Advice

Local Government Advice - Attachment

Adelaide Hills Council

February 2023

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A The Commission's approach

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

The Commission has considered the Council's strategic management plan (**SMP**) documents (as in the box below), with a particular focus on its performance and outlook against three financial indicators: the operating surplus ratio, the net financial liabilities ratio and the asset renewal funding ratio.[2] Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.[3]

- Annual Business Plan 2022-23 (adopted July 2022)
- Long Term Financial Plan 2022-23 to 2031-32 (adopted April 2022) and LTFP 2021-22 to 2030-31 (adopted April 2021)
- Asset Management Plan 2021 Road, Footpath and Kerb (last updated January 2021)
- Bridge Asset Management Plan - Span and Culvert Bridges (endorsed March 2022)
- Draft Asset Management Plan Community Wastewater Management System 2023-2032 (initiated 2022)
- Draft Capital Works Program 2022-23 and Capital Works Program 2021-22 (adopted July 2021)

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and LTFPs,[4] it has also considered the Council's performance in that context.

The Commission has reviewed the Council's template data which contains its 2022-23 Long Term Financial Plan (**LTFP**) forecasts for 2022-23 to 2031-32, as well as its 2021-22 LTFP forecasts, and historical financial data and rateable property and staffing (Full Time Equivalent (**FTE**)) numbers from 2011-12 onwards.[5] All charts and tables in the advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council audit committee reports, and other public information, as appropriate.

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

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

2 The indicators are specified in the *Local Government (Financial Management) Regulations 2011.* Since 2011, each council has been required to refer to these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. The councils can adopt their own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

3 The F&A listed 29 analytical questions that the Commission has answered in assessing the Adelaide Hills Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

4 LG Act s122(1g)(a)(i).

5 Sourced from the Local Government Grants Commission, available at https://dit.sa.gov.au/local-government/grants-commission/publications (including data reported by the Office of the Valuer-General) and Council's data.

'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (CPI) line shows the cumulative growth in the CPI (Adelaide) series from 2011-12, and then projections of this series from 2022-23 based on the Reserve Bank of Australia (RBA) (Australia-wide) inflation forecasts (to the June quarter 2025), and the midpoint of the RBA target range (2.5 percent) thereafter.

Finally, in formulating this advice, the Commission has had regard to the circumstances of the Adelaide Hills Council, including its location as a metropolitan fringe council, income level ($53.3 million[6]) and the size of its rates base (over 19,000 ratepayers[7]).

6 Based on the estimated operating income in 2022-23 as published from Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 26, available at: https://www.ahc.sa.gov.au/assets/downloads/council/Plans/Annual-Business-Plan/Annual-Business-Plan-2022-23.pdf.

7 Based on the estimated number of property assessments in 2022-23 as published from Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 38.

B Material plan amendments in 2022-23

The Adelaide Hills Council has made several amendments to its 2022-23 LTFP forward projections, mainly for inflation but also for other capital works changes. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[8] To ensure a comparable analysis of estimates between the 2021-22 and 2022-23 LTFPs, the Commission has reviewed the nine overlapping years' statistics: 2022-23 to 2030-31 and identified material amendments accordingly.

Selected Financial Item	Sum of 2022-23 to 2030-31 estimates in 2021-22 LTFP ($ million)	Sum of 2022-23 to 2030-31 estimates in 2022-23 LTFP ($ million)	Change in 2022-23 estimates ($ million)	Change in 2022-23 estimates (percent)
Employee expenses	193.5	203.4	+9.9	+5
Capital expenditure on new and upgraded assets	14.1	28.6	+14.5	+103
Amounts received specifically for new or upgraded assets	1.0	3.1	+2.1	+210

The Commission has based its assessment of material amendments from 2021-22 financial projections provided by the Council but notes that it did not publish its Statement of Comprehensive Income projections in its 2021-22 LTFP. It has, however, published this statement in its 2022-23 LTFP, thereby improving the level of transparency regarding its income projections for its community.

B.1 Increases to employee expenses

The Council's employee expenses are forecast to increase by $9.9 million or 5 percent in total over the projected years, compared with the previous year's LTFP. This is due to higher inflation forecasts and increases to superannuation compared with the 2021-22 LTFP.[9]

The Council's amendments to its remaining operating income and expense estimates to 2030-31 are not otherwise 'material'. The Council's estimated operating income to 2030-31 has increased by $19.3 million or 3.8 percent in its 2022-23 LTFP estimates, whereas the estimated operating expenses have increased by a total of $20.6 million or 4.2 percent.

In general, these increases can be explained by the Council's inflation adjustments. The Council has applied different indexation assumptions to its projections based on either its assumed Local Government Price Index (**LGPI**), CPI or a specifically tailored index.

The Council has assumed that its general revenue and general expenditure will increase by 3.25 percent in 2022-23 and 2023-24, by 2.25 percent in 2024-25 and then by 2.5 percent per annum thereafter (which is consistent with the midpoint of the RBA's target band.) It has applied higher increases to its depreciation and capital expenditure estimates (by 0.3 percent across years). It has further applied higher increases to its employee expense projections (3.8 percent in the first two years; then 2.8

8 This table shows selected financial items to demonstrate the material amendments made by the Council in its 2022-23 estimates. It excludes various financial items and individual items do not sum to totals.

