Advice

Local Government Advice - Attachment

Adelaide Plains Council

February 2023

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A The Commission's approach

In providing the Advice for the Adelaide Plains 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]

- 2022-23 Annual Business Plan and Budget (adopted July 2022)
- 2022-23 to 2031-32 Long Term Financial Plan (adopted February 2022)
- Strategic Asset Management Plan (adopted October 2021)
- Transport Asset Management Plan (approved October 2021)
- Open Space Asset Management Plan (approved October 2021)
- Buildings and Land Asset Management Plan (approved October 2021)
- Stormwater Asset Management Plan (approved October 2021)
- Community Wastewater Management System Asset Management Plan (approved October 2021)

The Council does not yet have asset management plans (**AMPs**) for bridges, and plant and fleet, but the Commission notes that most of its asset base is covered by its existing AMPs.

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and long-term financial plans (**LTFPs**),[4] it has also considered the Council's performance in that context. Findings regarding the content of the Adelaide Plains Council's AMPs, and the alignment between its LTFP and AMPs,[5] are discussed in section C.3.

The Commission has reviewed the Council's template data which contains its 2022-23 LTFP forecasts for 2022-23 to 2031-32, as well as its historical financial data and rateable property and staffing (Full

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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 Plains Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

4 *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).

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

Time Equivalent (FTE)) numbers from 2011-12 onwards.[6,7] 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 '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 Plains Council, including its location as a regional council, income level ($14.8 million) and the size of its rates base (more than 5,600 ratepayers[8]).

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

7 The Council's estimates for the 2021-22 financial year, relied on at the time of preparing this advice, were unaudited.

8 Based on the estimated number of property assessments in 2022-23.

B Material plan amendments in 2022-23

The Adelaide Plains Council's 2022-23 LTFP was adopted in February 2022 and is used as a basis for assessing the Council's material plan amendments. The Commission notes the Council does not have an updated 2021-22 LTFP to use as a comparison. As such, the Commission considers it appropriate to provide commentary on the most recent material changes (identified by the Commission) arising from the 2022-23 budget (adopted in July 2022). This approach has been taken as the Council's prior LTFP (the pre-2022-23 LTFP) was not updated since the 2019-20 LTFP was adopted on 27 June 2019.[9] The Commission's finding regarding the reviews of its LTFP are discussed in section B.4 below.

B.1 Revisions to operating expenses

The Adelaide Plains Council has proposed, in its 2022-23 LTFP, 27 operating programs and initiatives targeted to achieve the objectives of its Strategic Plan 2021-2024 and the IAMPs.[10] These costs represent 9.0 percent of the Council's total operating costs (including depreciation) over the next 10 years, of which 75.3 percent of these costs are related to additional labour resources.

The Council has made some downward revisions to its 2022-23 budget by deferring certain projects (totalling about $1.0 million) into 2023-24, for example the Two Wells, Main street - Underground Powerlines, and the Relocation of the Two Wells Waste Transfer Station.[11] This change contributes to the improvement in the operating budget deficit in 2022-23, to a $1.0 million deficit, compared to a $1.7 million deficit estimated in the LTFP.

The Council has also budgeted for significant cost increases in 2022-23 compared to the estimated actuals in 2021-22, with:

- an increase in 'employee' expenses by 18.1 percent, which appears to be driven by an additional 10 FTEs over the two-year period between 2021-22 and 2022-23; and
- an increase in 'materials, contracts and other' expenses by 24.0 percent.[12]

The Council states that 'employee' expenses have increased since 2020-21 to strengthen its internal capacity to respond to significant increases in economic development opportunities and residential growth within the district.[13] The Commission notes that the Council experienced growth of 4.9 percent in rateable property numbers in 2021-22 (with 254 more properties), following 1.2 percent average

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9 Adelaide Plains Council, *Special Council Meeting Agenda – 27 June 2019, Item 4.2 Adoption of 2019/2020 Annual Business Plan, Budget and 2020-2029 Long Term Financial Plan and Declaration of Rates for 2019/2020*, p. 19, available at https://www.apc.sa.gov.au/__data/assets/pdf_file/0032/356387/Agenda-Special-Council-Meeting-27-June-2019.pdf.

