



Advice

Local Government Advice

City of Unley

February 2025

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City of Unley

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the City of Unley's current and projected financial performance **sustainable**, considering the Council's average expected growth in properties of 0.3 percent per annum over the next 10 years, the planned average rate increases of 2.8 percent per annum per property over this period, and the effective management of assets.

FINANCIAL PERFORMANCE



Past 10 years
Sustainable



Current
Sustainable



Projected
Sustainable

RISKS IMPACTING SUSTAINABILITY

⚠ If operating costs are not contained within forecasts, the forecast operating surplus may not be achieved.

KEY FACTS

- ▶ Population in 2023 was **39,929** residents
- ▶ Council covers **14.4 square kilometres**
- ▶ 19,399 rateable properties in 2023-24
- ▶ **\$48.9 million** of rate income in 2023-24
- ▶ Value of infrastructure assets held in 2023-24 equals **\$782.0 million**

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1 Executive summary

1.1 Summary of observations

The Essential Services Commission of South Australia finds the City of Unley's current financial position to be **sustainable**. The City of Unley faces low risks in achieving its operating surplus and effectively managing its assets over the forecast period.

The City of Unley has managed its operating surplus conservatively during the 10-year historical period from 2013-2014 to 2022-2023, achieving an average operating surplus ratio of 7.5 percent. It has forecast an operating surplus ratio for the period from 2024-25 through to 2033-34 of 5.2 percent on average.

Rates are the main source of income for City of Unley over both the historical period and the forecast period, and they are increasing as a percentage of total income.

Over the historical period, the main contributors to expenses were 'materials, contracts and other' expenses and depreciation, which increased at an annual average rate of 3.7 percent and 5.2 percent per annum respectively. Looking forward, 'materials, contracts and other' costs are forecast to increase in line with forecast inflation, while depreciation expenses are forecast to grow by 3.1 percent per annum on average between 2024-25 and 2033-34. Depreciation expense as a proportion of total expenses has increased from an average of 17.2 percent in 2013-14 to 22.1 percent in 2023-24, while employee expenses have declined from 38.7 percent to 34.9 percent over the same period.

The City of Unley is taking a pro-active approach to managing its assets and has been transparent with the Essential Services Commission and other stakeholders via its strategic documents about asset management practices. However, stakeholders may benefit from a more detailed annual publication of the Long-Term Financial Plan.

1.2 Summary of Recommendations

The Essential Services Commission recommends that the City of Unley:

1. **Publishes** a comprehensive version of the Long-Term Financial Plan annually, to improve transparency for stakeholders.
2. **Continue** to review its inflation forecasts in its budget and forward projections at least annually.
3. **Continue** to monitor cost growth in its budgeting where possible, and report savings in strategic documents.
4. **Continue** to minimise further average rate increases above inflation, to help reduce any emerging affordability risk in the community.

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 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 Unley (**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 Annual Business Plan) and in subsequent plans until the next cycle of the Scheme⁸. The Council is not compelled under the LG Act to follow the advice.

The Commission thanks the City of Unley 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 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**),

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 Advice Scheme. 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.

the Net Financial Liabilities Ratio (**NFLR**) and the Asset Renewal Funding Ratio (**ARFR**).¹⁰ Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.¹¹

City of Unley – Strategic Management Plan Documents

- ▶ 2024-25 to 2033-34 City of Unley Long-Term Financial Plan adopted 24 June 2024
- ▶ 2024-25 City of Unley Annual Business Plan and Budget adopted 24 June 2024
- ▶ 2023-24 City of Unley Annual Business Plan & Budget
- ▶ City of Unley Building Asset Management Plan 2023
- ▶ City of Unley Open Space Asset Management Plan 2023
- ▶ City of Unley Stormwater Asset Management Plan 2023
- ▶ City of Unley Transport Asset Management Plan 2023
- ▶ Economic Development Growth Strategy 2021-2025
- ▶ City of Unley Four Year Delivery Plan 2021-2025

Given that the Commission must, in providing its advice, have regard to the objective of councils maintaining and implementing their IAMP (often termed AMPs) 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 5.3.

The Commission has also reviewed the Council's template data, which contains the following:

- ▶ 2024-25 LTFP forecasts for 2024-25 to 2033-34
- ▶ 2023-24 LTFP forecasts
- ▶ historical financial data
- ▶ number of rateable properties, and
- ▶ Council staff (Full Time Equivalent (**FTE**)) numbers from 2013-14 onwards.^{14 15}

All 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

¹⁰ The three financial 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).

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.

'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (**CPI**) line shows the cumulative growth in the CPI (Adelaide) series from 2013-14, and then projections of this series from 2024-25 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.

The Council approved its 2024-25 LTFP in June 2024. The previous formally adopted version of its LTFP was in 2020. While the Council reviews its LTFP each year with an update included in the Annual Business Plan and Budget (adopted each June), this update is a subset of the comprehensive data normally available in the LTFP and does not include detail about sources of revenue, or capital expenditure. Sustainability ratios (asset renewal funding ratio or net financial liabilities ratio) cannot be determined from the level of information published in reviews.

The limited data published between the 2020 and 2024 LTFP does not include sufficient information to provide the transparency that would enable ratepayers or other stakeholders to understand sources of revenue or the relationship between capital expenditure and the asset management plans. The Council's practice of undertaking a major refresh every four years, with minor updates in the intervening years (as published in the Annual Business Plan), limits information flows between the Council and the community it serves. To include financial projections from the AMP in the LTFP assists with developing stakeholder's understanding of the risks, benefits and community value related to delivering capital infrastructure and services,¹⁶ in addition to encouraging alignment between strategic documents (which is a requirement under the LG Act.).

For this reason, the Commission recommends that the Council:

1. **Publish** a comprehensive version of the Long-Term Financial Plan annually, to improve transparency for stakeholders.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Council, including its location as a metropolitan council, its income level (\$57.2 million¹⁷) and the size of its rates base (more than 19,399 ratepayers¹⁸).

Legend:  Low-risk  Moderate-risk  High-risk

¹⁶ Australian Local Government Association, (**ALGA**) 2024 National State of the Assets report, p. 64.

¹⁷ Based on the estimated total income in 2023-24.

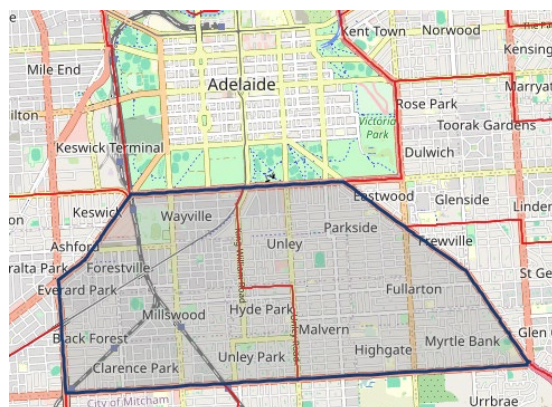
¹⁸ Based on the estimated number of property assessments in 2023-24.

3 Council profile

The Corporation of the City of Unley is classified by the Commission as an 'Urban Development and Urban City Centre' council and is one of 16 in this category in South Australia.¹⁹ The Council is in the inner south of Adelaide comprising 1,439 hectares.²⁰ It has an estimated resident population of 39,929 and approximately 19,399 rateable properties.²¹

The City of Unley was proclaimed a city in 1906, because of its population reaching 22,000.²²

Figure 1: Council area



The Council region also has the following attributes:

- ▶ stable rateable property growth of approximately 0.7 percent per annum²³
- ▶ population density of 2,798 persons per square kilometre²⁴
- ▶ 171 kilometres of sealed roads and laneways, with minimal unsealed roads²⁵
- ▶ its largest employment sectors are in construction (17.0 percent), healthcare and social assistance (25.2 percent),²⁶ and Professional, Scientific and Technical Services (13.4 percent), and
- ▶ a median population age of 42 years.²⁷

¹⁹ 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>.