9 The Superannuation Guarantee Levy is the amount that an employer is required to pay into a superannuation account on behalf of an employee. From 1 July 2021, the Superannuation Guarantee was legislated to rise in half per cent increments from 9.5 percent each year until it reaches 12 percent of wages in 2025.

percent from 2024-25 to 2026-27, and 3.25 percent from 2027-28 to 2031-32 for higher assumed employee grade step increases).

RBA revised its inflation forecasts for CPI to increase by 6.7 percent in the year to the June 2023 quarter and by 3.0 percent in the year to June 2025.[10]

In the current inflationary environment, the assumptions concerning price rises over the next 10 years will require annual review, particularly given the potential for higher short-term inflation before a return to long run averages. However, the Commission notes that the Council should still endeavour to find savings in real terms to reduce any inflationary impact on its community. To these ends, the Commission has found that it would be appropriate for the Council to:

1. Continue to review its inflation forecasts in its budget each year.
2. Focus on constraining cost growth in its budgeting, where possible, particularly related to employee expenses.

B.2 Capital expenditure on new and upgraded assets

The Council has provided a summary table across both 2021-22[11] and 2022-23[12] LTFPs that contains the renewal and new/upgrade capital investment by asset category. The Commission considers it provides good transparency for the Council's intended capital spending patterns.

Overall, the estimates for capital expenditure on new/upgraded assets have increased by $14.5 million from 2022-23 to 2030-31 in the Council's 2022-23 LTFP. By comparison, the Council's estimates for planned capital expenditure on renewal of assets across both LTFPs reduced by $0.9 million or 0.9 percent.

Buildings

The projected capital expenditure on buildings has increased by $6.5 million, which accounts for 44.9 percent of the total increase in capital expenditure on new and upgraded assets. Based on the Council's Draft Capital Works Program 2022-2023,[13] the FABRIK Activation capital budgeted expenditure in 2022-2023 has increased from $2 million to $3.3 million.

The Fabrik Development Project will involve upgrading and enhancing the former Onkaparinga Woollen Mills site at Lobethal. The Commission understands the new building will provide an upgraded entry point to the site that will enable staff to promote the history of the site, the current uses and businesses within the location and then direct visitors to various buildings from a central location.[14]

The Council has not yet adopted or published a draft asset management plan (AMP) for its building assets. In total, the Council had around $66 million in building assets as of 30 August 2021,

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10 RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html. CPI (Australia-wide). The 'through the year' forecasts in any one quarter are different to the average annual inflation assumptions usually applied to Council's financial estimates.

11 Adelaide Hills Council, *Long Term Financial Plan 2021-22 to 2030-31*, *April 2021,* p. 17, available at https://www.ahc.sa.gov.au/assets/downloads/council/Plans/Long-Term-Financial-Plan/Long-Term-Financial-Plan-2021-22.pdf.

12 Adelaide Hills Council, *Long Term Financial Plan 2022-23 to 2031-32,* April 2022, p. 17, available at https://www.ahc.sa.gov.au/assets/downloads/council/Plans/Long-Term-Financial-Plan/Long-Term-Financial-Plan-2022-23.pdf.

13 Adelaide Hills Council, *Capital Works Program 2022-23 Draft,* p. 5, available at https://www.ahc.sa.gov.au/assets/downloads/council/Plans/Capital-Works/Capital-Works-Program-2022-23.pdf.

14 Refer: https://www.ahc.sa.gov.au/development/major-project-updates#fabrik-development

representing around 11 percent of its total asset value.[15] As required by the *Local Government Act 1999*, a council must develop and adopt an infrastructure and asset management plan, relating to the management and development of infrastructure and major assets by the council for a period of at least 10 years[16]. This would presumably include its buildings and potentially other structures (such as recreation or community facilities).

Roads

As indicated from the Council's Road, Footpath and Kerb AMP 2021, road seal and road pavement will potentially pose a higher road safety risk[17] and the Council has increased projected capital expenditure on its roads by $3.3 million. This accounts for 22.6 percent of the estimates for total increased expenditure on new capital over the 2022-23 LTFP. To implement this initiative, expenditure on the Council's Road Safety Program including road black spot intended capital expenditure has increased from $0.2 million to $1.9 million. As noted in section B.3, the Commission understands that this expenditure is being funded by an increase in federal grants revenue.

Stormwater

The projected new/upgraded capital expenditure on stormwater has increased by $3.5 million (24 percent of the total increase). However, since there is no detailed capital new/upgraded information of this asset class from the Draft Capital Works Program 2022-23 document,[18] the Commission is unable to reconcile the above figure.

The Council has not developed a stormwater AMP despite a significant increase in stormwater expenditure. However, in the Council's Annual Business Plan 2022-23, it states that the Council will conduct ongoing management, maintenance and replacement planning of public infrastructure including stormwater.[19] The Council is scheduled to complete the Stormwater Management Plan by April 2023 after completing three consultation stages.[20]

Community Waste Management System infrastructure

The Commission further notes that the Council is currently consulting on its new draft community wastewater management system (**CWMS**) AMP (2023-32).

In January 2021, the Council determined not to divest its CWMS assets and continues to own, operate, and maintain the CWMS services to the communities of Kersbrook, Birdwood, Mount Torrens, Charleston, Woodside, Verdun and Golf Links Road in Stirling.