10 These costs are referred by the Council as 'net operating project expenses' or 'non-recurrent expenses' which are expenses where a program or activity does not make up part of the Council's regular core services or there is a finite funding life required. Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 25, available at https://www.apc.sa.gov.au/__data/assets/pdf_file/0021/931611/2022-2023-Annual-Business-Plan-and-Budget.pdf.

11 Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 73. The Commission has compared the Council's budget for 'materials, contracts, and other' expenses ($5.0 million); the net cost of two CWMS ($0.2 million); and growth initiatives ($0.9 million) in its analysis. The Council's 2021-22 unaudited estimates were reported to the Commission in its Excel Template.

12 This category includes costs associated with kerbside waste collection, disposal and street sweeping, information technology, general and infrastructure maintenance, utilities, insurances and legal, motor vehicle costs, marketing and advertising, and staff training. Additionally, this category captures costs associated with the Council's growth initiatives ($0.9 million in 2022-23) and the costs of operating two Community Wastewater Management Systems (**CWMS**) ($0.4 million in 2022-23).

13 Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 19.

annual growth in the preceding 10 years.[14] Further, the Council noted that it has been accumulating significant new assets which must be managed, including $5 million per annum in donated assets over three years.[15]

The Council has identified a range of external inflation influences on its 2022-23 budget estimates including estimated Adelaide CPI growth of 2.25 percent in 2022-23 based on the 2021-22 Mid-Year Economic and Fiscal Outlook of the Government of South Australia and that prices for its 'materials, contract and other' expenses have increased by 3.47 percent (exclusive of kerbside waste collection charges).[16] Given the current inflationary environment, the Commission notes that it is important for the Council to review its inflation assumptions annually as part of its LTFP projections, in accordance with the finding in section B.4 below.

B.2 Revisions to capital expenditure

The Adelaide Plains Council has estimated a total capital expenditure program in 2022-23 of $8.9 million (as per its current LTFP). However, the Council has revised down its capital expenditure in the 2022-23 adopted budget by 9.5 percent, to $8.1 million. The change in the budget reflects an increase in asset renewals expenditure of $0.4 million, to $4.6 million (representing 56.9 percent of the total capital expenditure budget), offset by a decrease in new asset expenditure of $1.3 million, to $3.5 million (representing 43.1 percent of the total capital expenditure budget).

The Council has generally aligned its 2022-23 asset renewal budget to its adopted AMPs; however, some renewals, such as for plant and equipment and bridges, are included in the budget or identified outside of the AMPs. Additionally, new asset expenditure for the sealing of Middle Beach Road (of $2.4 million) is also included in the budget or identified outside of the AMPs.[17] The asset renewals expenditure is further discussed in section C.3.

B.3 Revisions to new borrowings

The Adelaide Plains Council has revised down new borrowing requirements in its 2022-23 budget to $4.5 million, compared to $10.3 million proposed in the LTFP. This material revision appears to be driven by some inconsistencies in its cash flow modelling in the LTFP, as well as the Council's net lending /borrowing calculation in the Uniform Presentation of Finances published in its LTFP. The Council's borrowings contribute to the performance of the net financial liabilities ratio and is discussed in section C.2.

B.4 Review of LTFP

The Commission's advice on material plan amendments has been limited to one financial year, as previous years LTFP were unavailable (as a basis of comparison). For this reason, the Adelaide Plains Council has not provided a written statement explaining any material amendments; but has also not proposed any material amendments to its LTFP or AMPs (or a reference in its plans to these amendments). The Commission has provided guidance on these matters under its Guideline for information provision, prepared for the purposes of section 122(1e) of the LG Act.[18]

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14 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).

15 Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 9.

16 Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 16.

17 The Council will receive capital grants in 2022-23 under the Local Government Infrastructure Partnership Scheme to seal Middle Beach Road (or 50 percent of $2.4 million). Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p.42.

18 Commission, *Guideline for information provision under the Local Government Advice Scheme 2022-23,* August 2022, pp. 3-4, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

The Commission notes that under s122(4)(a) of the LG Act, a council must undertake a review of its LTFP (and any other elements of its strategic management plans prescribed by the regulations), on an annual basis. In addition, under s122(4)(b), a council must undertake a comprehensive review of its strategic management plans within 2 years after each general election of the council (s122(4)(b)).