²⁰ 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>.

²¹ Based on the Council's Financial Reporting template provided to the Commission.

²² Refer to <https://www.unley.sa.gov.au/Events-programs-facilities/Facilities-venues/Unley-Museum/Unleys-history/Proclamation>.

²³ Based on the Council's Financial Reporting template provided to the Commission.

²⁴ Refer to Australian Bureau of Statistics, *Data by region*, available at <https://dbr.abs.gov.au/region.html?lyr=lga&rgn=47980>.

²⁵ 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>.

²⁶ Unley Economy, available at <https://app.remplan.com.au/unley/economy/summary>.

²⁷ Refer to Australian Bureau of Statistics, *Data by region*, available at <https://dbr.abs.gov.au/region.html?lyr=lga&rgn=47980>.

4 Material plan amendments in 2024-25

The Council has made various amendments to its 2024-25 draft budget and forward projections, for revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in Table 1 (in nominal terms).²⁸ To ensure a comparable analysis of estimates between the 2023-24 draft LTFP and 2024-25 LTFP, the Commission has reviewed the nine overlapping years' statistics: 2024-25 to 2032-33 and identified material amendments accordingly.

4.1 Key points



Council has adopted the good practice of annual indexation of infrastructure asset values.



Council's inflation assumption slightly exceeds RBA forecasts.

Table 1: Historical and forecast financial items

Selected Financial Item	Sum of 2024-25 to 2032-33 estimates in draft 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)
Total operating income	607.9	611.3	+3.4	+0.6
Total operating expenses	556.7	579.9	+23.2	+4.2
Operating surplus/(deficit)	51.2	31.4	-19.8	-38.7
Capital expenditure on renewal of assets ²⁹	98.5	127.3	+28.8	+29.2
Capital expenditure on new and upgraded assets ³⁰	34.1	40.6	+6.5	+19.0

4.2 Changes to operating performance

The Council has budgeted (2024-25 LTFP) a decline in its operating performance, with a projected surplus of \$31.4 million, compared to a surplus of \$51.2 million in the 2023-24 LTFP. In aggregate, the projections in the Council's current and previous LTFP (that is, over the nine-year comparative period to 2032-33, as shown in Table 1) indicate the Council's cumulative operating performance is expected to decline by \$19.8 million. This result partly reflects the Council's change in practice of including annual indexation of infrastructure asset values (previously the LTFP only included forecasted depreciation

²⁸ Table 1 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.

²⁹ The capital expenditure estimates are based on the 2022-23 LTFP estimates provided by the Council to the Commission (in an Excel template).

³⁰ The capital expenditure estimates are based on the 2022-23 LTFP estimates provided by the Council to the Commission (in an Excel template).

increases associated with new assets)³¹ which provides a more comprehensive perspective on the forecast depreciation expense.

The increase in its revenue estimates by up to 0.6 percent over the 2024-25 to 2032-33 forecast period, compared with the same estimates in its 2023-24 LTFP, is largely due to a changed business model for the Goodwood Community Centre, increased waste management income, and decline in investment income from lower cash reserves. While increases in income are estimated to be lower than inflation assumptions, the expense forecasts are higher, mainly due to the increased depreciation expense (further discussed in Assets Renewals Expenditure section 5.3).

For the 2024-25 LTFP, the Council notes the declining operating surplus (compared to the previous LTFP) is a result of a 4.2 percent/\$23.2 million increase in operating expenses, partially offset by a 0.6 percent increase (or a \$3.4 million increase) in income.³² Some of the amendments, compared to the previous LTFP, include:

- ▶ higher depreciation, amortisation and impairment estimates resulting from updated asset values and subsequent changes in depreciation forecasts, further discussed in section 5.1
- ▶ a 6.1 percent increase in user charges related to a change in business arrangements, and
- ▶ a 12.2 percent increase in other income related to waste management services.

The Council's historical and projected operating performances are discussed further in section 5.1.

4.3 Indexation adjustments

The Council applies inflation adjustments to its cost and revenue estimates as detailed in its LTFP. It assumes CPI inflation increases of 3.75 percent in 2024-25, 3.5 percent in 2025-26, and 3.0 percent in 2026-27 with 2.5 percent per annum thereafter.³³

The Council's inflation forecasts are slightly above the current RBA forecasts - CPI (Australia-wide) which suggest growth of 2.6 percent per annum on average between 2024-25 and 2033-34.³⁴

The Commission notes that the Council's stated assumptions for indexation in its 2024-25 LTFP are transparent and based on its annual review of these forecasts. However, in a period of decreasing inflation, it may be appropriate to use a more current inflation forecast when preparing budgets. Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission recommends that the Council:

2. **Continue** to review its inflation forecasts in its budget and forward projections at least annually.

4.4 Increase to capital expenditure estimates

The Council's 2024-25 LTFP indicates an increase in capital expenditure for asset renewals (by \$28.8 million or 29.2 percent), and for new and upgraded assets (by \$6.5 million or 19.0 percent),

³¹ Material amendments reasons in the 2024-25 LTFP estimates provided by the Council to the Commission (in an Excel template).

³² Table 1 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.

³³ City of Unley 2024-25 to 2033-34 Long-Term Financial Plan, p. 22; Inflation assumptions based on Adelaide CPI forecast (SA Treasury) at 30 June of the preceding year used to inform budget.

³⁴ 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 June 2027 (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.

compared to the previous year's LTFP (for the period from 2024-25 to 2032-33). From the nine-year projections in the 2024-25 LTFP, the Council has factored in a total of \$127.3 million in capital renewal and replacement works and \$40.6 million in new and upgraded capital works, accounting for 76.0 percent and 24.0 percent of the total capital expenditure program respectively.

The Council's recent review of asset management plans in 2023-24 updated data underpinning capital renewal and operational management costs. The work identified a requirement for significant increases in capital renewal expenditure for Transport and Kerbing costs, partly due to updated design and safety standards, and additional assets were included in the Open Space asset category.³⁵ Assets, the asset management plans, and the Council's capital expenditure outlook are discussed further in section 5.3.

4.5 Changes between 2023-24 LTFP and annual business plan

The Council adopted its 2024-25 Annual Business Plan and Budget in June 2024, together with its 2024-25 LTFP. The Commission notes that the Council's LTFP identifies the risks to its estimates after it is adopted (due to economic factors, for example) and that the Annual Business Plan also includes its 2024-25 estimates (aligned with the LTFP). While there is no current regulatory requirement for it to publish its LTFP projections with its annual business plan and budget, the Commission notes the good practice of the Council in aligning the strategic documents (which is a legislative requirement).

³⁵ City of Unley correspondence – Asset Management Plans – Explanation of Significant Variances, 30 September 2024.

