Advice

Local Government Advice

City of Mount Gambier

February 2025

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

City of Mount Gambier

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the City of Mount Gambier's historical, current and projected financial performance **mostly sustainable.** This takes into account the Council's completion of the Wulanda Recreation and Convention Centre in 2022, a significant infrastructure project for the community, and planned average rate increases of **4.8** percent per property over the next 10 years (well above forecast CPI of 2.6 percent per annum). There are some risks for ratepayer affordability if operating costs are not constrained through a strategic approach to efficiency and savings initiatives. Asset sustainability risks may also emerge if past asset management planning practices of potentially under-funding asset renewal and replacement continue.

FINANCIAL PERFORMANCE

Past 10 years
Mostly Sustainable

Current
Mostly Sustainable

Projected
Mostly Sustainable

RISKS IMPACTING SUSTAINABILITY

⚠ Financial sustainability is dependent upon rates growth well above CPI.

⚠ Constraint in the level of operating expenses is needed to ensure affordability risks are minimised.

⚠ Proposed further investment in new and upgraded assets will create a stream of future renewal requirements (including repairs and maintenance) that will increase ongoing costs.

⚠ Not prioritising the renewal of its assets, which may increase asset sustainability risks or result in lower service levels to its community.

KEY FACTS

▶ Population in 2023 was **27,846 residents** (1)

▶ Council covers **33.9 square kilometres** (1)

▶ **14,534** rateable properties in 2022-23 (2)

▶ **$24.9 million** of rates income in 2022-23 (2)

▶ Value of assets held in 2022-23 equals **$399.8 million** (2)

Source: (1) Australian Bureau of Statistics, *Data by region*, available at https://dbr.abs.gov.au/ (2) The Council's Financial Reporting Template provided to the Commission.

Table of contents

1 Executive summary

1.1 Summary of observations

The Essential Services Commission of South Australia finds the City of Mount Gambier projected financial performance and position to be mostly sustainable, but notes the Council's sustainability relies on community support for average rate increases well above forecast Consumer Price Index (CPI) inflation. The Council is forecasting an operating surplus by 2026-27, despite a much higher operating cost base that relates to the recently constructed Wulanda Recreation and Convention Centre.

The City of Mount Gambier had relatively low operating surplus ratios from 2013-14 to 2022-23, which were at times negative, but averaging 0.7 percent per annum over that period. While operating surpluses appear on average modest but positive, the Commission notes that historical asset renewal and replacement requirements, set out in Infrastructure and Asset Management Plans, were not fully funded. The Council's investment in new and upgraded assets has resulted in depreciation increasing, indicating that future renewal and replacement costs will be higher in real terms over the long run, commensurate with the larger asset base. The Council has forecast an average operating surplus ratio of 2.5 percent over the period from 2024-25 to 2032-33, supported by average annual rate increases of 4.8 percent per property.

The Commission recommends that the Council develop a plan detailing cost savings measures and targets to ensure financial sustainability is maintained and to reduce the reliance on ratepayers. There is some concern for future ratepayer affordability, given the relatively lower socio-economic conditions, however, historically there have been relatively lower average residential rates in the Mount Gambier region compared to similar councils.

The Commission also observes the pace at which the City of Mount Gambier proposes to repay borrowings accrued in the development of the Wulanda Recreation and Convention Centre might represent an unnecessary burden for current ratepayers. It might be prudent for the City of Mount Gambier to consider a longer repayment period, noting the intergenerational nature of the asset.

The Commission commends the City of Mount Gambier for its well-developed strategic planning processes and commitment to community consultation.

1.2 Summary of Recommendations

The Commission acknowledges the City of Mount Gambier's good planning and asset management practices, in particular:

- annually updating and developing its Strategic Management Plans, in consultation with stakeholders and the community
- developing separate Asset Management Plans for each asset group and coordinating the data in the Asset Management Plans with the Infrastructure and Asset Management Plan, budget, and Long-Term Financial Plan, and
- holding community consultations and conducting surveys to identify community priorities and desired service levels as part of the planning process for its strategic management plans.

The Commission recommends that the City of Mount Gambier:

1. Disclose material changes to its capital expenditure forecasts as part of its annual review and update to its Long-Term Financial Plans.
2. Develop a plan to achieve cost saving measures and targets and report annually in the budget and the Long-Term Financial Plans as appropriate, to provide evidence of controlling the growth in costs and achieving efficiencies across its operations and service delivery.

3. **Review** its planned pace of repayment of debt, balancing rate increases, financial costs, and intergenerational equity.
4. **Review** its depreciation assumptions and the underlying valuations and useful life data to ensure that depreciation accurately reflects the rate of asset consumption and ensure that asset renewal and replacement is fully funded.
5. **Review** its pace of development of new and upgraded assets, having regard to rates affordability, the affordability of the stream of future liabilities created by new and upgraded assets, and the need to prioritise and fully fund asset renewal and replacement.
6. **Review** its approach to addressing financial sustainability risks, in consultation with its community, with a view to limiting future increases in rates and improving affordability for ratepayers.

2 About the advice

2.1 Background

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

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

The first cycle of the scheme extends over four years from 2022-23 to 2025-26, and the Commission has selected 17 councils for advice in the third year (2024-25) of the Scheme, including the City of Mount Gambier (**Council**).

This report provides the Local Government Advice for the Council in 2024-25.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2025-26 Annual Business Plan (including any draft ABP) and in subsequent plans until the next cycle of the Scheme.[8] The Council is not compelled under the **LG Act** to follow the advice.

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

2.2 The Commission's approach

In providing the Advice for the Council, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**).[9]

The Commission has considered the Council's SMP documents (set out in the box below), with a particular focus on its performance and outlook against three financial indicators: the Operating Surplus Ratio (**OSR**), the Net Financial Liabilities Ratio (**NFLR**) and the Asset Renewal Funding Ratio (**ARFR**).[10]

1 Amendments to the LG Act (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).

2 Commonly referred to as asset management plans.

3 The objectives of the advice with reference to a council's LTFP and IAMP are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMP.

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

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

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

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

8 LG Act s122(1h).

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

10 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

Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.[11]

The City of Mount Gambier – Strategic Management Plan Documents

- Annual Business Plan and Budget 2024/2025 (June 2024)
- Annual Business Plan and Budget Summary 2024/2025 (June 2024)
- Long-Term Financial Plan 2025 – 2034 (June 2024)
- Asset Management Summary 2025 – 2034 (June 2024)
- Building and Structures Asset Management Plan 2025 – 2034 (June 2024)
- Infrastructure Asset Management Plan 2025-2034 (June 2024)
- Plant and Equipment Asset Management Plan 2025 – 2034 (June 2024)
- Long-Term Financial Plan 2024 – 2033 (June 2023)

The Commission notes that most of the Council's asset base is covered by its existing asset management plans (**AMP**), 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 **IAMP** (usually termed AMP) and **LTFP**,[12] it has also considered the Council's performance in that context. Findings regarding the content of the Council's AMP, and the alignment between its LTFP and AMP,[13] are discussed in section 5.

The Commission has also reviewed the Council's template data which contains its 2023-24 LTFP forecasts for 2023-24 to 2032-33, as well as its 2022-23 LTFP forecasts, historical financial data, the number of rateable properties and Council staff (Full Time Equivalent or **FTE**) numbers from 2012-13 onwards.[14] [15] The charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council's audit committee reports, and other public information, as appropriate.

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 December quarter 2026), and the midpoint of the RBA target range (2.5 percent) thereafter.

Finally, in formulating this Advice, the Commission has had regard to all discussions and engagement with the Council, including the face-to-face onsite meeting at the Council offices and the individual circumstances of the Council, consisting of:

- its location as an urban regional council

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).

11 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.

12 **LG Act** s122(1g)(a)(i).

13 As required under s122(1b) of the LG Act.

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

15 The Council's estimates for the 2023-24 financial year, relied on at the time of preparing this advice, were unaudited.

