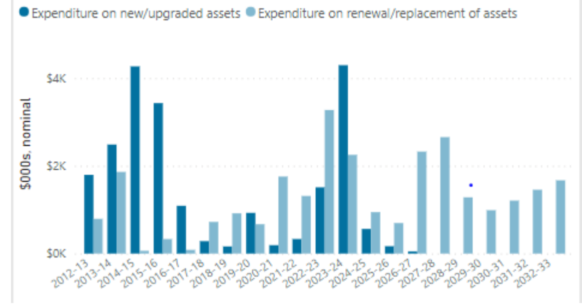
Asset renewal funding ratio (renewal expenditure, gross)



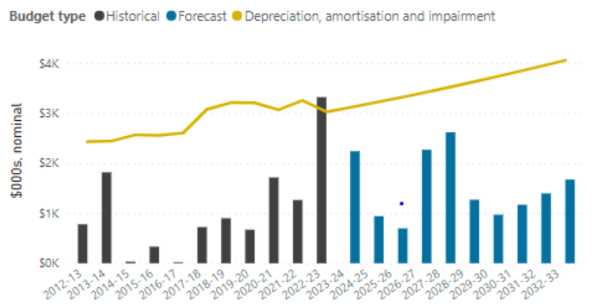
Value of asset stock per rateable property



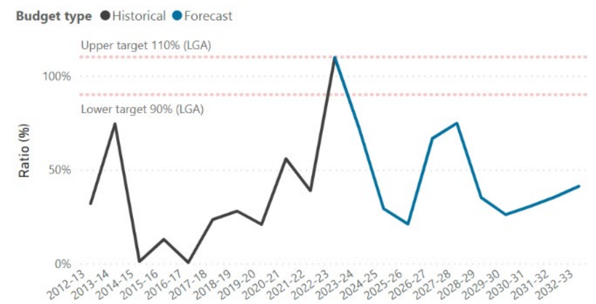
Total capital expenditure by category



Net asset renewal expenditure and depreciation



Asset renewal funding ratio (depreciation based)



D Current and projected rate levels

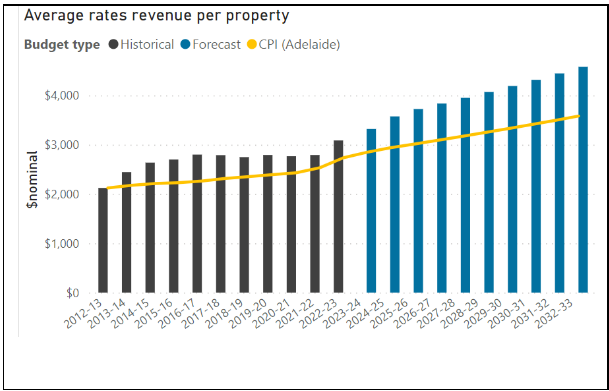
D.1 Historical rates growth

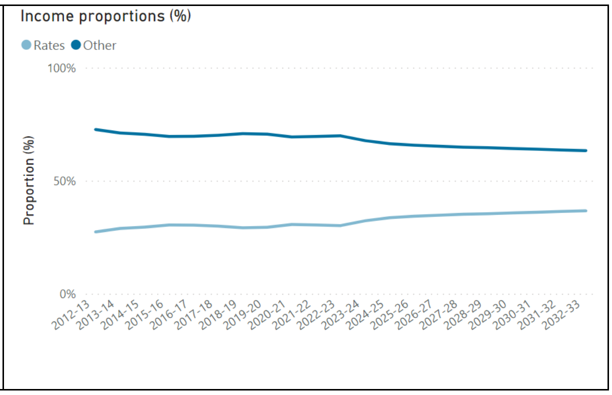
Rates are the Council's second largest source of income and contribute around half as much income as user charges, which are the Council's largest source of income. The Council's rate revenue grew by an average annual rate of 2.8 percent over the 10-year historic period, slightly above the average annual inflation rate of 2.6 percent per annum.

Over the same period, the number of rateable properties decreased by 3.2 percent from 2,051 in 2012-13 to 1,986 in 2021-22, a decline of 0.35 percent per annum. 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, or an average of $2,659.13 per rateable property, which is $356.12 or 62 percent or above the inflation-adjusted average rates per property by the end of the historic period. (See chart below left).

The Commission notes that the Council has the highest residential rates per property in South Australia, and that rates are nearly 44 percent higher than the State average.[70] While it can be argued that Roxby Downs residents have a greater capacity to pay this level of rates because the town's SEIFA ranking is 59 out of 71 (for the State), which indicates that average incomes in Roxby Downs are above the State average, this alone, cannot 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 very high level of services and infrastructure, despite its low population and remote geographical location. Providing this with limited scale means that the Council is 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.





D.2 Proposed 2023-24 rate increases

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,[71] in line with inflation. This is higher than its average historical rates of increase at 3.21 percent per rateable

[70] Based on total residential rates excluding CWMS rates per rateable residential property for each council in South Australia as shown in SA Local Grants Commission Excel spreadsheet Report 6 – Council Ratings arrangements for 2021-22 Financial Year.
See also Councils in Focus rates data for 2020 available at Municipal Council of Roxby Downs | Councils in Focus. General rates for 2020 were reported as $2.31k net per property, compared to $1.73k for the similar council average and $1.81k per property for the state average.

[71] 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.
The Grants Commission database lists residential rates as $2,391 for 2021-22, which includes the waste collection and Landscape Levy.

property and is the result in a change in the Council's budgetary approach to increasing rates income in line with inflation, rather than under the rate of inflation.

The Council has factored in a negligible growth in rateable properties a growth of rateable properties (0.1 percent from 2022-23). In addition to rates income, which accounts for just over 32 percent of income in 2023-24, user charges contribute over 58 percent of income, and grants and subsidies contribute nearly 4 percent.

D.3 Projected further rate increases

Over the years of the LTFP 2023-24 through 2032-33, the Council is projecting average rate 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. This delivers an annual average of 3.9 percent per annum for the period, or the forecast CPI plus 0.7 percent per annum.[72]

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, 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. In consequence, the percentage of Council's total income contributions from ratepayers is projected to grow from a historical average of 29.6 percent to an average of around 35 percent over the forecast period. (See chart on page 18).

D.4 Affordability risk

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,[73]
- the current 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, [74] 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 future increases in rates to below expected inflation to reduce both the affordability risk and intergenerational burden risk, while pursuing cost-savings initiatives to ensure expenses are controlled over the long-term.

72 The Council based its CPI forecasts on the RBA forecast table – February 2023 ie 6.7 percent for June 2023, 3.6 percent for June 2024 and 3.0 percent for June 2025 through June 2032, whereas the Commission has applied a forecast of 2.5 percent (at the middle of the 2-3 percent RBA target range) from June 2026 onwards.

73 Roxby Downs 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 https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001 percent20- percent20lga percent20indexes.xls&2033.0.55.001&Data percent20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

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

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