The Council acknowledged that the CWMS AMP '*should [it] be adopted does include additional expenditure over and above the current [2022-23] LTFP allocation'* [21] due to these two factors:

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15 Adelaide Hills Council, *2020-21 Financial Statements*, p. 22, available at https://www.ahc.sa.gov.au/assets/downloads/council/Reports/Annual-Reports/Annual-Report-2020-21-Final.pdf.

16 Section 122(1a).

17 Adelaide Hills Council, *Asset Management Plan 2021 Road, Footpath and Kerb*, January 2021, p. 8, available at https://www.ahc.sa.gov.au/assets/downloads/council/Plans/Asset-Management-Plan-2021.pdf.

18 Adelaide Hills Council, *Capital Works Program 2022-23 Draft*, p. 25.

19 Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 9.

20 As indicated by the Council, the work currently being undertaken relates to the Stormwater Management Plan for the Aldgate Creek' and this is a stormwater planning process. It will be a key source for the Stormwater AMP. Refer: https://engage.ahc.sa.gov.au/draft-stormwater-management-plan-aldgate-bridgewater-crafers-and-stirling.

21 Adelaide Hills Council, *Audit Committee Meeting 15 August 2022 Agenda Business Item: Item 8.1Draft Asset Management Plan – Community Wastewater Management System 2023 - 2032*, p. 4, available at

- The draft CWMS AMP includes contract costs that are directly linked to the CPI. However, the 2022-23 LTFP had assumed lower inflation for certain years.
- From 1 July 2022, the pump stations are managed by a new tender whose salary is a direct operating cost and based on new tender rates. However, the 2022-23 LTFP included the operating cost as an indirect salary and overhead cost due to the pump station being managed by the Council's internal staff previously.

In summary, based on the status of the Council's asset management planning and to ensure that its expenditure on most of its assets is sufficiently planned for, the Commission considers that it would be appropriate for the Council to:

3. Complete the asset management plan for building assets and consider potentially other assets not currently covered by a plan (such as sport and recreation facilities), with consideration of desired service levels, as appropriate.
4. Complete its planned Stormwater Asset Management Plan, with consideration of desired service levels, as appropriate.
5. Finalise its Community Wastewater Management System Asset Management Plan and reflect related cost changes in the 2023-24 Long-term Financial Plan, to include input from the community, including desired service levels.

B.3 Increase to amounts received specifically for new or upgraded assets

The Council's estimated amounts specifically for new or upgraded assets has increased by $2.1 million compared with its 2021-22 LTFP estimates. This is due to an increase in grants revenue of $2 million for 2022-23 only. It appears a major portion of this additional grant revenue is to be apportioned towards expenditure on the new black spot program (see section B.2 above).[22]

https://www.ahc.sa.gov.au/assets/meetings/2022/08-August/audit-committee-15-aug-2022/agendas/220815-Audit-Committee-Agenda.pdf.

22 Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 12.

C Financial sustainability

C.1 Operating performance

The Adelaide Hills Council has generally run a small operating surplus historically, and this is projected to continue for the duration of the LTFP period (see the top left chart over the page). The operating surplus ratio[23] averaged 0.7 percent over the past ten years to 2020-21 and is forecast to continue to remain at a modest surplus level, which is within the suggested LGA target range. The Council has estimated an average ratio of 1.3 percent to 2031-32 in its 2022-23 LTFP, with total income projected to continue to be marginally higher than total expenses. It is evident that the Council seeks to avoid running excessive operating surpluses, which demonstrates prudent financial management, in the context of the growth in expenses experienced.

The Commission identified one recent anomaly in its operating result, which has smoothed out to a small average surplus over three years. In 2019-20, the Council's operating surplus ratio declined to negative 5.5 percent due to the costs it incurred from its Cudlee Creek Bushfire recovery efforts.[24] In 2020-21, the Council's operating surplus ratio was positive again with the help of the recovery focused grants[25] and the Council's LTFP predicts it will remain positive, partly due to the proposed adoption of a detailed savings and efficiency strategy. The Council identified that it would undertake the following steps as part of its strategy to manage its operating performance efficiently:

- examine all materials, contracts, and other expenses to determine if the Council can maintain existing budgets where contracts and costs are not linked to CPI or regular increases
- identify fleet management opportunities, and
- identify insourcing opportunities at the Council for certain service areas, including tree management.[26]

For this reason, the Commission considers that the Council should be well placed to:

6. **Report** its actual and projected cost savings in its annual budget, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

As shown from the top right chart over the page, the Council's operating income and expenses have closely tracked with each other (which has resulted in a small operating surplus as mentioned earlier).

In the 10 years to 2020-21, the Council's operating expenses increased by an average of 3.7 percent per annum. Over the same period, the average annual increase in expenses per property was 3.2 percent, with 0.5 percent average annual growth in property assessments (see the bottom left chart over the page). This compares with average annual inflation of 1.7 percent.

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[23] 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).

[24] Adelaide Hills Council, *2019-20 Annual Report*, p. 3, available at https://www.ahc.sa.gov.au/assets/downloads/council/Reports/Annual-Reports/COUNCIL-Annual-Report-2019-2020.pdf.