- its income level ($42.1 million in 2022-23), and
- the size of its rates base (14,534 rateable properties as at 2022-23[16]).

Throughout this paper the Commission has identified several key points and assigned the following risk category to those points:

Legend: Low-risk Moderate-risk High-risk

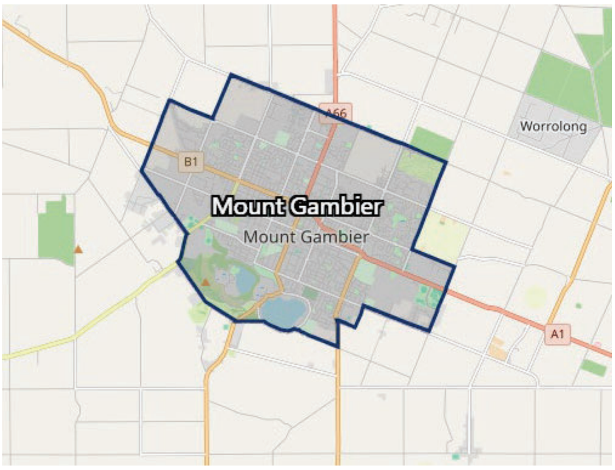
[16] Based on the estimated number of property assessments in 2022-23.

3 Council profile

The City of Mount Gambier is classified by the Commission as an 'Urban Regional' council and is one of nine in this category in South Australia.[17] The Council encompasses a total land area of 33.9 square kilometres and is located in the South-East of South Australia, approximately 420 kilometres from Adelaide and approximately 17 kilometres from the Victorian border. It has an estimated resident population of 27,846 (at 30 June 2023),[18] and 14,534 rateable properties (at 30 June 2023).[19]

The City of Mount Gambier was established as a council in 1876 and is uniquely encircled by the District Council of Grant.

Figure 1: Council area



The Council region also has the following attributes:

- stable rateable property growth of approximately 0.8 percent per annum[20]
- population density of 822 persons per square kilometre[21]
- 231.5 kilometres of sealed roads and laneways, and 1.0 kilometres of unsealed roads and laneways[22]
- its largest employment sectors are in health care and social assistance (16.7 percent), retail trade (12.6 percent), manufacturing (9.5 percent), and education and training (8.7 percent),[23] and
- a median population age of 41.2 years.[24]

17 Commission, *Fact Sheet - Local Government Advice Scheme – Schedule of Councils*, May 2023, available at https://www.escosa.sa.gov.au/ArticleDocuments/21947/20240731-Advice-ScheduleOfCouncils-FactSheet.pdf.aspx?Embed=Y.
18 Refer to Australian Bureau of Statistics, Data by region, available at https://dbr.abs.gov.au/region.html?lyr=lga&rgn=41060.
19 Based on the Council's Financial Reporting template provided to the Commission.
20 Based on the compound average annual growth rate formula (which is the adopted approach to calculating average annual growth rates throughout the Commission's advice) for the period from 2013-14 to 2023-24. Based on the Council's Financial Reporting template provided to the Commission.
21 Footnote 18 applies.
22 Refer to the Department of Infrastructure and Transport - Local Government Grants Commission, 2022-23 Database Reports, available at: https://www.dit.sa.gov.au/local-government/grants-commission/publications#database.
23 Footnote 18 applies.
24 Footnote 18 applies.

4 Material plan amendments in 2024-25

Council has made several amendments to its 2024-25 budget and forward projections, partly for inflation and partly for other revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[25] To ensure a comparable analysis of estimates between the 2023-24 and 2024-25 LTFPs, the Commission has reviewed the nine overlapping years' statistics: 2024-25 to 2032-33 and identified material amendments accordingly.

4.1 Key points

- ✓ Good practice of annually updating and developing its strategic management plans in consultation with stakeholders and community.
- ⚠ Increased forecast capital expenditure by 55.4 percent (or $39.9 million) in its 2024-25 LTFP estimates.

Table 1: Summary of Material Plan Amendments

Selected Financial Item	Sum of 2024-25 to 2032-33 estimates in 2023-24 LTFP ($ million)	Sum of 2024-25 to 2032-33 estimates in 2024-25 LTFP ($ million)	Change in 2024-25 estimates ($ million)	Change in 2024-25 estimates (percent)
Rates	305.7	346.4	+40.8	+13.3
Grants, subsidies and contributions	47.9	52.5	+4.6	+9.6
Total operating income	464.6	524.7	+60.2	+12.9
Employee costs	161.6	179.3	+17.7	+11.0
Materials, contracts and other expenses	174.5	199.5	+25.0	+14.3
Depreciation, amortisation and impairment	104.9	123.1	+18.2	+17.3
Total operating expenses	451.2	513.2	+62.0	+13.7
Capital expenditure on renewal of assets[26]	57.7	78.7	+21.0	+36.4
Capital expenditure on new and upgraded assets[27]	14.3	33.1	+18.9	+132.3

25 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.

26 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).

27 Footnote 26 applies.

4.2 General observations on the LTFP, ABP and IAMP

The Commission has observed that the Council has employed a consultative process when developing its SMP and budgets. Each year the Council undertakes a review and update of its LTFP, which is considered by Council's Audit and Risk Committee, with recommendations further considered by Council.[28] The first year of the adopted LTFP provides the high-level framework for the development of the Council's annual budget. The LTFP and ABP (and Budget) are developed within the Council's overall strategic planning framework.

From February to June each year, the Council's AMP are reviewed and updated, having regard to any forecast expenditure changes resulting from changed circumstances. The Council advises that all major AMP have been updated in 2024, in line with legislative requirement to review these within two years of council elections.[29] Most infrastructure assets have undergone an asset revaluation within the last three years.

The Commission noted that the Council's IAMP does not include all assets, and that there are separate AMP for buildings and structures, and plant and equipment (among others), and these are summarised together in the Council's Asset Management Summary document.

The Commission commends the Council's approach to updating and developing its SMP, ABP and budgets.

4.3 Changes to operating performance

The Council has projected in its 2024-25 LTFP an increase in total operating income of $60.2 million (or 12.9 percent) across the nine-year comparative period to 2032-33 compared to the 2023-24 LTFP (as shown in the table above). This reflects a range of changes to its income forecasts, notably:[30]

- an increase in rates income by 13.3 percent (compared to the previous LTFP projections), which are driven by the Council's need to recover rising costs, including higher capital expenditure estimates following an update to its AMP, and
- an increase in 'grants, subsidies and contributions' by 9.6 percent, reflecting federal grants in 2024-25 and 2025-26 for the design and implementation of the Sport, Recreation and Open Space Strategy.

The Council projects a total increase in operating expenses of $62.0 million (or 13.7 percent) across the nine-year comparative period to 2032-33. The Council has provided some explanations to the Commission, summarised below:

- Employee costs reflect the insourcing of cleaning services previously undertaken by external contractors. In 2024-25 an additional 1.5 FTE were added as ongoing positions to meet strategic requirements for volunteer management and parks/gardens. Overall, an additional two FTE per annum are being forecast by the Council to meet increased services due to population growth and to implement future strategic initiatives. This proposed cumulative increase in staffing seems high and could be an area in which savings could be identified over the forecast period.
- 'Materials, contracts and other' expenses, increase (of 14.3 percent) reflects a review of running costs of Wulanda Recreation and Convention Centre, which has been in operation for more than 12 months (the increase in reimbursement income offset some of this). There has also been an increase in costs across purchases for infrastructure items, plant and equipment and contracting services.

28 Under s.122(4)(a)(i) of the LG Act the Council must undertake a review of its long-term financial plan on an annual basis.
29 LG Act s122(4)(a) and (b). General elections were last held for SA councils on 11 November 2022.
30 Based on the Council's Financial Reporting template (including its reasons for material amendments) provided to the Commission.

- Depreciation expenses reflect updates following asset condition audits and valuations undertaken in 2023 for infrastructure and buildings, which were not incorporated into the previous (2023-24) LTFP.