The Adelaide Plains Council has indicated that its Audit Committee had considered updating the previous LTFP at its meeting on 12 April 2021; however, the Council had decided to defer updating the LTFP until various strategic documents were updated and initiatives costed, such as the IAMPs and Tourism and Economic Development Strategy.[19]

While the Commission does not have an administrative role in relation to compliance with the LG Act, it would encourage the Council to:

1. Review its long-term financial plan annually (including its 10-year projections and all relevant assumptions (including for inflation)) to better inform its decision-making and any relevant consultation processes.

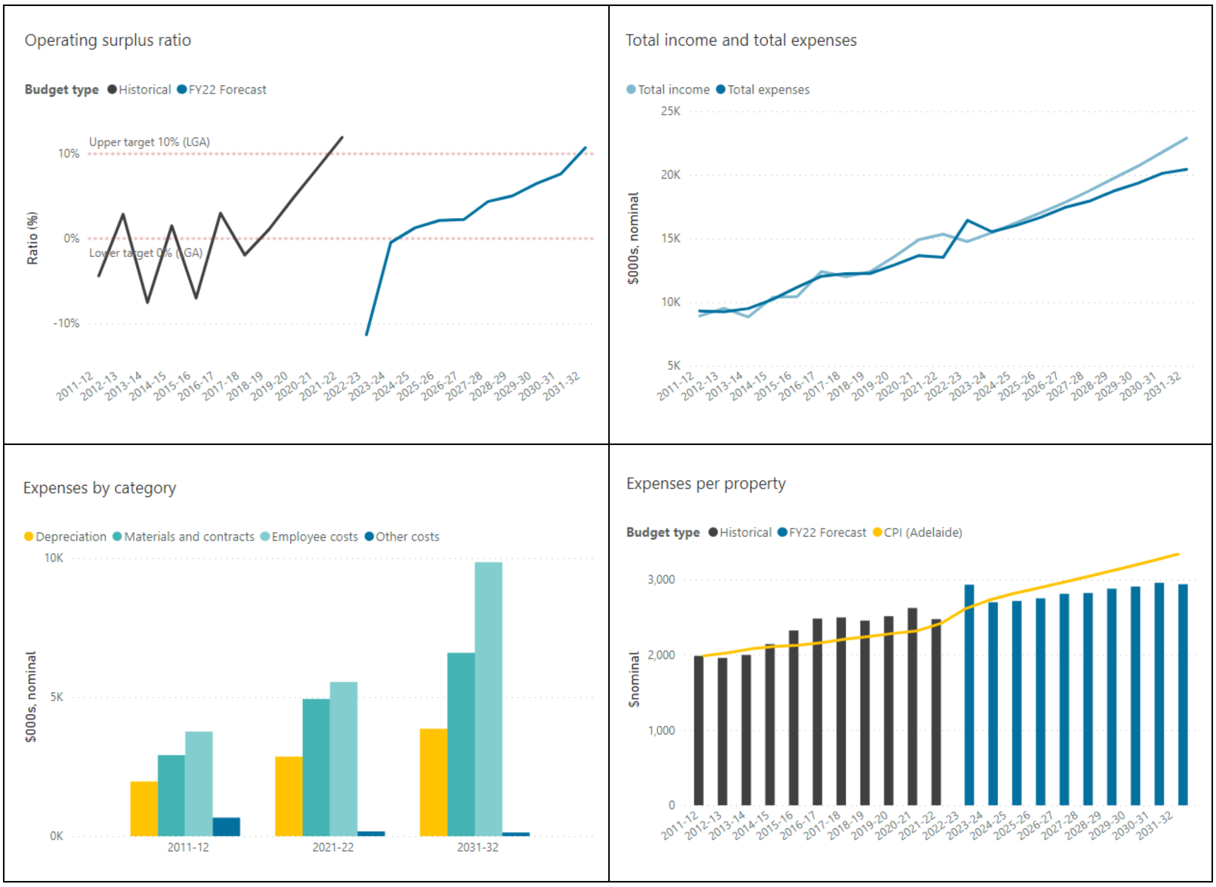
[19] Adelaide Plains Council, *Ordinary Council Meeting Agenda – 27 April 2021, Item 14.1 Draft 2021/2022 Annual Business Plan and Budget for Public Consultation*, p. 76, available at https://www.apc.sa.gov.au/__data/assets/pdf_file/0024/883014/Agenda-Ordinary-Council-Meeting-27-April-2021.pdf.