[25] Adelaide Hills Council, *2020-21 Annual Report*, p. 3, available at https://www.ahc.sa.gov.au/assets/downloads/council/Reports/Annual-Reports/Annual-Report-2020-21-Final.pdf.

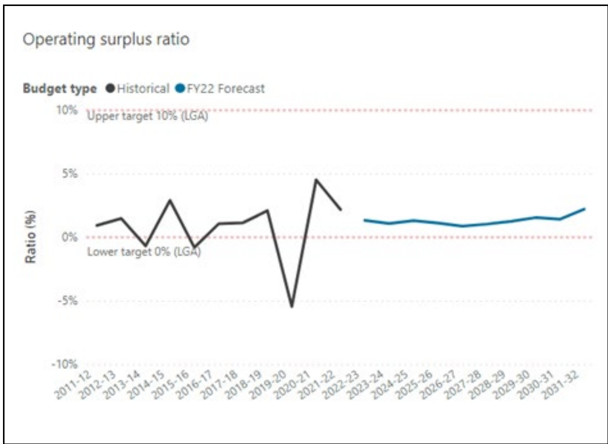
[26] Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 30.

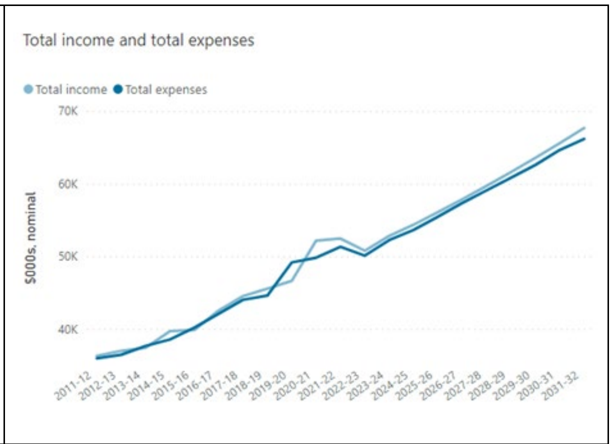
The expense growth was underpinned by average annual growth of 4.9 percent in employee expenses (with FTE numbers increasing by 2.3 percent per annum) and 3.5 percent growth in depreciation expenses (see the changes by expense type in the bottom right chart over the page).

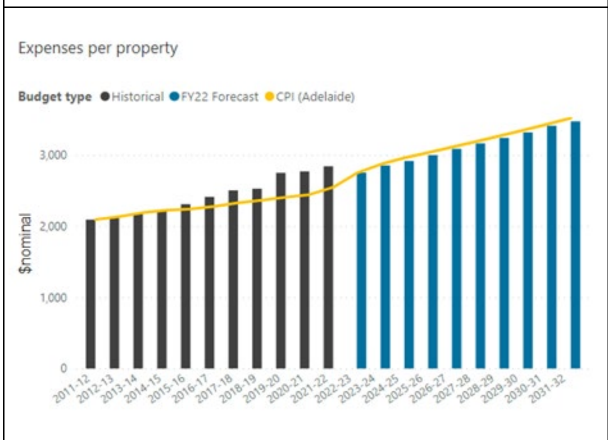
Operating income grew at a stronger rate than total expenses from 2011-12 to 2020-21[27] - by an average of 4.1 percent per annum. Rates income, which is estimated to make up 85.7 percent of total operating income in 2022-23, increased by an average of 3.8 percent per annum. Rates income per property increased by an average of 3.2 percent annually over this period, also higher than CPI inflation growth (1.7 percent).

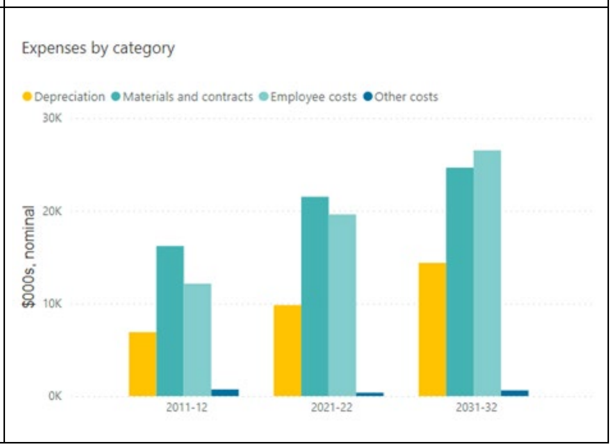
Looking forward, the Council is projecting lower average expense growth of 3.1 percent per annum (to 2031-32), equating to 2.9 percent on a per property basis.[28] This is relatively aligned with the RBA-based inflation forecast (2.8 percent) and assumes continued growth in property assessment numbers averaging 0.5 percent each year.[29]

Operating income per property is forecast to average growth of 2.7 percent annually to 2031-32, led by rates income growth of 2.9 percent. These forecasts are relatively aligned with RBA-based inflation forecast. The affordability of the proposed rate contributions for the Adelaide Hills community is discussed further in section D.









[27] 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).

[28] Since the Council has not provided the estimated number of rateable properties, the Commission has extrapolated the numbers based on 'rates growth of new development' as shown in the indexation forecasts.