4.4 Observations on Indexation

The Council applies CPI-based inflation adjustments to its cost and revenue estimates. It assumes CPI increases of 2.9 percent in 2024-25, 2.6 percent in 2025-26, and then reverts to approximately the mid-point of the RBA target range of 2.5 percent over the remaining planning period.[31] These CPI projections are generally consistent with the Council's previous (2023-24) LTFP, and do not appear to account for the material changes in Council's financial forecasts.[32] The Council's inflation forecasts are also generally consistent with current RBA forecasts averaging 2.6 per annum between 2023-24 and 2033-34.[33]

The Council's stated assumptions for indexation in its 2024-25 LTFP are transparent and based on its annual review of estimates. Overall, the Commission considers the documentation of these assumptions are appropriate, and the Council should continue to review inflation forecasts in its budget and forward projections. This will assist interested parties in identifying 'real' rather than inflationary effects in material plan amendments.

4.5 Increase to capital expenditure estimates

The Council's 2024-25 LTFP projections indicate a material increase in capital expenditure for asset renewals (by $21.0 million or 36.4 percent) and for new and upgraded assets (by $18.9 million or 132.3 percent), compared to the previous years' LTFP projections (for the period from 2024-25 to 2032-33). This gives rise to a total capital expenditure increase of $39.9 million or 55.4 percent.

The Council advises that the proposed higher spend arises from:

- recent updates to AMPs for asset renewals, including reflecting higher asset values for buildings, stormwater and retaining walls, and
- higher investment in new and upgraded assets in 2027-28 for the design and implementation of the Sport, Recreation and Open Space Strategy.

The Commission's review of the Council's LTFP indicates that further transparency around the key reasons for its capital expenditure estimates (between annual updates) may be of benefit to stakeholders and allow for future assessments of financial sustainability. These material changes should be clearly documented as part of its annual LTFP reviews, and accordingly, the Commission recommends that Council:

1. Disclose material changes to its capital expenditure forecasts as part of its annual review and update to its Long-Term Financial Plans.

31 City of Mount Gambier, *Long-Term Financial Plan 2025-2034*, June 2024, p. 29.
32 City of Mount Gambier, *2024 – 2033 Long-Term Financial Plan,* June 2023, p. 23.
33 The forecast average annual growth in the CPI from 2024-25 to 2033-34 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to December 2026 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

5 Financial sustainability

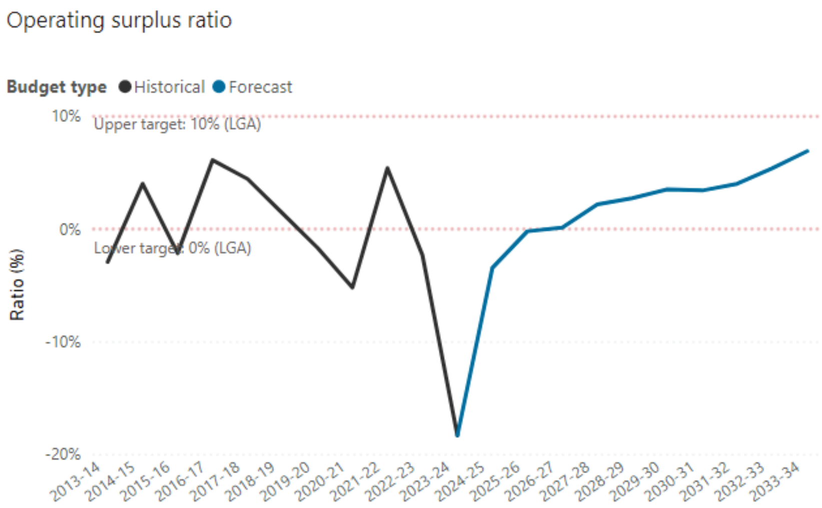
5.1 Operating performance

5.1.1 Key points

- Operating surpluses were reported in five of the last 10 years (between 2013-14 and 2022-23), resulting in an average OSR of 0.7 percent.
- The projected turnaround in forecast operating performance is driven by sharp increases in rates income in 2024-25 and 2025-26, and ongoing annual increases by 5.3 percent per annum (including growth in rateable properties of 0.5 percent per annum).
- From 2013-14 to 2022-23, total operating expenses increased at an average annual rate of 7.0 percent (in part due to the commencement of operation of the Wulanda Recreation and Convention Centre) and are forecast to increase by 3.0 percent per annum on average over the next 10 years. There are risks to the Council's operating performance if expenses are not constrained.

5.1.2 Operating Surplus Ratio

Figure 2: Operating surplus ratio – historical and forecast



The Council's OSR[34] has fluctuated over the historical period. It has been negative at times, and below the target range suggested by the Local Government Association (**LGA**). It has averaged 0.7 percent over the period from 2013-14 to 2022-23. This indicates the Council has marginally operated sustainably, that is, its accumulated operating income has marginally exceeded its accumulated operating expenses (see Figure 3).

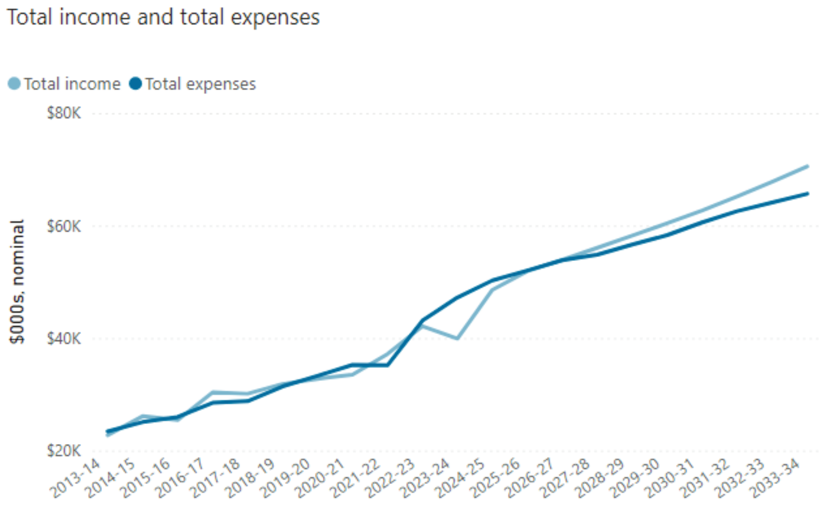
The key reason for past operating deficits, particularly in 2020-21 (at the start of the pandemic) is due to the Council keeping the increase in rates below the rate of inflation.[35] At the same time, the Council

[34] The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income. The general target is to achieve, on average over time, an operating surplus ratio of between zero and 10 percent (Local Government Association of South Australia, *Financial Sustainability Information Paper 9 - Financial Indicators Revised,* May 2019 (**LGA SA Financial Indicators Paper**), p. 6).

[35] City of Mount Gambier, *2020/21 Annual Business Plan and Budget*, June 2020, p. 10, available at: https://cdn.mountgambier.sa.gov.au/docs/2020-2021-Annual-Business-Plan-Budget.pdf.

increased capital expenditure on new and upgraded assets, such as for the Wulanda Recreation and Convention Centre.

Figure 3: Total income and expenses – historical and forecast



The Council's unaudited financial information for 2023-24 shows an operating deficit of $7.3 million (or OSR of negative 18.4 percent). Over half of this deficit is attributed to the timing and recognition of the 2023-24 Financial Assistance Grants of $4.4 million, which was paid to the Council in advance in 2022-23.[36] Thereafter, the Council is forecasting a return to an operating surplus in 2026-27, and this progressively increases resulting in an OSR of 6.9 percent in 2033-34. This relies on annual increases in rates income materially above forecast inflation. It will be important for Council to consider how to increase income from non-rate sources and / or seek to reduce operating expenditure, to reduce the reliance on ratepayers.