5 Financial sustainability

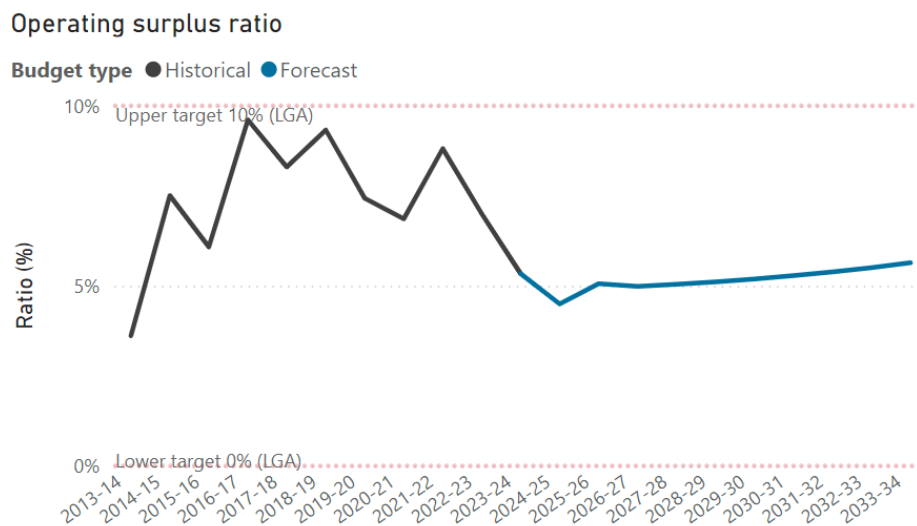
5.1 Operating performance

5.1.1 Key points

- ✓ Council has historically achieved operating surpluses, and forecasts continued surpluses.
- ✓ Growth in rates per property between 2013-14 and 2022-23 was closely aligned to inflation.
- ✓ Growth in expenses per property was below inflation between 2013-14 and 2022-23.
- ⚠ Depreciation grew by 5.2 percent per annum between 2013-14 and 2022-23 and is forecast to increase by 3.1 percent per annum between 2024-25 and 2033-34.

5.1.2 Operating Surplus Ratio

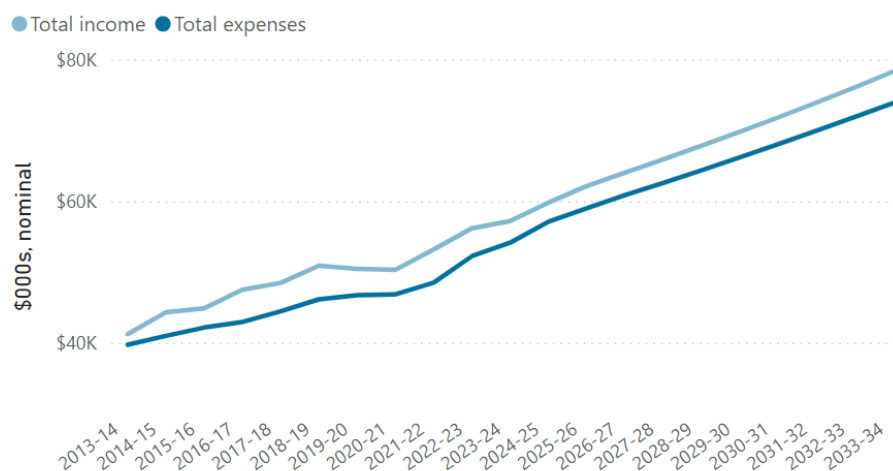
Figure 2: Operating surplus ratio – historical and forecast



The Council has continuously run operating surpluses from 2013-14 to date, with an average surplus of 3.7 percent per annum and an average OSR of 7.5 percent, which is within the LGA target range of zero to 10.0 percent. The Council's forecast indicates annual growth in the OSR, to reach a maximum of 5.6 percent in 2033-34, remaining within the LGA recommended range for the ratio.

Figure 3: Total income and expenses – historical and forecast

Total income and total expenses



5.1.3 Income

Rates revenue increased from 2013-14 to 2022-23 by an average of 3.4 percent per annum and total income increased in the same period by 3.5 percent per annum. Rateable properties increased from 18,351 in 2013-14 to 19,507 in 2022-23 – a growth rate of 0.7 percent per annum.

Rates per property increased by an average of 2.7 percent per annum which is closely aligned to CPI inflation increases for the same period (2.6 percent³⁶) but above the rate of expenses growth per property at 2.4 percent.

As a percentage of total income, between 2013-14 and 2022-23, both rates and grants decreased while investment income and reimbursements increased. Grants income was 'lumpy' over the period, mostly reflecting the timing of Federal Government Financial Assistance Grants (FAG). A three-year average in grants of \$3.8 million in 2022-23 compares with the three-year average of \$3.3 million in 2015-16, which reflects an increase in dollars but a decrease in value in real terms when adjusted for inflation.

Looking forward, all categories of income are expected to grow between 2024-25 and 2033-34, increasing total income by 3.0 percent per annum, or just above forecast inflation of 2.6 percent.³⁷ The Council is projecting average annual rates revenue growth of 3.1 percent to 2033-34, (rates are discussed in more detail in section 6). Grants income is anticipated to average \$3.4 million per annum over the forecast period, compared to the historical average of \$3.7 million per annum. The average growth in annual rates revenue is slightly above forecast expense growth.

5.1.4 Expenditure

Over the historical period 2013-14 to 2022-23, total operating expenses increased by an average of 3.1 percent per annum. Accounting for the increase in rateable properties over time, expenses per property increased by 2.4 percent on average, slightly below CPI inflation. Employee costs as a percentage of total expenses declined between 2013-14 and 2022-23, while depreciation and materials/contracts costs both increased due to inflation in contracts and materials, and updated asset

³⁶ ABS historical time series, available at: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023#capital-cities-comparison>.

³⁷ 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 June 2027 (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.

data. Depreciation grew by an average of 5.2 percent per annum and materials and contracts expenses grew by an average 3.7 percent per annum between 2013-14 and 2022-23.

Operating expense forecasts indicate employee numbers will increase by 21 FTE in 2024-25 and remain at that level until 2033-34. The higher FTE represents the Council's establishment (approved staffing numbers), and the Council's intention is to fill all vacant positions in 2024-25.³⁸

The Council forecasts that depreciation will grow by 3.1 percent per annum between 2024-25 and 2033-34, while depreciation as a proportion of total expenses is projected to grow from an average of 18.6 percent between 2013-14 and 2022-23 to 22.1 percent in 2023-24. The Council forecasts average growth in materials, contracts and other expenses that approximately aligns with RBA inflation forecasts. Finance costs are forecast to exhibit an annual average growth of 8.0 percent between 2024-25 and 2032-33, as borrowings grow.

Figure 4: Expenses by category – proportions

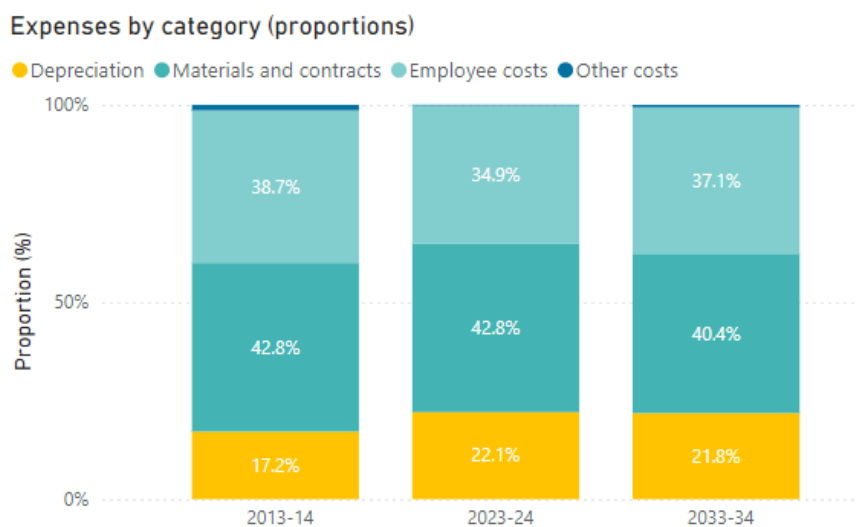


Figure 4 shows the proportions for each type of expense historically and forecast while Figure 5 shows the increase in actual expenses over time.