C Financial sustainability

C.1 Operating performance

The Adelaide Plains Council has run a mix of operating surpluses and operating deficits historically but the average from 2011-12 to 2020-21 is a small surplus of 0.1 percent.

In the last four years, the operating surplus ratio[20] has averaged 6.9 percent per annum. In the forward years, the Council is projecting initial operating deficits (totalling $1.7 million over 2022-23 and 2023-24); however, over the long-term, the operating surplus ratio progressively trends toward the upper level of the suggested LGA target range (of 10 percent) by 2031-32 (see the top left chart below). The improvement to its projected operating performance is attributable to budgeting for continued rate increases (including growth in rateable properties) and relatively slower expenses growth (see the top right chart below).



As further discussed in section D, the Council is projecting average annual rates revenue growth of 5.5 percent to 2031-32, which is set to outpace inflation[21] and expense growth.

[20] 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).

[21] 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.

Average expense growth of 2.5 percent per annum is marginally below forecast inflation growth;[22] however, this excludes the 2022-23 forecast step-up in costs (discussed in section B). This long-term trend marks a shift from the Council's past performance (with average annual expense growth of 4.4 percent in the 10 years to 2020-21, and 3.1 percent on a 'per property' basis). This compared with average annual inflation growth of 1.7 percent over this period.[23]

The higher historical operating expense growth was primarily due to an average annual increase of 7.1 percent in 'materials, contract and other' expenses,[24] and 4.5 percent in depreciation expenses. 'Employee' expenses (contributing approximately 41 percent of total operating expenses) also increased at an average rate of 3.6 percent (see bottom left chart on the previous page). While these costs increased at a rate above inflation, the Commission notes the Council's rateable properties have increased on average by 1.2 percent per annum over the same period.

'Employee' expenses are forecast to increase by an average of 5.5 percent per annum, higher than forecast inflation. The LTFP stated that it applied an indexation of 2.5 percent per annum; in addition, the Council has projected a growth in FTEs on average of 2.8 percent per annum (or two FTEs per annum).

The Adelaide Plains Council has also stated that it will look to deliver quality services in the most cost effective and efficient manner.[25] This is a prudent approach, noting it's improving long-term financial sustainability outlook does rely on more 'cost constraint' than it has demonstrated in the past. Apart from the significant increase in 'employee' expenses and 'material, contracts and other' expenses in 2022-23, the Council's long-term trends appear broadly in-line with RBA-based inflation forecasts of 2.8 percent per annum to 2031-32. On a per rateable property basis, operating expenses are relatively stable (in nominal terms) indicating that scale effects are forecast to help constrain cost growth (see bottom right chart on the previous page).

Growth in rateable properties is a key factor in the Council's long-term operating performance, where it has assumed an average increase of 2.4 percent per annum (to 2031-32), which is notably higher than 1.5 percent per annum (2011-12 to 2021-22, which includes the 4.9 percent increase in 2021-22).

If this forecast growth does not occur but the cost trajectory is maintained, the operating costs per rateable property will rise. Also, the Commission notes, the LTFP was last updated 12 months ago (in February 2022) and the economic environment facing the Adelaide Plains Council may have become less favourable. This further emphasises the value of cost flexibility to the council in managing growth.

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

2. Review the rateable property growth forecasts in its budget projections each year to ensure that they remain current and do not create a need for additional rate increases to generate the same level of projected revenue.
3. 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.