5.1.3 Operating Income

The Council's primary source of income over the period from 2013-14 to 2022-23 was from rates, which on average, accounted for 66.7 percent of total operating income. Rate income increased on average by 4.4 percent per annum from 2013-14 to 2022-23 (when growth in the number of rateable properties averaged 0.8 percent and CPI growth averaged 2.6 percent). Over the same period, user charges (accounting for 15.3 percent of total operating income) increased by an average of 7.8 percent per annum, in part, driven by income from Wulanda Recreation and Convention Centre. 'Grants, subsidies and contributions' (accounting for 13.8 percent of total operating income historically) can be 'lumpy' from year to year[37] and the three-year average of $173 per rateable property in 2015-16 is compared with the three-year average of $430 per rateable property in 2022-23, reflecting an increase in value in real terms (or 13.9 percent increase per annum in nominal terms).

Over the forecast period from 2024-25 to 2033-34, total income is increasing at an annual average of 4.2 percent, incorporating income from rates increasing by an average of 5.3 percent per annum, which includes growth in the number of rateable properties of 0.5 percent per annum. This means that the average rates revenue per property is forecast to increase by 4.8 percent per annum, almost double the RBA's average forecast inflation of 2.6 percent per annum over the same period.

The Council's forecasts indicate higher average increases in rates income relative to other income sources, and it is not clear whether conservative estimates are being made by the Council in its LTFP for

36 The Local Government Grants Commission sets out the quarterly payment schedule for Financial Assistance Grants (among other grants), available at https://www.dit.sa.gov.au/local-government/grants-commission/grant-payments.

37 Due to the timing of different grants and sometimes advance grant payments (as for the 2023-24 Financial Assistance grant allocation, which was received and accounted for in 2022-23).

non-rate income sources, such as for grants or statutory charges. There may be an opportunity for Council to review and optimise user charges to ensure cost recovery, however overall, the Commission recognises there may be limitations in achieving higher income from non-rate sources, given the generally lower socioeconomic environment of the region.

5.1.4 Expenditure

Total operating expenses increased at an average annual rate of 7.0 percent over the historical period (over two and half times the rate of historical inflation), and, in part, is driven by the operating costs associated with the Wulanda Recreation and Convention Centre. Over the forecast period, total operating expenses are forecast to increase at an average annual rate of 3.0 percent. This is due, in part, to forecast increases in employee costs at an annual average rate of 4.7 percent; increases in 'materials, contracts and other' expenses at an average annual rate of 2.3 percent; and increases in depreciation expenses at an average annual rate of 3.3 percent.

Council notes that employment costs are increasing, in part due to cleaning services being insourced, which derives a corresponding saving, as well as allowing for an additional 1.5 FTE for ongoing positions to meet strategic requirements for volunteer management and parks/gardens in 2024-25. Overall, the Council assumes it will increase staff by two FTE per annum over the period to 2033-34 to meet increased services due to population growth and for future strategic initiatives. Figure 4 shows the forecast increase in all expense types.

Figure 4: Expenses by category – historical and forecast

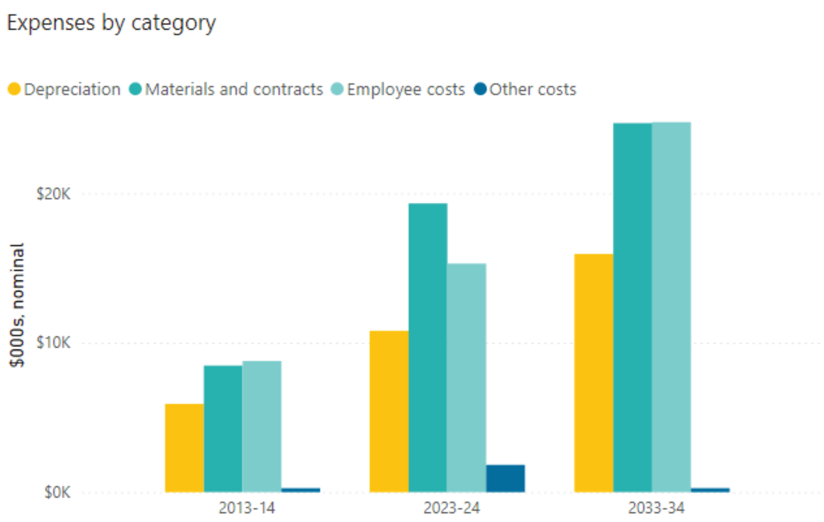


Figure 5: Expenses by category – proportions

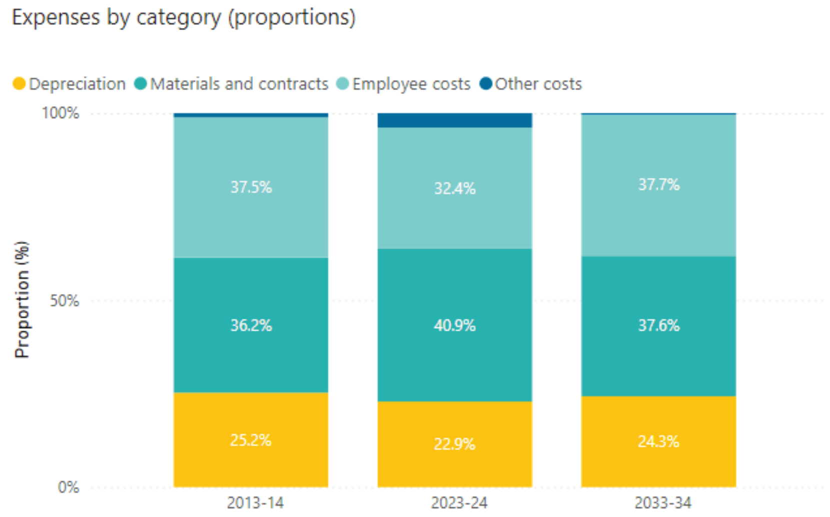


Figure 5 shows the proportional share of expenses by category and indicates that historical shares from 2013-14 are generally consistent with forecast shares in 2033-34.

Figure 6: Expense by rated property - historical and forecast

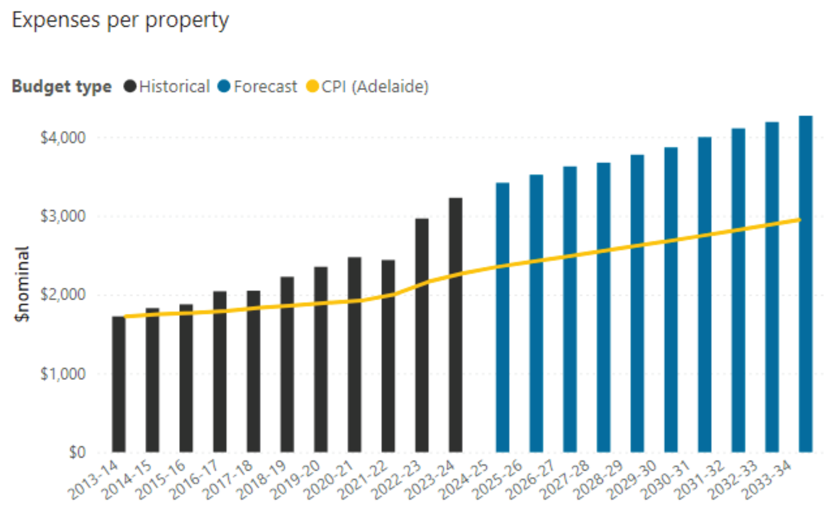


Figure 6 illustrates that expenses per property increased above CPI for the historical period at an average of 6.2 percent per annum; however, is projected to increase by only 2.5 percent per annum, on average, over the period from 2024-25 to 2033-34 (which is broadly consistent with average forecast CPI over this period). While the Council is projecting a smaller rate of growth in operating costs, it is forecasting these on a much larger cost base, in part due to the costs associated with the Wulanda Recreation and Convention Centre.

It is noted that the Council has reported a full years' financial performance for the Wulanda Recreation and Convention Centre, which resulted in a gross operating deficit of $1.2 million in 2023-24.[38] The Council has recognised that while it anticipated an initial operating deficit for the Wulanda Recreation and Convention Centre, it has worked to reduce the Centre's deficit.