³⁸ Advised by General Manager, Corporate Support, in conversation, 29 October 2024.

Figure 5: Expenses by category – historical and forecast

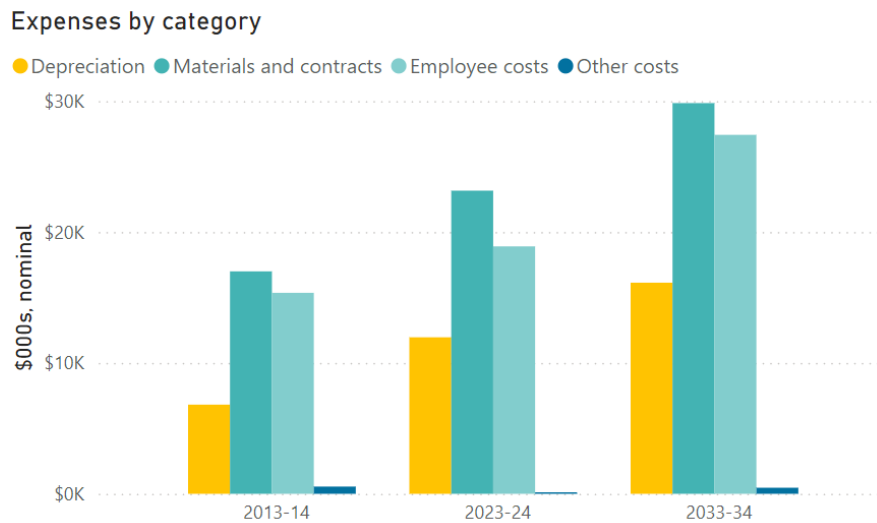
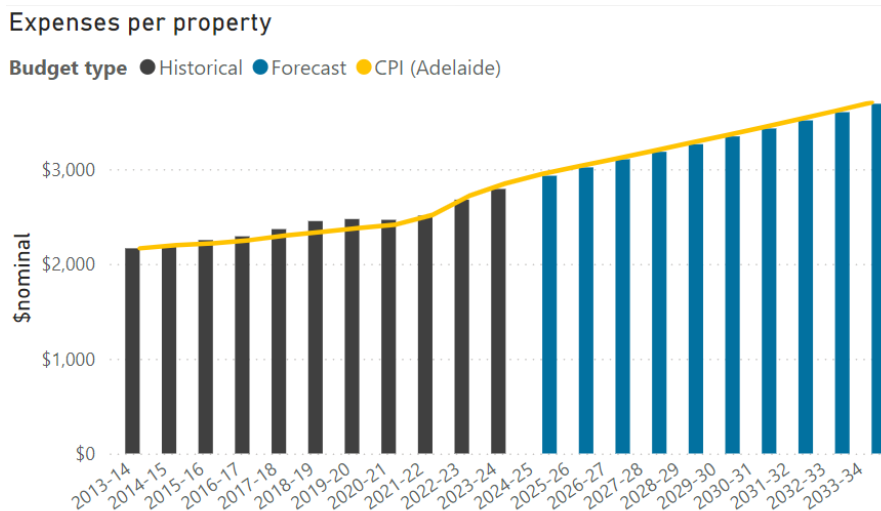


Figure 6: Expense by rated property - historical and forecast



Expenses per property (a metric that also accounts for growth) are expected to increase by an average of 2.6 percent per annum over the forecast period, which aligns with current inflation projections.

The forecast expenditure reflects contained growth, and is a positive trend, noting that the Council's ongoing financial sustainability outlook does rely on continued rate increases and cost constraints.

The Commission notes the Council's ongoing financial sustainability benefits from its geographical location and relatively affluent community. Notwithstanding recent economic shocks, the Council works in a relatively stable low rateable property growth environment, due to a high population density and limited free land. The Council's focus on asset renewal is conducive to effective operation with minimal risk. Expenses have historically run slightly higher than CPI and ratepayers may benefit from the Council closely considering its cost base and productivity while maintaining service levels.

The Commission has observed the current good practice of the Council in conducting regular service level reviews of its operations, including community consultation and reporting process and outcomes.³⁹

³⁹ 2024-25 City of Unley Annual Business Plan & Budget, p. 12.

5.1.5 Commission's recommendations on operating performance

To ensure the Council is positioned to achieve the real-terms reduction in its cost base that it has forecast, and to improve its operating performance (without the need for further rate increases above inflation), the Commission recommends that the Council:

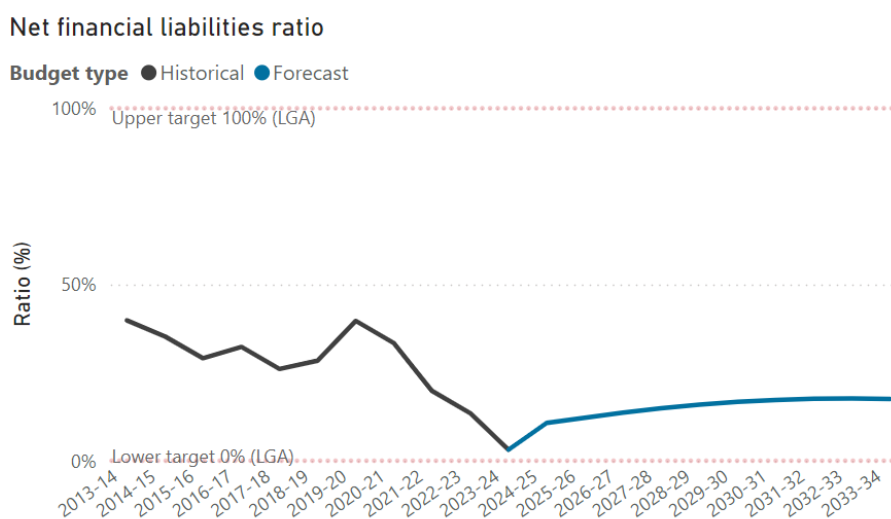
3. **Continue** to monitor cost growth in its budgeting where possible, and report savings in strategic documents.

5.2 Net financial liabilities

5.2.1 Key points

- ✓ The net financial liabilities ratio averaged 29.7 percent between 2013-14 and 2022-23.
- ✓ The net financial liabilities ratio is forecast to average 15.4 percent between 2024-25 and 2033-34.