[29] The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.8 percent based on the RBA forecasts for the CPI (Australia-wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

C.2 Net financial liabilities

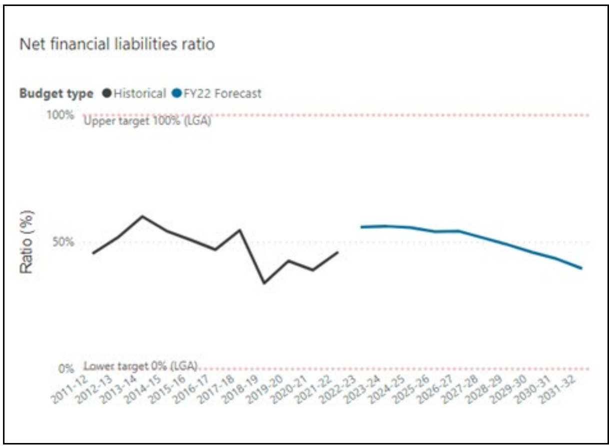
The Council has noted that one of its key objectives is to appropriately use debt as a means of funding new capital expenditure.[30]

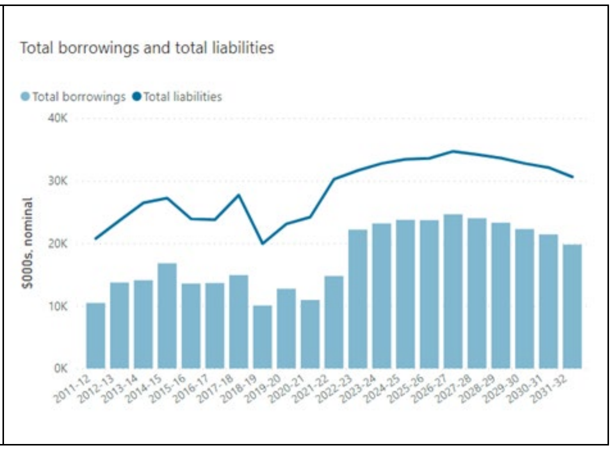
The Council's net financial liabilities ratio[31] has ranged between 34 and 60 percent between 2011-12 and 2021-22. This is within the suggested LGA target range. According to the Council's LTFP, this ratio is expected to decrease from 2023-24, with forecast operating income growth outpacing net financial liabilities growth but still averaging 51 percent to 2031-32.

As encouraged by the LGA,[32] the Council also published an 'adjusted' net financial liabilities ratio in the 2022-23 LTFP[33] which includes an additional $3 million annual borrowings if needed, to mitigate the impact of significant disasters such as bushfires. The 'adjusted' net financial liabilities ratio is still within the suggested LGA target range over the projected years.

Meanwhile, the Council's total borrowings and liabilities are forecast to increase significantly until 2026-27, and then decrease moderately for the remainder of the LTFP period.[34]

The Council will also continue to use loan borrowings from the 'Cash Advance Debenture'[35] facility provided by the Local Government Finance Authority of South Australia to fund its cash shortfalls in the short to medium term. This facility allows it to pay off the 'principal' portion of the loan as soon as net cashflow is available.





30 Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 26.

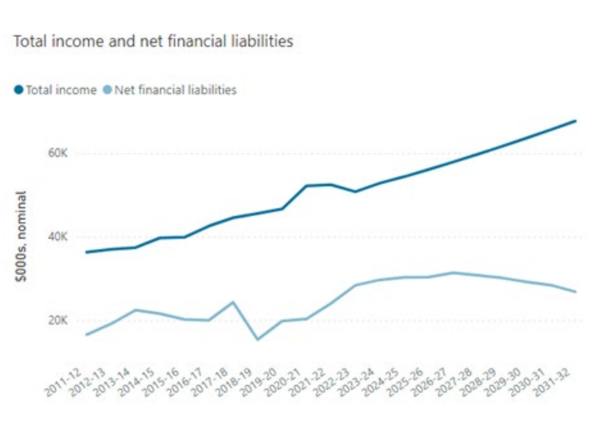
31 The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100 percent of total operating income, but possibly higher in some circumstances (LGA SA Financial Indicators Paper, pp. 7-8).

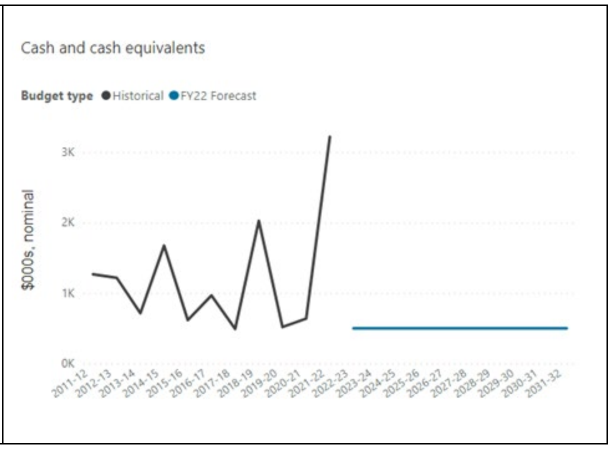
32 LGA SA Financial Indicators Paper, p. 7.

33 Adelaide Hills Council, *Long Term Financial Plan 2022-23 to 2031-32,* April 2022, p. 8.

34 It is not clear from the Council's Annual Business Plan *2022-23* or 2022-23 LTFP which projects the borrowings are financing.