38 Available at https://www.mountgambier.sa.gov.au/news/wulanda-operations-financial-performance-and-costs.

5.1.5 Commission's recommendations on operating performance

The Council's forecast operating surpluses relies on growth in rates income as well as lower rate of growth in operating expenses. However, the Commission observes the Council does not provide an explanation for the strategies or initiatives (in its LTFP) to achieve this lower rate of cost growth. In general, it might be beneficial for the Council to develop additional cost reduction plans with annual cost reduction targets, and with achievements reported against budgets, to demonstrate accountability and provide transparency to the ratepayers. If the Council fails to restrain costs, its sustainability will be at risk.

Accordingly, the Commission recommends that the Council:

2. Develop a plan to achieve cost savings measures and targets and report annually in the budget and the Long-Term Financial Plan as appropriate, to provide evidence of controlling the growth in costs and achieving efficiencies across its operations and service delivery.

5.2 Net financial liabilities

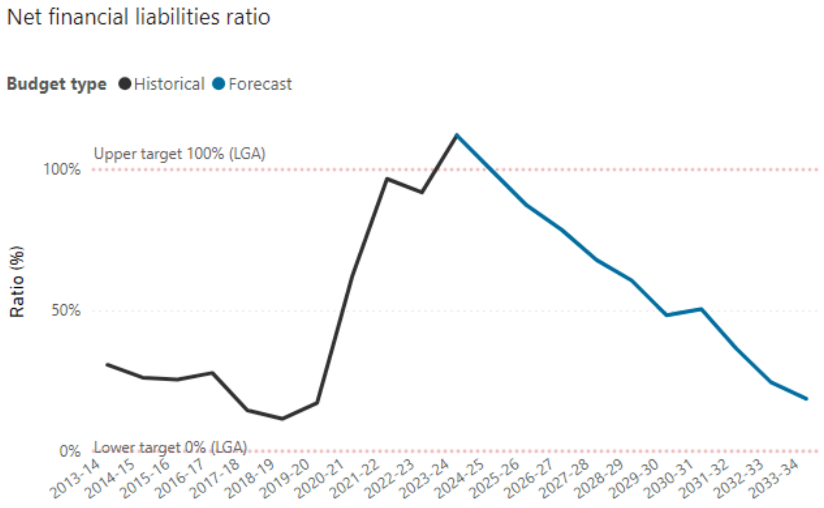
5.2.1 Key points

- ✅ Between 2013-14 and 2022-23, the NFLR averaged 40.3 percent.
- ⚠ In 2023-24 the Council's borrowings peak at $37.1 million and resulting in the NFLR of 112.1 percent.
- ✅ Between 2023-24 and 2032-33, the NFLR is forecast to trend downwards, and to average 57.2 percent.

Over the historical period from 2013-14 to 2022-23, the Council's NFLR[39] has remained within the LGA target range of zero to 100.0 percent, with an average ratio of 40.3 percent. After peaking at 112.1 percent in 2023-24 (unaudited), over the forecast period from 2024-25 to 2033-34, the NFLR progressively reduces from 99.7 percent in 2023-24 (unaudited) to 18.6 percent (or averages 57.2 percent). The ratio indicates that the Council is generally able to fund its financial obligations from operating income over the historical period, and will do so over the forecast period (see Figure 7).

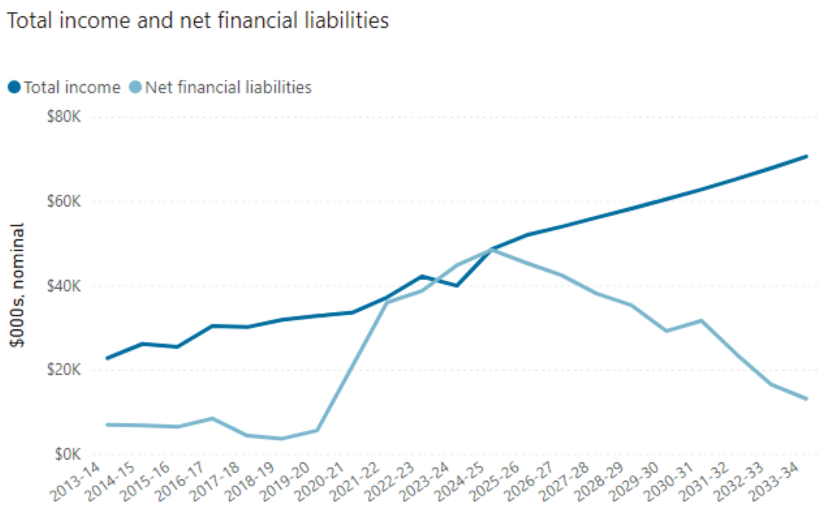
[39] The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100.0 percent of total operating income, but possibly higher in some circumstances (LGA SA Financial Indicators Paper, pp. 7-8).

Figure 7: Net financial liabilities ratio – historical and forecast



The Council has predominantly used borrowings from the Local Government Finance Authority of South Australia (LGFA) for its operating and investment needs. The progressive increase in borrowings from 2020-21 is mainly associated with the construction and operating needs of the Wulanda Recreation and Convention Centre. As a result, the Council has reported borrowings to have peaked in 2023-24 (unaudited) at $37.1 million (with a NFLR of 112.1 percent), followed by rapid repayment over the forecast period, to a borrowing balance of $2.8 million in 2033-34.

Figure 8: Total income and net financial liabilities – historical and forecast



Net Financial Liabilities are financial liabilities offset by cash and other financial assets. As seen in Figure 8, after reaching a peak of $48.4 million in 2024-25, net financial liabilities are forecast to decrease in line with the Council reduction in borrowings.

It appears from the Council's budget and LTFP that it seeks to reduce debt through rate increases (materially above forecast CPI inflation) and through lower rate of growth in operating expenses (although this is on a much larger cost base).

In the Commission's view, the planned rapid pace of repayment of debt might represent an unnecessary burden for ratepayers, evidenced by the planned high annual growth in rates payable, leading to concerns about affordability and intergenerational equity.

5.2.2 The Commission's recommendations on financial liabilities

The Commission notes that the Wulanda Recreation and Convention Centre is a long-term asset that will benefit current and future generations. Council could consider longer-term debt assumptions to reduce intergenerational equity risk (where current ratepayers pay for assets that will benefit future ratepayers). The Commission recommends that the Council:

3. Review its planned pace of repayment of debt, balancing rate increases, financial costs, and intergenerational equity.

5.3 Asset renewals expenditure

5.3.1 Key points

- Between 2013-14 and 2022-23, the ARFR averaged 73.1 percent.
- From 2024-25 to 2033-34, the Council is forecasting to align its asset renewal and replacement spending to its asset management plans, averaging $8.9 million per annum (in nominal terms).
- An emerging gap exists in renewal expenditure (relative to depreciation) which may indicate issues with asset valuations, assessed remaining useful lives, or proposed capital expenditure.

5.3.2 Council's approach to asset management

The Council advises that as part of its asset revaluations in 2023, it reviewed the useful life of its assets for the purposes of the forward work program and incorporated this asset condition and useful life of assets into the AMP. The Council also stated that it intends to review the useful life of its assets annually, moving forward. The Commission notes and encourages this good practice.