Figure 7: Net financial liabilities ratio – historical and forecast

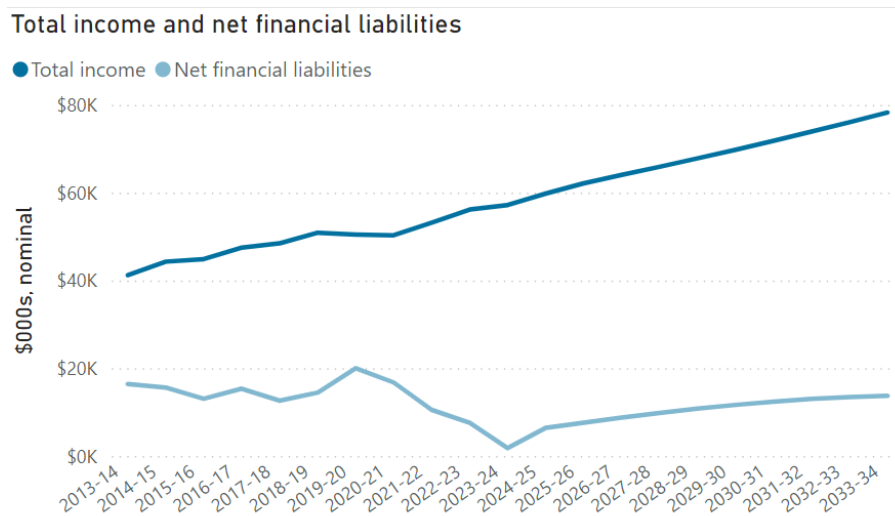


The Council's net financial liabilities ratio trended downwards between 2013-14 and 2022-23 from 40.0 percent to 14.0 percent, with an average net financial liabilities ratio of 29.7 percent over this period. It has been maintained within the suggested LGA target range for the indicator of between zero and 100.0 percent and is at a level that demonstrates the Council is only accumulating liabilities that its operating income can reasonably service.⁴⁰

The forecast net financial liabilities ratio is expected to grow at an average of 5.6 percent per annum and have an average of 15.4 percent between 2024-25 and 2033-34. The forecast ratio trend is upwards because of increasing borrowings as discussed below.

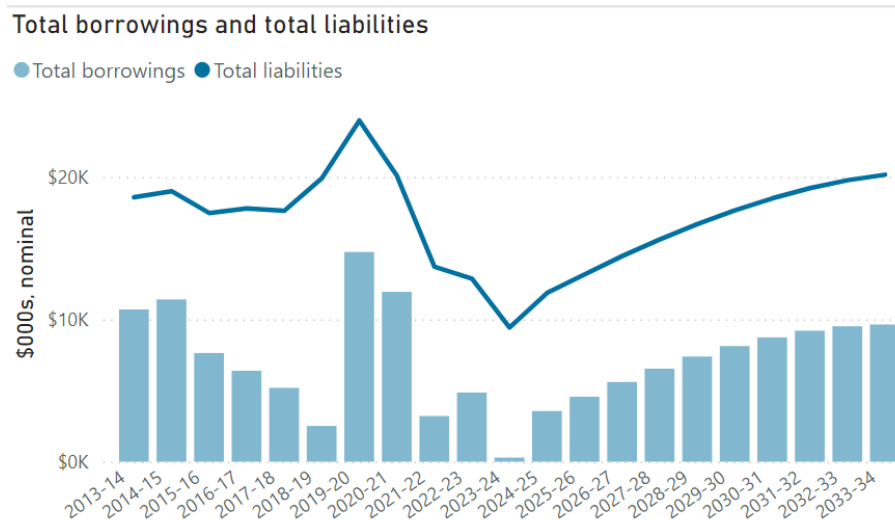
⁴⁰ The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100.0 percent of total operating income, but possibly higher in some circumstances (LGA SA Financial Indicators Paper, pp. 7-8).

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



The upward trend of total income compared to net financial liabilities indicates that the Council can easily cover its obligations.

Figure 9: Total borrowings and total liabilities – historical and forecast



The Council used loans to fund its renewal of existing assets and acquisition of new and upgraded assets in 2019-20.⁴¹ Total borrowings decreased between 2013-14 and 2018-19 followed by new borrowings in 2019-20 and 2022-23. As a percentage of total liabilities, borrowings decreased from 58.0 percent (2013-14) to 38.0 percent (2022-23). In accordance with the Council's Treasury Management Policy, it utilises Cash Advance Debentures (CAD) through the Local Government Finance Authority (LGFA) to support short term cash flow variability.⁴²

The Council has indicated that it will continue to use borrowings to fund major capital infrastructure projects and utilise CAD to facilitate cash flow.⁴³ Based on the Council's projected borrowings, the net

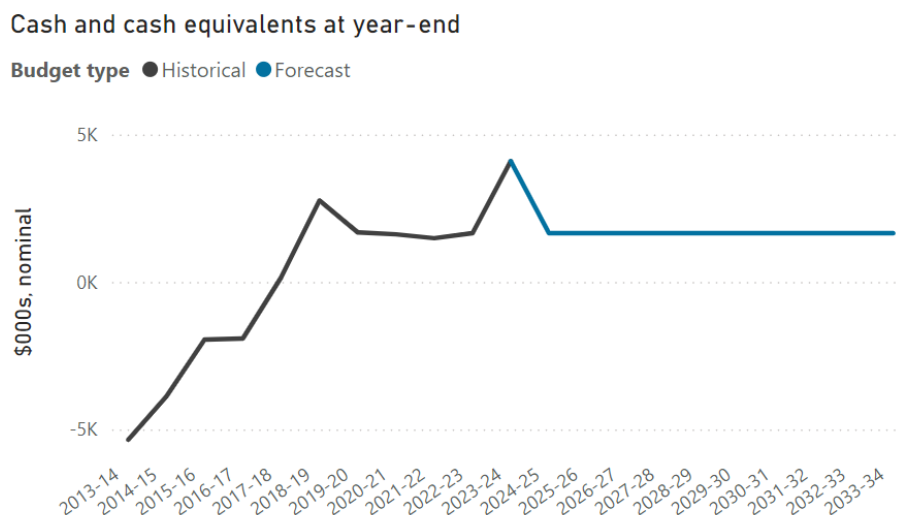
⁴¹ City of Unley *Long-Term Financial Plan*, June 2024.

⁴² City of Unley, Responses to ESCOSA Questions 22 April 2024.

⁴³ Meeting with City of Unley, 13 June 2024.

financial liabilities ratio is expected to grow by an average of 5.6 percent per annum to a maximum of approximately 18.0 percent by 2033-34. The Council has not identified any repayment plan for borrowings in the LTFP as the long-term repayment of the CAD is based on net cash movements and it intends to maintain borrowings for some projects in the interests of intergenerational equity.⁴⁴

Figure 10: Cash and cash equivalents at year end – historical and forecast



Over the period from 2013-14 to 2022-23, cash held at year end increased, and total liabilities decreased by an average of 4.0 percent per annum. The Council's net cash flows after operating and investing (that is, capital-related) activities averaged \$0.5 million annually between 2013-14 and 2022-23. Cash held at the end of each year, including financing activities, moved from deficit positions between 2013-14 and 2016-17 to a positive cash position between 2017-18 and 2022-23 (see Figure 10). Looking forward, cash is anticipated to remain at a steady level as CAD are used to facilitate cash flow.⁴⁵

5.3 Asset renewals expenditure

5.3.1 Key points

- ✓ Asset management plans are comprehensive and regularly updated.
- ⚠ The gross asset renewal funding ratio was 114.7 percent, which is above the LGA recommended range, indicating an overspend on asset renewal.
- ✓ The forecast gross asset renewal funding ratio is 100.0 percent, which is within the LGA recommended range indicating asset renewal spending that meets renewal requirements.
- ✓ Forecast capital expenditure is focused on renewal of assets rather than acquisition of new assets.