35 The Council uses the word 'cash advance debenture' and 'bank overdraft' interchangeably in the annual report.





C.3 Asset renewals expenditure

The asset renewal funding ratio[36] indicates whether a council is renewing or replacing existing infrastructure assets at the same rate that its asset management plan requires. The Council's ratio has been quite volatile historically and averaged 115 percent between 2012-13 and 2020-21.[37] This is above the suggested LGA target range (between 90 to 110 percent). Average spending on the renewal of assets averaged $9.1 million per annum over this period.

In 2013-14, the ratio spiked at 177.5 percent with the Council seeking to address an infrastructure renewal backlog with higher renewal expenditure ($12.3 million in that year in nominal terms).[38]

However, over time, the Council's spending on assets should align with the recommended spending requirements in its AMPs. The Commission notes that in the five years to 2021-22, the ratio averaged 109 percent, which is back within the suggested LGA target range.

The Council is also projecting its asset renewal funding ratio performance to remain at 100 percent for the next 10 years with forecast annual spending on renewals reflecting the AMP-recommended levels.

When the ratio is instead calculated on a depreciation basis[39] (see the bottom charts over the page). the ratio averaged 112 percent between 2011-12 and 2020-21. This is marginally above the suggested LGA target range for the IAMP-based ratio.

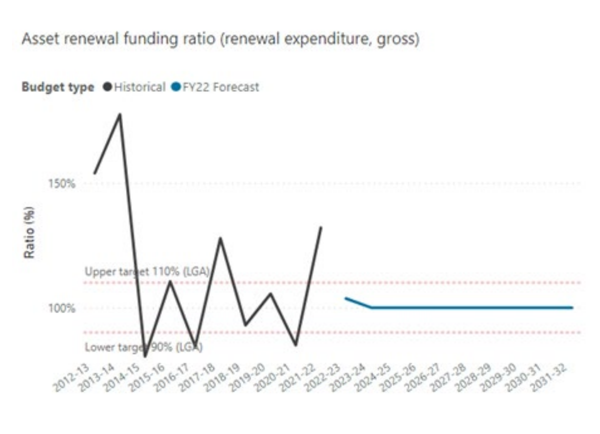
From 2024-25, the depreciation-based asset renewal funding ratio is projected to drop below the recommended minimum level of 90 percent, averaging 85 percent across the projected years to 2031-32.

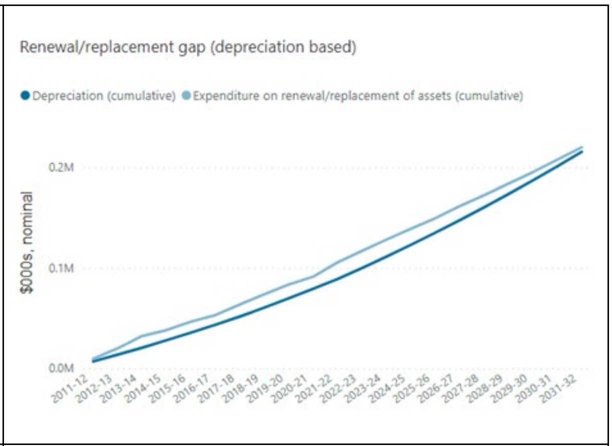
36 LGA SA Financial Indicators Paper, p. 9. Since 2013, the asset renewal funding ratio has been defined as: Asset Renewal Expenditure ÷ IAMP Renewal Expenditure. The suggested LGA target range for the ratio is 90 to110 percent. Ideally, this ratio will show the extent to which a council's renewal or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

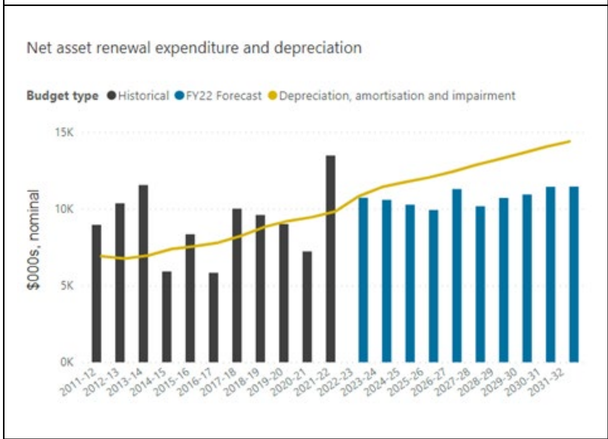
37 The ratio was reported from 2012-13.

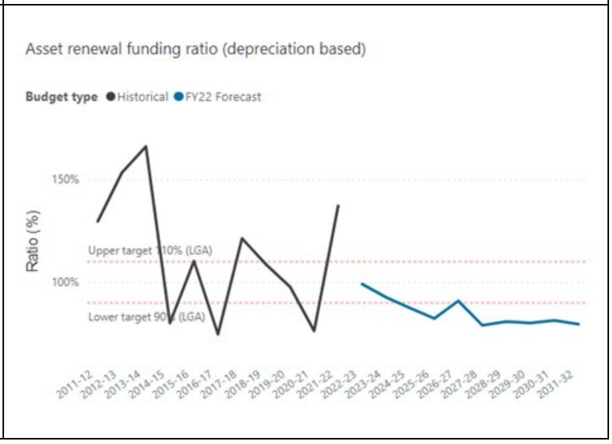
38 Adelaide Hills Council, *2013-14 Annual Report*, p. 3, available at https://www.ahc.sa.gov.au/assets/downloads/council/Reports/Annual-Reports/COUNCIL-Annual-Report-2013-2014.pdf.