The Council currently has AMP for all major asset classes and has implemented a rolling schedule to update its plans in line with its legislative commitments.[40] The Council has advised that, following the community consultation phase, most of its AMP were reviewed and updated and were endorsed by its Audit and Risk Committee and the Council during calendar year 2024.[41]

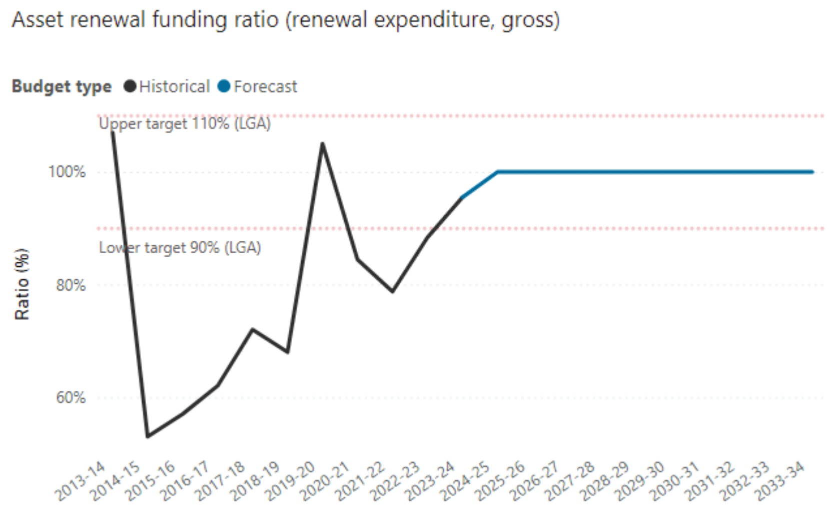
The Council has asset class AMP for: infrastructure, buildings and structures, plant and equipment, Caroline landfill, and library information technology and sundry. The AMPs provide a breakdown of the assets within each respective asset class and the proposed capital works and repairs and maintenance expenditure are included into the Council's LTFP.

The Council's capital works program includes 10 years of asset renewal projections, in alignment with the Council's LTFP, with the exception of the Caroline Landfill, which had not been updated at the time the Asset Management Summary was prepared. The Council's Strategic Workplan 2024-2027 indicates that significant work will be undertaken on asset management planning and the approach will be reviewed.

40 Under s.122(1a)(b) of the LG Act the council must in effect develop and adopt an IAMP, relating to the management and development of infrastructure and other major asset classes by the council for a period of at least 10 years.

41 These include individual AMPs cover buildings and structures, infrastructure, plant and equipment, Caroline Landfill, and library information technology and sundry.

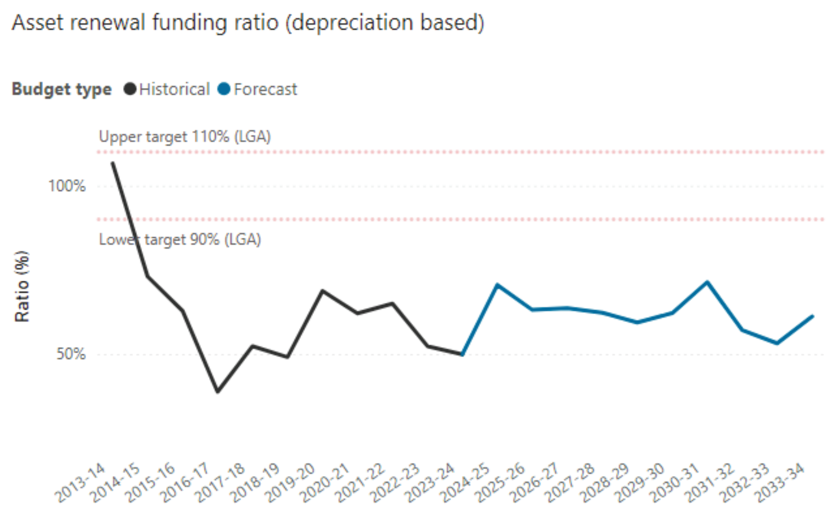
Figure 9: Asset renewal funding ratio (renewal expenditure gross) – historical and projected



An ARFR of 100.0 percent indicates that a council is fully funding the asset renewal and replacement requirements set out in its IAMP. The LGA suggests a range of 90.0 percent to 110.0 percent in any year, noting that the ratio should average out at 100.0 percent over time.

As shown in Figure 9, the ARFR (gross) was volatile over the 10-year historical period and averaged 77.6 percent, indicating that the Council's asset renewal and replacement requirements may not be sufficiently funded (or aligned to its AMP). This creates a risk of deterioration of existing assets, with potential reduction in the level of services and potential additional costs for maintenance.

Figure 10: Asset renewal funding ratio (depreciation based) – historical and forecast



Asset renewals can also be evaluated by the depreciation-based ARFR, which has tracked lower than the recommended minimum level (for the IAMP-based ratio) of 90.0 percent, averaging 63.1 percent in the period to 2023-24, and forecast to average only 62.4 percent per annum to 2033-34.

Figure 11: Net asset renewal expenditure and depreciation – historical and forecast

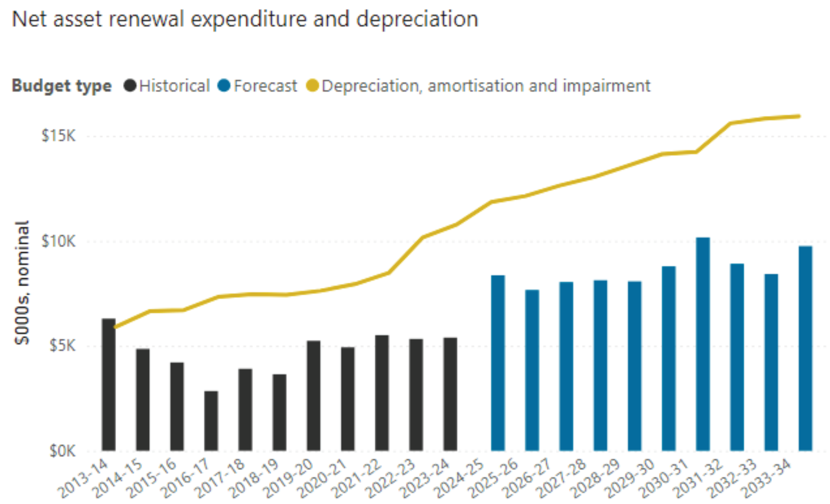


Figure 11 shows that historically (between 2013-14 to 2022-23) depreciation expenses outpaced renewal capital expenditure by $28.9 million over ten years and the gap is projected to increase over the forecast period by a further $52.7 million. This may indicate an underspend in asset renewal and replacement expenditure, or a greater focus on expenditure on new or upgraded assets, or recorded asset lives are understated (thereby overstating depreciation), or a combination of these.

Figure 12: Total capital expenditure by category – historical and projected

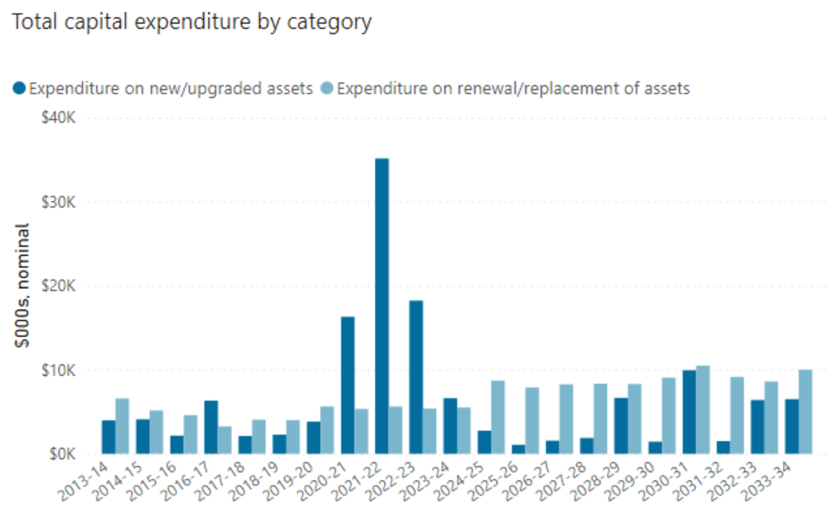


Figure 12 shows the expenditure on new and upgraded assets relative to renewal and replacement of existing assets. Capital expenditure on new or upgraded assets over the historical period (from 2020-21 to 2022-23) totalled $69.6 million and peaked in 2021-22 with expenditure of $35.1 million for new and upgraded assets. This related to the Wulanda Recreation and Convention Centre, which opened to the public in December 2022. The construction cost of $62.5 million was funded by a combination of grants and debt.[42]