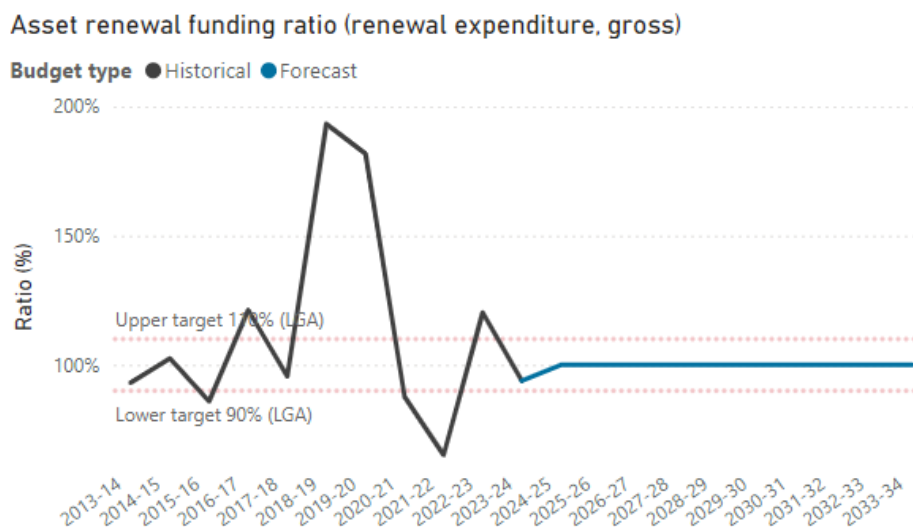
The Commission notes that the Council's asset base is covered by its existing AMP, and asset valuations for those assets have been carried out within the last four years. The Council's transport assets (mainly road assets) represent the largest asset class, and is a major focus of its renewal

⁴⁴ Correspondence with City of Unley, General Manager, Corporate Support, 4 November 2024.

⁴⁵ Correspondence with City of Unley, General Manager, Corporate Support, 4 November 2024.

investment, projected to account for 60.0 percent (or \$86.0 million) of the total asset renewal budget over the next 10 years.⁴⁶

Figure 11: Asset renewal funding ratio (renewal expenditure gross) – historical and projected



The Council has met or exceeded the recommended gross asset renewal funding ratio⁴⁷ target between 2013-14 and 2022-23 with significant volatility during the period as per Figure 11. The significant capital renewal expenditure between 2018 and 2020 was due to the renewal and upgrade of a major asset (King William Road).

Between 2013-14 and 2022-23, the gross asset renewal funding ratio (under the 'IAMP-based' approach) averaged 114.7 percent⁴⁸ signifying an overspend on the renewal and rehabilitation needs of its asset stock over this period. The Council's spending on renewal and rehabilitation of assets averaged \$8.5 million each year (over this period). A new asset management approach has been developed in the latter five years to work towards a consistent and smoothed approach to asset renewal funding.⁴⁹ This approach may include bringing forward or deferring expenditure to align projects and reduce overall expenditure, eg undertaking kerb and road surface renewal together.⁵⁰

From 2024-25 to 2033-34, the ratio is forecast to average 100.0 percent, reflecting ongoing expenditure that will meet renewal requirements.

⁴⁶ City of Unley 2024-25 to 2033-34 Long-Term Financial Plan, p. 34.

⁴⁷ The IAMP-based method is the current industry standard whereby asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). Ideally, this will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan. The suggested LGA target range for the ratio is 90.0 to 110.0 percent (LGA SA Financial Indicators Paper, p. 9).

⁴⁸ The quoted averages for the ratio are based on 'gross asset renewal expenditure' (before the sale of replaced assets) rather than 'net asset renewal expenditure'.

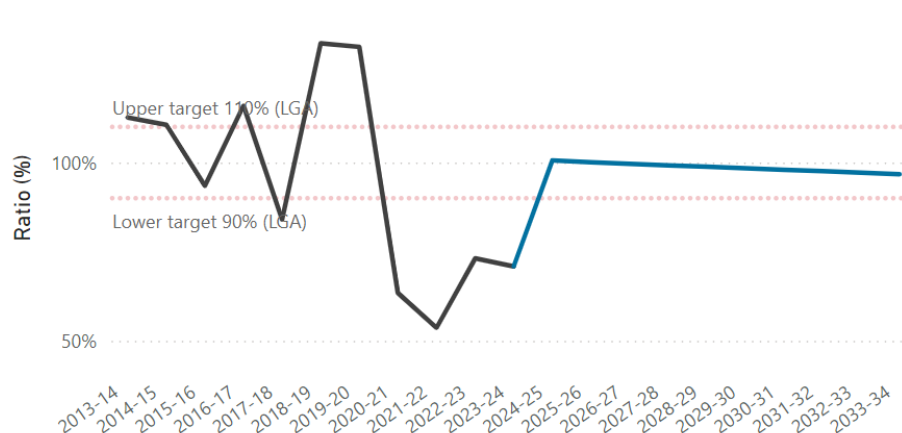
⁴⁹ Meeting with City of Unley, 13 June 2024.

⁵⁰ Meeting with City of Unley, 13 June 2024.

Figure 12: Asset renewal funding ratio (depreciation based) – historical and forecast

Asset renewal funding ratio (depreciation based)

Budget type ● Historical ● Forecast

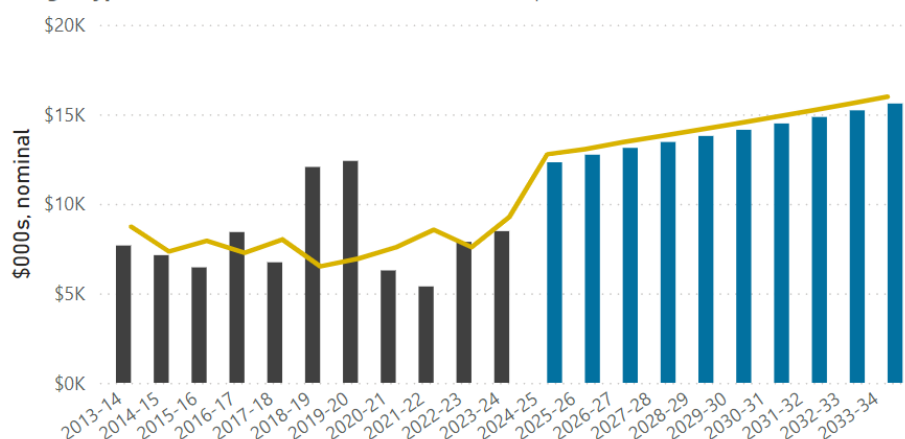


Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,⁵¹ which is forecast to track above the recommended minimum level (for the IAMP-based ratio) of 90.0 percent, averaging 98.6 percent per annum to 2033-34. This is marginally above the average historical depreciation-based asset renewal funding ratio of 97.3 percent between 2013-14 and 2022-23. The volatility in the depreciation-based historical asset renewal funding ratio aligns with volatility in gross asset renewal funding ratio, however over time, the average ratio for both is within the LGA's recommended ranges. Both historical and forecast ratio averages indicate a consistent approach to renewal of assets over time, with forecast expenditure anticipated to be smoother than within the historical period.

Figure 13: Net asset renewal and IAMP renewal expenditure – historical and projected

Net asset renewal and IAMP renewal expenditure

Budget type ● Historical ● Forecast ● IAMP renewal expenditure



Annual spending on renewal or rehabilitation of assets is projected to average \$14.3 million between 2024-25 and 2033-34, compared to average annual expenditure of \$8.5 million between 2013-14 and 2022-23. Expenditure on new capital assets is projected to average \$4.6 million per annum, which is slightly below the average historical expenditure between 2013-14 and 2022-23 of \$4.8 million per

⁵¹ The Council's asset renewal funding ratio by the depreciation-based method (where asset renewal/replacement expenditure is divided by depreciation expenses). This ratio shows the extent to which capital expenditure on the renewal and replacement of assets matches the estimated rate at which these assets are used or consumed.

annum. These forecasts suggest that the Council's focus will be on renewal and replacement of assets rather than the acquisition of new assets.