C.2 Net financial liabilities

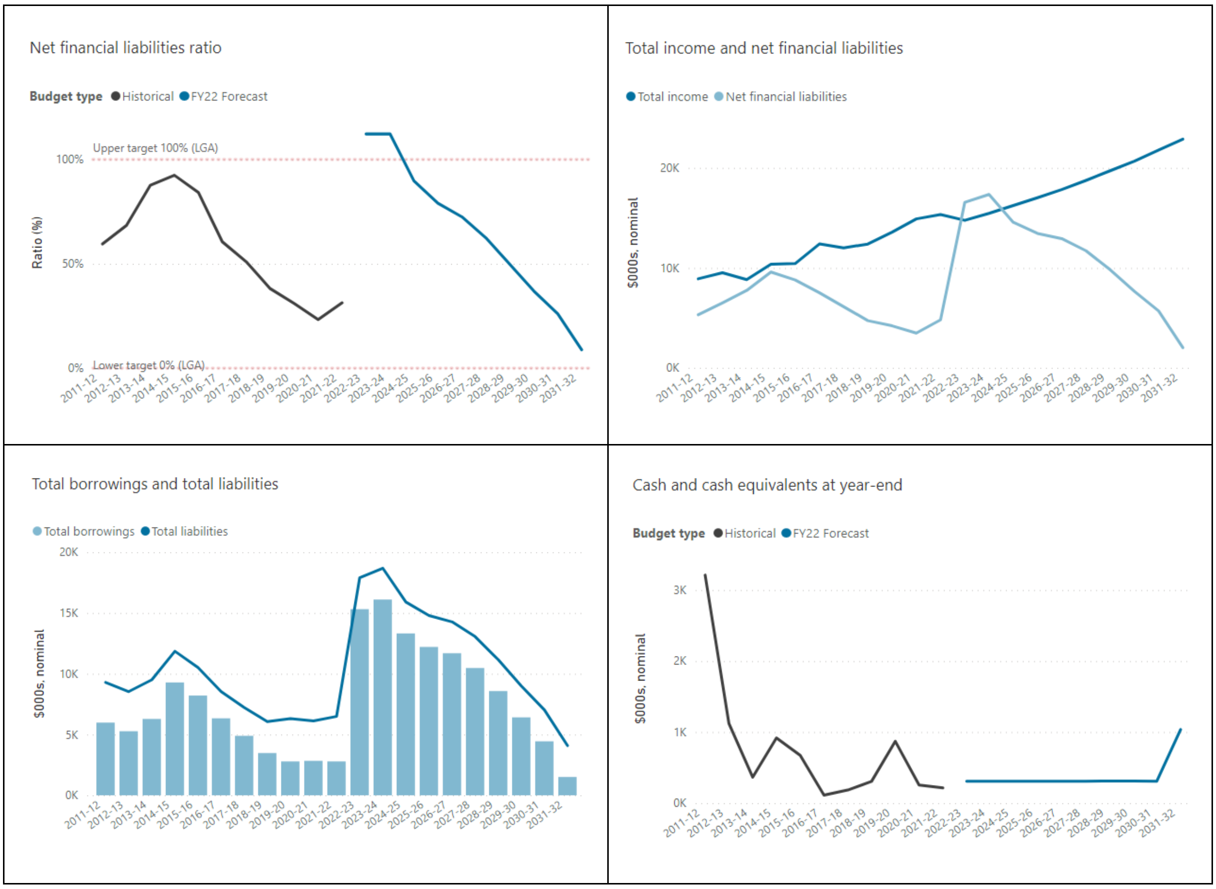
The Adelaide Plains Council has consistently used borrowing and other financing options to supplement any annual shortfall of funds and, over time, this has been within the suggested LGA target

[22] See footnote 21.
[23] CPI Adelaide (All groups) for the period 2011-12 to 2020-21.
[24] This also includes the increase in the solid waste levy over the past 10 years which has impacted councils' waste management costs.
[25] Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 18.

range for the net financial liabilities ratio of between zero and 100 percent.[26] The Council's net debt has historically represented, on average, 72.6 percent (or $4.5 million annually) of its net financial liabilities and, on 30 June 2022, the Council has reported net debt of $2.6 million (or total borrowings of $2.8 million, and a cash balance of $0.2 million) representing 53.5 percent of net financial liabilities. The Commission has reviewed the historic fluctuations in this ratio and has broadly observed the Council's change in borrowings (a key driver of this ratio) is driven by:

- the shortfall funding requirements arising from its net cash flow deficits (after capital expenditures)
- additional repayment of borrowings arising from the Council's surplus funds from its cash balances or the net cash flow surpluses it generated, and
- the debt and repayment terms associated with the Council's long-term investment in CWMS and other assets. For example, the Council has an outstanding fixed rate long-term debt for the Mallala[27] CWMS assets of $1.8 million on 30 June 2022.

The charts below provide a representation of the Council's net financial liabilities ratio (included in the LTFP) and the key drivers.



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26 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).