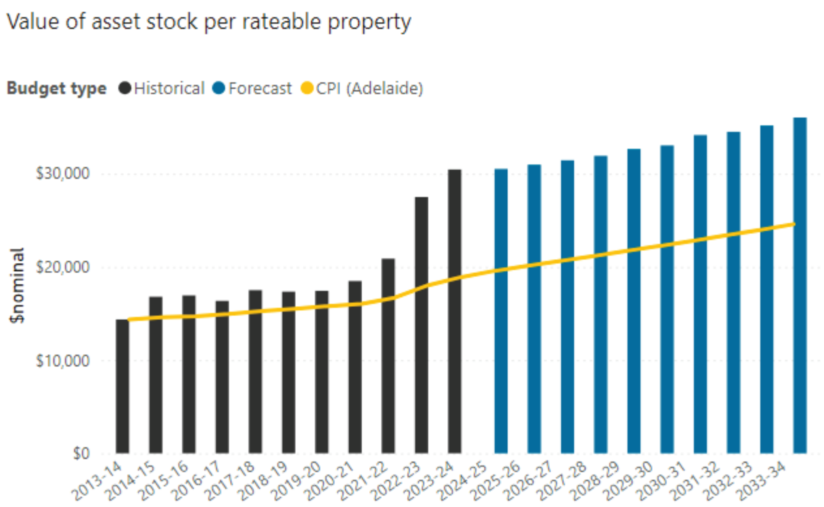
42 $25 million from a combination of Federal and State Government and $350,000 from the District Council of Grant with the balance funded by Council debt.

Over the forecast period (from 2024-25 to 2033-34), capital expenditure on new or upgraded is forecast to average $4.0 million per year which is an increase of 24.3 percent from the historical period when Wulanda Recreation and Convention Centre is excluded.[43]

The Commission is concerned with the historical level of spending on new and upgraded assets, while expenditure on asset renewal and replacement appears to be under-funded. For the forecast period, the Council plans to fully fund asset renewal and replacement requirements (in line with its AMP), as indicated by Figure 9.

Further, a consequence of spending on new and upgraded assets creates a stream of future liabilities, as the community must continue to fund the renewal and replacement of those new assets as well as the existing asset base. This must be considered relative to affordability for the community and the Council's capacity to renew and replace the existing and new assets.

Figure 13: Value of asset stock per rateable property – historical and projected



Asset stock per rateable property increased sharply in 2022-23 with the development of the Wulanda Recreation and Convention Centre. The Council forecasts that the value of asset stock per rateable property will increase on average by 1.9 percent per annum from 2024-25 to 2033-34.

5.3.3 The Commission's recommendations on asset renewals expenditure

The Commission recommends that the Council:

4. **Review** its depreciation assumptions and the underlying valuations and useful life data to ensure that depreciation accurately reflects the rate of asset consumption and ensure that asset renewal and replacement is fully funded.
5. **Review** its pace of development of new and upgraded assets, having regard to rates affordability, the affordability of the stream of future liabilities created by new and upgraded assets and the need to prioritise and fully fund asset renewal and replacement.

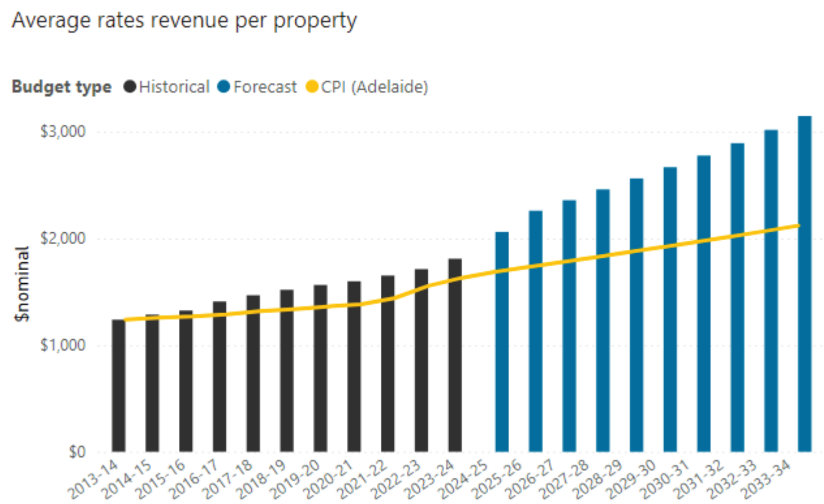
[43] Capital expenditure for new assets averaged $3.2 million per annum when the $62.5 million for the construction of the Wulanda Recreation and Convention Centre is excluded.

6 Advice on current and projected rate levels

6.1 Key points

- Growth in rate revenue per property averaged 3.7 percent or $53 per annum for each property between 2013-14 and 2022-23, which is 1.1 percentage points above average CPI for the same period.
- The budgeted general rate increase for 2024-25 is 10.0 percent per property, which is materially higher than the Council anticipated charging in previous forecasts.
- The forecast rate increases per property from 2024-25 to 2033-34 are projected to be an average of 4.8 percent per annum or a cumulative increase of $1,086 over this period, which is well above the RBA's CPI inflation forecast of an average of 2.6 percent per annum.
- Affordability risk among the community for the further rate increases appears to be moderate to high, based on a range of factors, including an assessment of the economic resources available to the community, the current relatively low average residential rates, and the forecast increases in rates over the term of the LTFP.

Figure 14: Average rates revenue per property – historical and projected



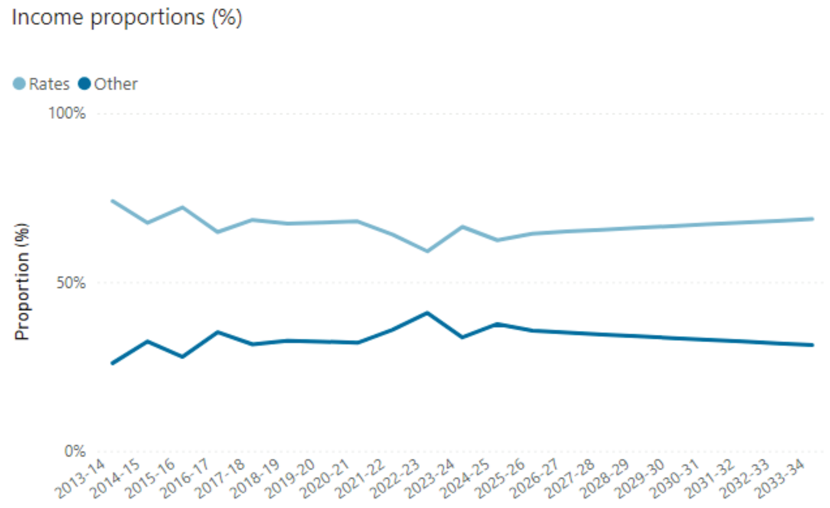
6.2 Historical rates growth

The Council's growth in rate revenue per property has averaged 3.7 percent per annum or $53 per annum for each property over the past 10 years,[44] to reach an estimated average of $1,713 per property in 2022-23 (see Figure 14). This growth rate was higher than the average CPI increase of 2.6 percent annually during the same period.[45]

44 From 2013-14 to 2022-23.

45 CPI Adelaide (all groups) increased by 2.6 percent per annum on average over the period from 2013-14 to 2022-23, based on historical ABS statistics. Available at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/.

Figure 15: Income Proportions (%)



Rate revenue represented 66.7 percent on average over the 10-year period from 2013-14 to 2022-23 (see Figure 15). Over this period income from grants represented approximately 13.8 percent, and income from user charges approximately 15.3 percent. The Council also had income from 'amounts received specifically for new and upgraded assets' (such as for the Wulanda Recreation and Convention Centre) which has been significant at times.[46]

As previously noted, the number of rateable properties increased from 13,584 (in 2013-14) to 14,534 (in 2022-23) representing an average growth of 0.8 percent per annum. It is forecast to increase to 15,380 rateable properties, at an average growth rate of 0.5 percent per annum, over the period from 2024-25 to 2033-34.