The Council has noted several factors that contribute to the increase in proposed asset renewal expenditure arising from its asset data review, condition assessments and update of asset unit rates, useful lives and valuations. Predominantly, increased expenditure is driven by increased costs for road surfaces/bases and kerbing.⁵² The Council's planned renewal expenditure in 2024-25 is mainly attributed to transport assets (including roads, pathways, kerbing, car parks, street lighting and traffic control devices), which accounts for approximately 58.0 percent of the capital renewal program in 2024-25.⁵³

Figure 14: Total capital expenditure by category – historical and projected

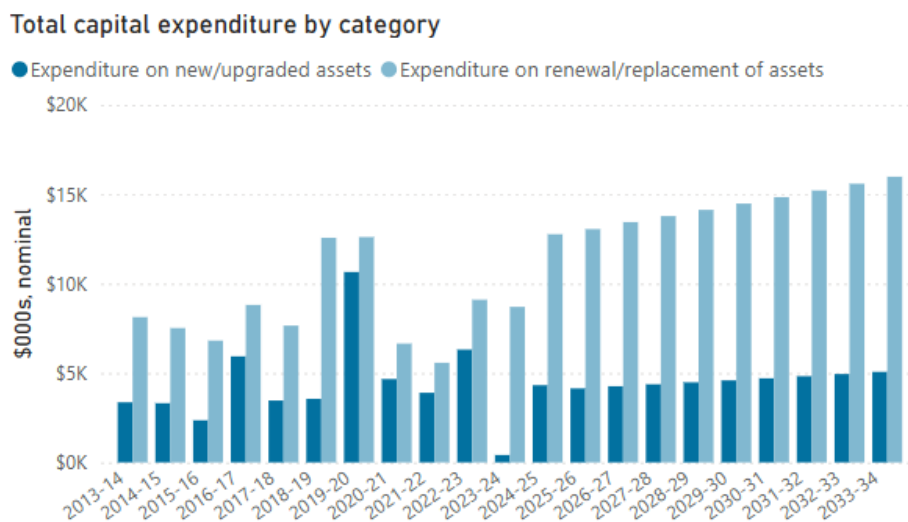
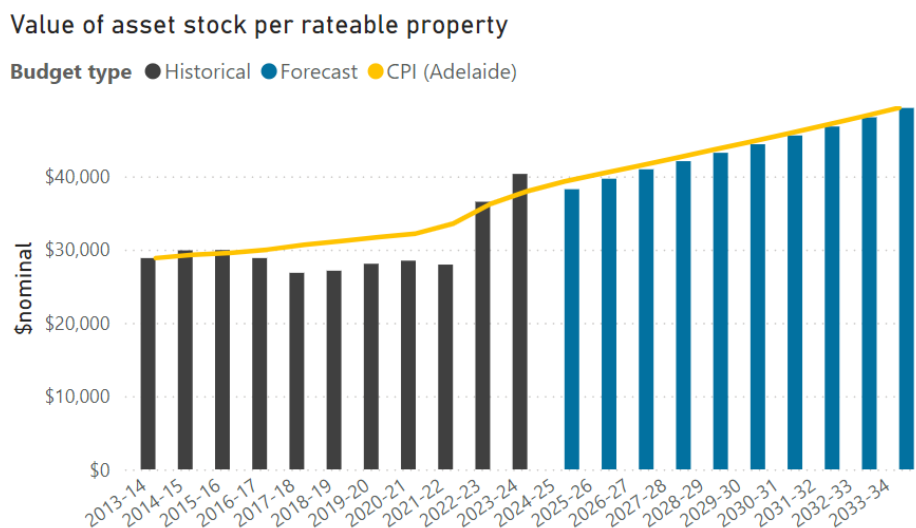


Figure 14 shows the historical and forecast renewal capital expenditure per annum compared to new capital expenditure.

Figure 15: Value of asset stock per rateable property – historical and projected



The Council's asset base has grown between 2013-14 and 2022-23 by an average of 3.4 percent per annum. This has led to an average increase in the value of the asset stock per property of \$854 or

⁵² Correspondence with City of Unley, "AMP Explanation of significant variances", 30 September 2024.

⁵³ City of Unley 2024-25 Annual Business Plan & Budget, p. 50.

2.7 percent per annum (see Figure 15). By implication, this indicates the Council's asset stock has almost exactly kept pace with inflation.

The Council currently has individual AMP for transport, buildings, open space and stormwater assets. These cover the Council's asset base and reflect asset valuations that have been carried out within the last four years. In formulating its AMP, the Council has considered several matters such as customer levels of service, utilisation and demand of its assets, life cycle management, and risk management planning. These matters (among others) have informed the Council's planned operating and maintenance budgets, and asset renewal needs over the period to 2033-34. The Commission's review of the AMP has found that the Council's strategic planning processes aligns with good practice for a council of its size and complexity.

6 Advice on current and projected rate levels

6.1 Key points

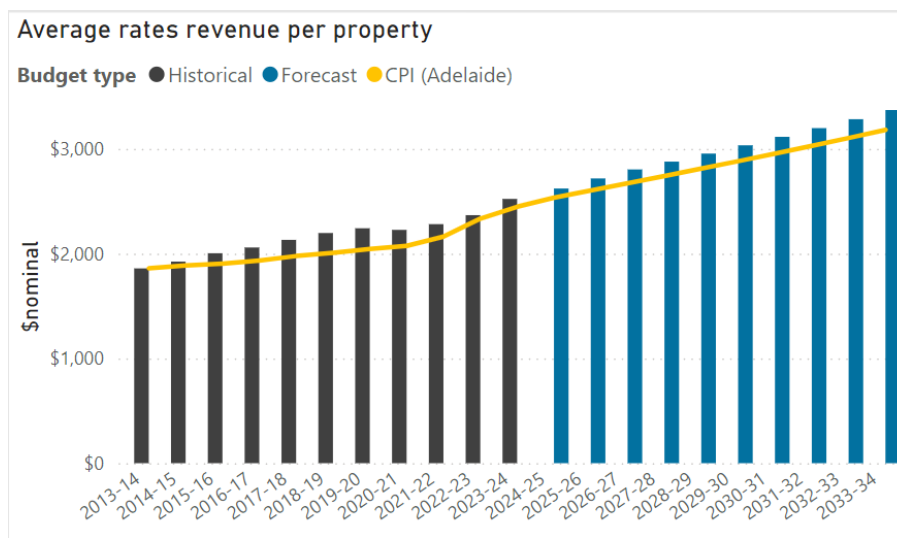


Rate revenue per property increased broadly in line with inflation between 2013-14 and 2022-23.



Rate revenue per property is forecast to grow at 2.8 percent per annum between 2024-25 and 2033-34 which is slightly above forecast inflation of 2.6 percent per annum over the same period.