39 The Council's asset renewal funding ratio by the depreciation-based method is where (asset renewal/replacement expenditure – sale of replaced asset) 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. It is also referred to as the asset sustainability ratio.









There can be legitimate reasons why depreciation expenses, which are based on asset valuations and asset life assumptions, will differ from renewals expenditure needs in any one year. Renewals expenditure is focused on the requirements for actual works, with reference to the forecast cost schedule for these works and practical works delivery and budget considerations. New and upgraded capital expenditure can also reduce the relative demand for renewal or rehabilitation works. Nonetheless, over time, there should be some convergence of depreciation expenses and capital expenditure priorities since, ideally, a council is either renewing or replacing its assets consistent with their recorded useful lives, whilst also accounting for any growth needs.

One area that might be leading to higher depreciation forecasts by the Council is that the asset lives are assumed to be shorter (in the depreciation calculation) than occurs in practice. The implication of projecting higher than necessary depreciation expenses is that higher operating income (and potentially higher rates revenue) is required to generate an operating surplus for the Council. Another reason might be related to the fact that the Council does not yet have an AMP for buildings - the value of the depreciation expense for this asset class was second only to roads.[40] The Commission has already recommended that the Council develop the according AMP in section B.2.

In summary, it would be appropriate for the Council to:

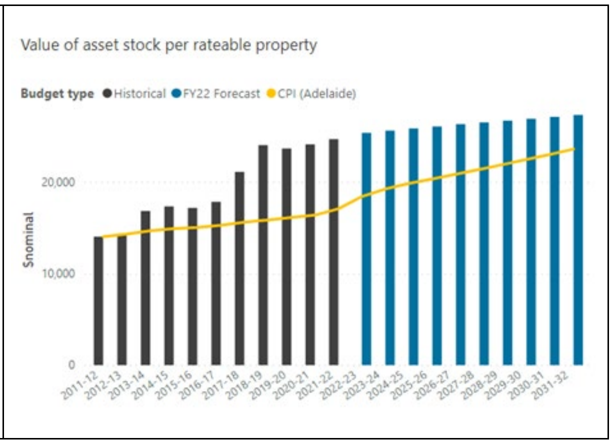
7. **Review** the estimates of asset lives and valuations feeding into the forecast rate of asset consumption in its long-term financial plan and asset management plans.

As can be seen from the below charts, the Adelaide Hills Council has consistently spent more each year on the renewal and rehabilitation of its assets than on new or upgraded assets. It spent an average of $2.4 million annually on new and upgraded assets, and $9.1 million on asset renewals. As a result, its

[40] Calculated based on Adelaide Hills Council, *2020-21 Financial Statements*, p. 22.

combined spending on its asset base has resulted in a sizeable increase to the value of its assets per property, which increased by 6.7 percent or $1,197 from 2016-17 to 2021-22.

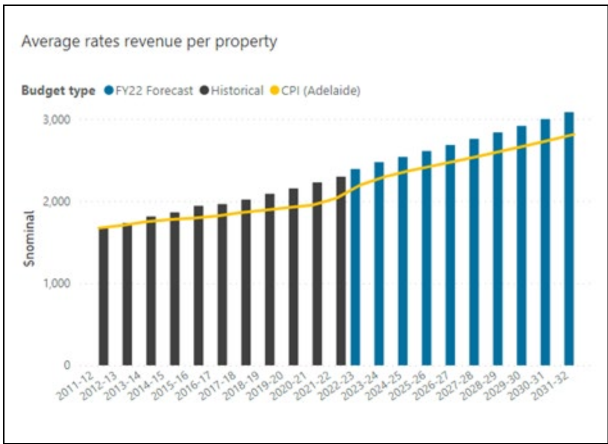
The Council has projected spending on new and upgraded assets to average $3.1 million from 2022-23 to 2031-32 (in nominal terms), compared with $11.5 million on renewal/replacement expenditure. In doing so, the Adelaide Hills Council is ensuring that its asset stock value per rateable property will likely decline in real terms (increasing by 0.8 percent compared with CPI inflation of 2.8 percent over this period). This approach should help to consolidate the recent high growth in asset spending per property by Adelaide Hills Council in a sustainable fashion.

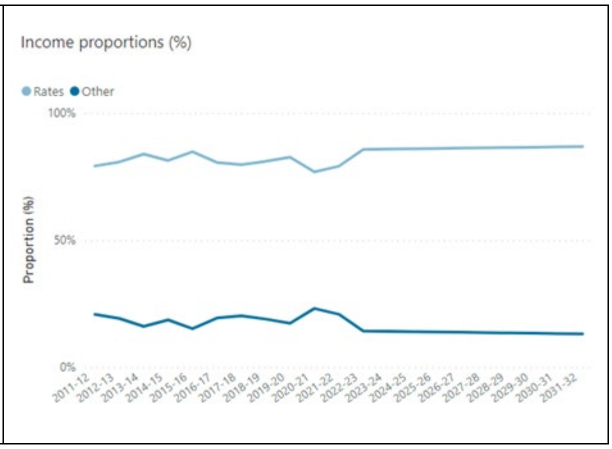


D Current and projected rate levels

D.1 Historical rates growth

The Adelaide Hills Council's rate revenue growth has averaged 3.2 percent, or $62 per annum for each property over the past 10 years[41] to reach an estimated $2,229 per property in 2020-21 (see the left chart below). This has exceeded CPI growth of 1.7 percent per annum on average over this period, but also encompasses 0.5 percent average annual growth in rateable property numbers.[42] The Commission notes that the Council has relatively high average rates, reflecting its relatively high rate levels for residential categories, but relatively low non-residential rates.[43] Current rate levels partially reflect its recent history of spending growth, predominantly on asset renewal and contract-related expenses.