The Council also has relatively lower 'general rates' compared to similar councils; however, this also reflects its relatively higher average rates for commercial ratepayers, and lower average rates for residential ratepayers.[47]

6.3 Proposed rate increases for 2024-25

The Council has budgeted for average general rates increase of 10.0 percent or $152 per property in 2024-25.[48] The rates increase recognises the Council's higher cost base and financial sustainability risks and is 9.7 percentage points higher than the Adelaide CPI for the annual period to March 2024 of 4.3 percent. This proposed rate increase is also higher than the Council anticipated charging for the year 2024-25 (in its previous LTFP projections of 6.2 percent). The Council also assumes 1.1 percent growth in the number of rateable properties (which is approximately 0.3 percentage points higher than its historical average).

The Council has adopted differential rate categories to apply to ratepayers based on the land use category of rateable property.[49] The Council has adopted 'rate in the dollar'[50] amounts which are applied across its land use categories, and these are expected to be comprehensively reviewed during 2024-25.

---

46 Not accounted for in Figure 15.

47 Refer to Councils in Focus rates data for 2021-22 available at https://councilsinfocus.sa.gov.au/councils/city_of_mount_gambier. The Commission is not relying on these rate comparisons for its advice; the data source provides one indicator, among many, which has informed its advice on the appropriateness of the rate levels. Other rate charges such as for waste management and the regional landscape levy do not form part of this comparison.

48 City of Mount Gambier, Annual Business Plan 2024/2025, June 2024, pp. 45-47.

49 The categories of rateable property consist of: residential, primary production, and other; and commercial, industry, and vacant land.

50 Section 152(1) of the LG Act provides that a general rate may be a rate based on the value of the land subject to the rate (commonly referred to as the 'rate in the dollar').

On a proportional revenue basis, residential ratepayers are expected to account for around 70.5 percent of 2024-25 general rates revenue, followed by commercial (19.3 percent), industry (5.8 percent), vacant land (3.1 percent), and primary production and other (1.3 percent).[51]

Other than general rates income (which represents around 80.6 percent of total rates income in 2024-25),[52] the Council collects income from waste collection (around 14.8 percent) and from the Regional Landscape Levy (around 4.7 percent), though the Regional Landscape Levy funds are passed through to the State Government. Rates income from waste collection is anticipated to increase by 43.9 percent in 2024-25 or $92 per rateable property.

6.4 Projected further rate increases

The Council has projected further average increases in rates income of 5.3 percent per annum over the period from 2024-25 to 2033-34, including growth in rateable properties. As a result, the average rates per property are forecast to increase by 4.8 percent per annum over the forecast period, which is 1.8 times the forecast average inflation of 2.6 percent per annum.[53]

As noted previously, the Council appears to have considered several long-term planning assumptions, and importantly is seeking to address financial sustainability risks (and forecasting a return to an operating surplus by 2026-27), predominantly through modelling high long-term increases in rates based on RBA's CPI inflation forecast plus 2.0 percent.[54] The Council is also looking to pay down the borrowings accrued through the construction of the Wulanda Recreation and Convention Centre, primarily repaid through rates and user charges over the next 10 years.

The Council is seeking to undertake a comprehensive review of its rating strategy,[55] and the Commission suggests that community support for the significant rate increases is obtained (and affordability is considered). Further, to reduce the reliance on ratepayers, the Council could explore additional strategies to generate income, such as ensuring appropriate cost recovery on services for the Wulanda Recreation and Convention Centre or explore other revenue sources.

The Council's 2024-25 LTFP effectively projects a cumulative increase of $1,086 per existing ratepayer (to $3,148 per annum) by 2033-34 (refer to Figure 14).[56]

6.5 Affordability risk

The affordability risk among the Council's community for these further rate increases appears to be moderate to high, on balance, when considering:

- the Council's relatively low socio-economic indexes for areas (SEIFA) economic resources ranking for the council area[57]
- the relatively low average general rates for residential ratepayers compared to similar councils

51 City of Mount Gambier, *Annual Business Plan 2024/2025,* June 2024, p. 48.
52 Net of discretionary rebates.
53 The forecast average annual growth in the CPI from 2025-26 to 2033-34 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to December 2026 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2026-27.
54 City of Mount Gambier, *Long-Term Financial Plan 2025-2034*, June 2024, p. 16.
55 City of Mount Gambier, *Long-Term Financial Plan 2025-2034*, June 2024, pp. 4-5.
56 The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum), and this can be different to Council's own inflation and rate increase assumptions.
57 The City of Mount Gambier area is ranked 13 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 (e.g., 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

- the potential bill shock for rate payers in 2024-25 due to budgeted increase in general rates of $152 per rateable property, and in waste management charges by $92 per rateable property,
- the effect of cumulative increases in rates per property of approximately 4.8 percent per annum over the period to 2033-34, almost double the forecast rate of inflation, and
- a number of community concerns, with several submissions received by Council during the 2024-25 budget process, some ratepayers expressing concerns about the 2024-25 rate increase.[58]

6.5.1 The Commission's advice on affordability risk

Affordability risk can also be viewed in the context of the Council's financial and asset sustainability risks, specifically, the Council is not projecting an operating surplus until 2026-27 and will rely on significant step-up in rates in 2024-25 to 2025-26. Its past asset management planning also suggests further investment in asset renewals is required to maintain existing service levels. The community's capacity to pay for these increases appears to be low (based on the SEIFA index), and as previously noted Council should consider increasing non-rate income sources and/or implement cost savings initiatives to reduce the reliance on ratepayers.

Accordingly, the Commission recommends that the Council:

6. Review its approach to addressing financial sustainability risks, in consultation with its community, with a view to limiting future increases in rates and improving affordability for ratepayers.

[58] See City of Mount Gambier, *Special Council Meeting Agenda – 18 June 2024, Item 4.1 2024/2025 Draft Annual Business Plan and Budget – Community Consultation Feedback – Report No. AR24/38805*, pp. 4-13, available at https://cdn.mountgambier.sa.gov.au/agendas-minutes/Notice-and-Agenda-Special-Council-Meeting-18-June-2024-Website-PDF.pdf.

7 The Commission's next advice and focus areas

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

- ongoing performance against its LTFP estimates and how it has incorporated updates to asset valuations and depreciation, including the sequencing of the plan updates to ensure that the LTFP is informed by current values
- the identification and reporting of cost savings and operating efficiencies
- capital expenditure programs, including how it has continued to provide funding to the renewal of assets, and
- the Council's efforts to minimise any emerging affordability risks.

8 Appendix: Glossary of terms

Item	Explanation
ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
ARFR	Asset Renewal Funding Ratio Since 2013, the asset renewal funding ratio has been defined as: Asset Renewal Expenditure ÷ IAMP Renewal Expenditure Where IAMP Renewal Expenditure is that required according to the IAMP.
Commission	Essential Services Commission, established under the *Essential Services Commission Act 2002*
CPI	Consumer Price Index (Adelaide, All Groups)
Council	City of Mount Gambier
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
LGPI	Local Government Price Index
LTFP	Long-term financial plan
NFLR	Net Financial Liabilities Ratio Net Financial Liabilities are defined as: Total Liabilities LESS Current Assets (Cash and Cash Equivalents) LESS Current Assets (Trade and Other Receivables) LESS Current Assets (Other Financial Assets) LESS Non-Current Assets (Financial Assets - excluding equity accounted investments in council businesses) The net financial liabilities ratio is: Net financial liabilities ÷ Total Operating Income
OSR	Operating Surplus Ratio The Operating Surplus (Deficit) is defined as: Total Operating Income LESS Total Operating Expenses28

Item	Explanation
	The Operating Surplus Ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income
Regulations	*Local Government (Financial Management) Regulations 2011*
RBA	Reserve Bank of Australia
SEIFA	Socio-Economic Indexes for Areas
SMP	Strategic management plan
The scheme or advice	Local Government Advice Scheme

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