27 The Adelaide Plains Council was formerly known as the District Council of Mallala.

As discussed in section B.3 (above), the Council has revised down the borrowing requirements in its 2022-23 budget to $4.5 million, compared to $10.3 million proposed in the LTFP. This material revision changes the Council's forecast borrowings and net financial liabilities profile depicted in the charts above. The key reason for this appears to be related to cash flow inconsistencies identified in the Council's Uniform Presentation of Finances (included in the LTFP)[28] which result in the incorrect calculation of the Council's net lending/borrowing, in effect overstating its borrowing requirements in 2022-23.[29] These inconsistencies include:

- incorrect reporting for '*less* Amounts received specifically for New and Upgraded Assets', and
- omission of 'net operating project expenses' which have been included in both the Council's Statement of Comprehensive Income and Uniform Presentation of Finances in the 2022-23 Budget documents.

Broadly, because of this and the material revisions noted in section B, the Commission estimates the budget borrowings will reduce the net financial liabilities ratio from 112.2 percent to approximately 73 percent in 2022-23. Under the LTFP, the Council is forecasting a progressive repayment of borrowings and higher operating income which will reduce the net financial liabilities ratio to 8.9 percent by 2031-32; however, this amortisation profile will need to be updated to reflect the Council's revised level of borrowings.

For these reasons, the Commission has found that it might be appropriate for the Council to:

4. Improve the transparency and consistency of borrowing assumptions in its long-term financial plan, particularly in the calculation of 'net lending/borrowing' as per the Uniform Presentation of Finances.

C.3 Asset renewals expenditure

During 2011-12 to 2020-21, the Adelaide Plains Council has spent a more on new and upgraded assets than the renewal and rehabilitation of its existing stock, averaging $1.9 million per annum on new or upgraded assets, compared with $1.7 million on the renewal of its asset base. The Council's accumulation of infrastructure reflects the demands of property growth (of 1.5 percent on average per annum over this period).

The Council's expenditure on asset renewals has been highly volatile but over the long term, higher than the level recommended by its AMPs. Between 2011-12 and 2020-21, the average asset renewal funding ratio (IAMP-based) was 125 percent which is above the suggested LGA target range of (90 to 110 percent).[30] In 2016-17, the annual ratio was 418 percent, reflecting a spike in capital expenditure, followed by lower expenditure over the next five years (with the ratio then averaging 76 percent).

In 2021-22 and 2022-23, the ratio is estimated to be high (around 130 percent) before returning to 100 percent consistently from 2023-24 (with asset renewal expenditure then projected to align exactly with

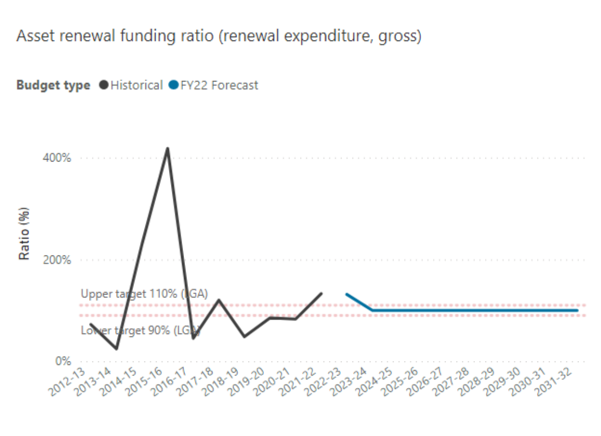
[28] Regulation 5(1) of the *Local Government (Financial Management) Regulations 2011* requires that a LTFP must include (among other things) a summary of proposed operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances.

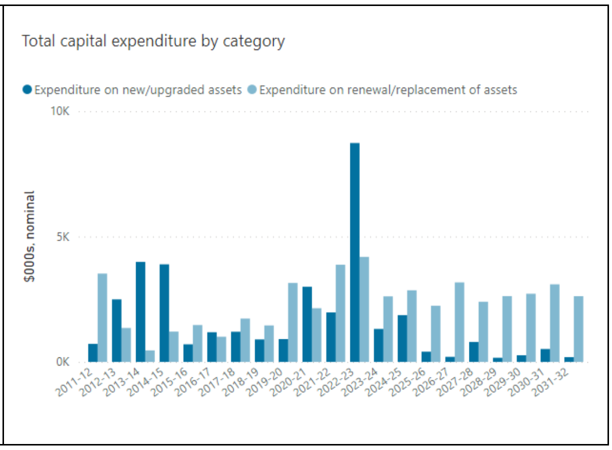
[29] However, the correct accounting is applied in the Council's Uniform Presentation of Finances published in its annual business plan. Adelaide Plains Council, *2022-23 Annual Business Plan and Budget*, July 2022, p. 70.