Figure 16: Average rates revenue per property – historical and projected

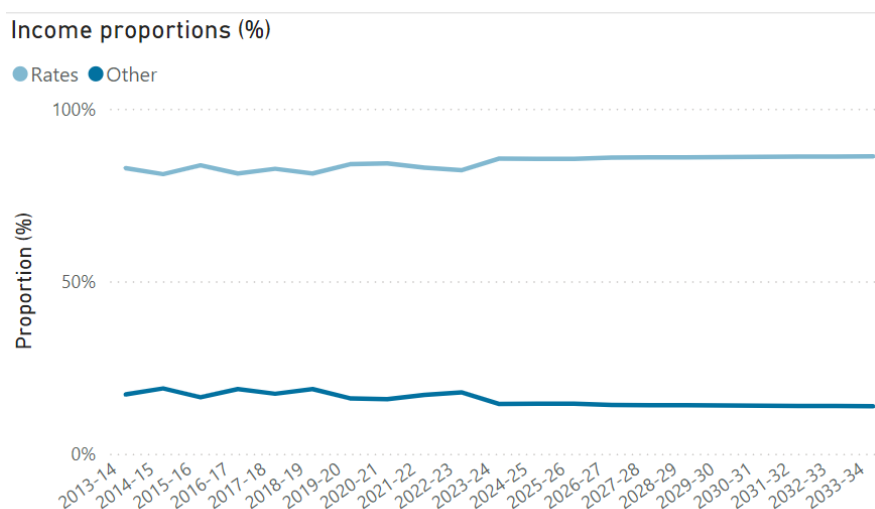


The Council's historical rate revenue per property growth has averaged 2.7 percent or \$56 per annum across all properties over the past 10 years,⁵⁴ to reach an estimated average of \$2,367 per property in 2022-23. This increase was broadly in line with the CPI growth, at an average of 2.6 percent per annum over the same period.⁵⁵ Rateable property numbers grew by an average of 0.7 percent per annum between 2013-14 and 2022-23. Current rate levels partially reflect the Council's recent history of spending growth in 'materials, contracts and other' expenses and increases in depreciation.

⁵⁴ From 2013-14 to 2022-23.

⁵⁵ CPI Adelaide, available at: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/jun-quarter-2024>.

Figure 17: Income proportions (percent)



The Council remains reliant on its rate base for its operating sustainability. As Figure 16 indicates, rates revenue has averaged 82.6 percent of total operating income between 2013-14 and 2022-23 with a forecast that rates will account for 85.9 percent of operating income per annum on average between 2024-25 and 2033-34.

6.2 Proposed rate increases for 2024-25

The Council has budgeted for an average residential rate revenue increase of 4.19 percent across all properties based on its inflationary estimates, using the Adelaide CPI for March 2024 (of 4.3 percent).⁵⁶ This increase is above the RBA forecast of 2.8 percent to June 2025.⁵⁷

Differential rate categories apply to different land uses within the Council area and all rate categories are estimated to increase differently, reflecting the Council's recognition of current financial pressure experienced by many households and businesses.⁵⁸ Notably, rates will increase on vacant land by 18.3 percent⁵⁹ following a decrease of 9.9 percent in 2023-24.⁶⁰ The Council raises separate rates from specific business precincts, in consultation with traders for promotion and projects in those areas.⁶¹

On a proportional revenue basis, residential ratepayers account for around 79.0 percent of 2024-25 budgeted rates revenue, followed by commercial office and other (13.0 percent), and commercial shop and industry ratepayers (8.0 percent).⁶²

Other than 'general rates' revenue, the Council collects income from statutory and user charges, grants, investments and reimbursements.

6.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting annual average rate revenue increases of 3.1 percent from 2024-25 to 2033-34. When accounting for forecast growth in the numbers of rateable property, this represents an increase of 2.8 percent growth per annum per property.

⁵⁶ Current inflation rate plans developed; 2024-25 City of Unley Annual Business Plan & Budget, p. 27.

⁵⁷ RBA data – forecast time series, available at <https://www.rba.gov.au/publications/smp/2024/aug>.

⁵⁸ 2024-25 City of Unley Annual Business Plan & Budget, p. 27.

⁵⁹ 2024-25 City of Unley Annual Business Plan & Budget, p. 27.

⁶⁰ 2023-24 City of Unley Annual Business Plan & Budget, p. 23.

⁶¹ 2024-25 City of Unley Annual Business Plan & Budget, p. 28.

⁶² 2024-25 City of Unley Annual Business Plan & Budget, p. 26.

In total, the LTFP effectively projects a cumulative increase averaging \$83 per annum per existing ratepayer (to an estimated \$3,371 per annum) by 2033-34, which is consistent with the Council's assumed inflation growth over this period but is also above the RBA-based inflation forecast of an average of 2.6 percent per annum.⁶³

6.4 Affordability risk

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

- ▶ the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the City of Unley area⁶⁴
- ▶ the current average rates (across most ratepayers) without significant forecast increases above inflation for ratepayers
- ▶ the effect of cumulative increases in rates per existing ratepayer of approximately 2.8 percent per annum in the period 2024-25 to 2033-34, close to the forecast rate of inflation, and
- ▶ the overall financial sustainability risks of the Council and its forecast LTFP trend of consistent operating surplus to 2033-34.

However, as the current economic environment continues to exert pressure on most communities' capacity to pay for further rate increases, including those of the Council, the Commission recommends that the Council:

4. **Continue** to minimise further average rate increases above inflation, to help reduce any emerging affordability risk in the community.

⁶³ 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 June 2027 (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.

⁶⁴ The City of Unley area is ranked 60 among 71 South Australian 'local government areas' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2016), where a lower score (eg, 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/latest-release>.

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 current LTFP estimates
- ▶ the identification and reporting of opportunities for cost savings
- ▶ the planned asset renewal and replacement expenditure versus actual expenditure
- ▶ the Council's efforts to minimise any emerging affordability risks, and
- ▶ financial and planning preparedness to optimise outcomes for ratepayers of current and potential urban infill developments, including the economic, social and environmental implications that will be generated by the higher densities.

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: $\text{Asset Renewal Expenditure} \div \text{IAMP Renewal Expenditure}$ Where IAMP Renewal Expenditure is that required according to the IAMP.
Commission	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
CPI	Consumer Price Index (Adelaide, All Groups)
Council	City of Unley
F&A	Local Government Advice: Framework and Approach – Final Report
IAMP	Infrastructure and asset management plan (also called an AMP)
LG Act	<i>Local Government Act 1999</i>
LGA SA Financial Indicators Paper	Local Government Association of South Australia, Financial Sustainability Information Paper 9 - Financial Indicators Revised May 2019
LTFP	Long-term financial plan
NFLR	Net Financial Liabilities Ratio Net Financial Liabilities are defined as: $\begin{aligned} &\text{Total Liabilities} \\ &\text{LESS Current Assets (Cash and Cash Equivalents)} \\ &\text{LESS Current Assets (Trade and Other Receivables)} \\ &\text{LESS Current Assets (Other Financial Assets)} \\ &\text{LESS Non-Current Assets (Financial Assets - excluding equity accounted investments in council businesses)} \end{aligned}$ The net financial liabilities ratio is: $\text{Net financial liabilities} \div \text{Total Operating Income}$
OSR	Operating Surplus Ratio The Operating Surplus (Deficit) is defined as: $\text{Total Operating Income LESS Total Operating Expenses}$ The Operating Surplus Ratio is defined as: $\text{Operating Surplus (Deficit)} \div \text{Total Operating Income}$

Item	Explanation
Regulations	<i>Local Government (Financial Management) Regulations 2011</i>
RBA	Reserve Bank of Australia
SEIFA	Socio-Economic Indexes for Areas
SMP	Strategic management plan
The scheme or advice	Local Government Advice Scheme



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