D.2 Proposed 2022-23 rates increases

The Adelaide Hills Council has budgeted for an average general rate increase of 4.9 percent or $110 for its existing ratepayers in 2022-23,[44] which is in accordance with its 2022-23 LTFP projections. The Council has stated that the rates increase reflects higher short-term inflation (anticipated by the Council to be 4.7 percent in 2022-23), and an extra 0.2 percent to fund increased capital renewal.[45]

Differential rate categories are subject to varying rate changes, with residential ratepayers (which account for 75 percent of rates revenue in 2022-23) to pay the largest increase – 6.2 percent or $133 per property on 2021-22 average rate levels. Primary production ratepayers (which account for 18 percent of revenue) will pay a smaller increase - an average increase of $69 or 2.9 percent more. Commercial (includes Shop, Office, and Other commercial) ratepayers (which account for 3 percent of revenue) will also pay a small increase – an average increase of $40 or 2.1 percent more.[46]

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[41] From 2011-12 to 2020-21.

[42] CPI (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 1.9 percent) as the Commission's estimated average annual CPI growth over this period. Available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.

[43] Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/adelaide_hills_council.

[44] Individual rate level changes may be higher or lower depending on the rates category and property value.

[45] Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 35. The Commission notes that in 2019-20, the average general rate increase of 3.3 percent also included a 0.5 percent (or $10) increase in solid waste levy.

[46] Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2022, p. 48.

Other than 'general rates' income (which represents around 96.2 percent of total rates income in 2022-23), the Council also collects income from CWMS charges and the regional landscape levy (3.9 percent and 2.6 percent of total rates revenue respectively).[47] CWMS Charges have decreased by 7.8 percent whereas the regional landscape levy has increased by 15.4 percent compared with financial year 2021-22. [48]

D.3 Projected further rate increases

Over the next 10 years, the Adelaide Hills Council is projecting average growth in total rates revenue, on a per rateable property basis, of 2.9 percent per annum.[49] The average rates revenue to 2031-32 under these projected increases result in a cumulative increase of $693 per rateable property (to $3,084) by 2031-32.

D.4 Affordability risk

Despite the high average residential rate levels and projected continued rate increases marginally above projected inflation, the Commission has assessed that the affordability risk among the community still appears relatively low when considering:

- The Council's Socio-Economic Indexes for Areas (SEIFA) ranking, among South Australian councils in terms of residents' access to economic resources.[50]
- The relatively low non-residential rates levels.

The Commission further notes the survey feedback from 20 residents on the Council's draft 2022-23 Business Plan whereby 30 percent (six residents) opposed to strongly opposed the budget including proposed rate contributions.[51] Most of the comments in the survey responses were focused on service-related matters.

Meanwhile, 25 percent respondents (five residents) supported to strongly supported the operating budget, including rate contributions, while 45 percent (nine residents) were neutral, which suggests that there could still be some emerging affordability risk among some members of the community for higher rate levels. In addition, one respondent raised concern about the proposed maximum rate increase of 15 percent (as a cap) being too high, especially relative to the average rate increase (4.9 percent).[52] The Commission notes that the number of survey responses were relatively low.

The current economic environment is putting more pressure on most communities' capacity to pay for further rate increases. Therefore, despite the strong socioeconomics of the area and some community support for current rate levels, on balance, the Commission considers that it would be appropriate for the Council to:

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47 There are also other minor rates and service charges.

48 Adelaide Hills Council, *Annual Business Plan 2022-23*, July 2021, p. 47.

49 See footnote 28.

50 The Adelaide Hills Council area is ranked 71 among 71 South Australian '*local government areas*' on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2016), where a higher ranking (eg, 1) denotes relatively lower access to resources in general, compared with other areas, available at https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

51 Adelaide Hills Council, *Agenda for Special Council Meeting 14 June 2022: Item 7.1. Draft Annual Business Plan 2022-23 Community Engagement Outcome Report,* p. 27, available at https://www.ahc.sa.gov.au/assets/meetings/2022/06-June/special-council-meeting-14-jun-2022/agendas/220614-Special-Council-Agenda-PUBLIC.pdf.

52 Adelaide Hills Council, *Agenda for Special Council Meeting 14 June 2022: Item 7.1*, p. 27.

8. **Review** and consider limiting future increases above inflation on its residential rates to help reduce any emerging affordability risk in the community.
9. **Review** the rationale for the quantum of any maximum rate increase (or cap) it seeks to impose (currently at 15 percent) in its next annual business plan, with consideration of the community's capacity to pay for higher increases.

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