[30] 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 to 110 percent (LGA SA Financial Indicators Paper, p. 9).

AMP-recommended expenditure). The Council's spending on renewal assets is projected to average $2.9 million to 2031-32 (in nominal terms).

The charts below provide a depiction of these spending trends.





Since the preparation of the Council's AMPs (adopted in October 2021), it is projecting that the renewal and new asset expenditure in the LTFP will generally align to its AMPs. However, the Council has advised that AMPs have not been prepared for bridges, and plant and fleet assets, and some expenditure has been included in the LTFP and identified outside of the AMPs. Additionally, some new and upgraded expenditure has been excluded from the LTFP but included in the AMPs. For example, expenditure included in the LTFP and identified outside of the AMPs include:

- bridge renewals – $1.0 million (in 2022-23)
- plant and fleet renewals – $4.9 million (over the period 2022-23 to 2030-31)
- new 'strategic' land acquisition – $4.0 million (in 2022-23), and
- new transport expenditure for the sealing of Middle Beach Road – $2.4 million (in 2022-23).[31]

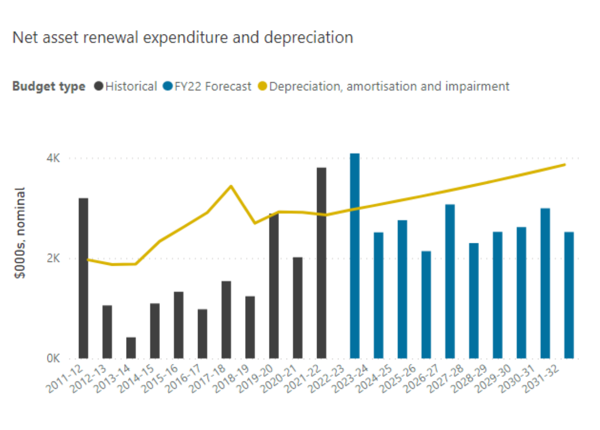
The Commission notes that there can be legitimate budget reasons for adjusting capital expenditure from year to year, as well as additional inflation impacts, but encourages the Council to review this area to determine if there can be better alignment. However, given these differences, the Commission would encourage the Council to improve the alignment between the AMPs and LTFP, and therefore finds it appropriate to for the Council to:

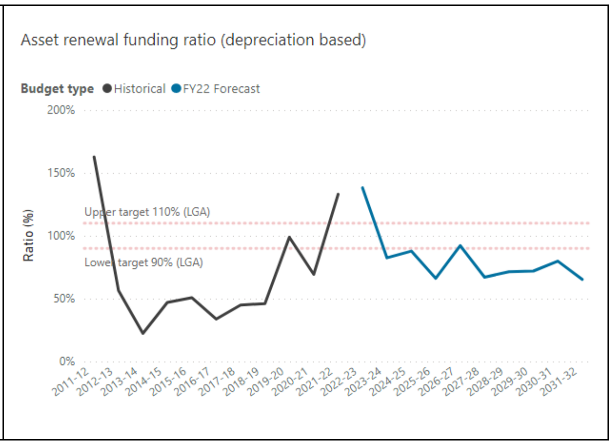
5. Consider including bridges, and plant and equipment assets in new or existing asset management plans to support the prioritisation of renewal expenditure in its long-term financial plan.

Asset renewals expenditure can also be assessed with the asset renewal funding ratio based on the depreciation approach.[32] Between 2012-13 and 2020-21, depreciation expense growth outpaced renewal capital expenditure by $11.0 million, and this has resulted in an average asset renewal funding ratio (depreciation-based) of 53.3 percent. The charts below depict these trends.

31 The Council is expected to receive capital grants of $1.2 million (50 percent) in 2022-23 under the Local Government Infrastructure Partnership Scheme to seal Middle Beach Road.

32 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.





A high-level review of the Council's asset base over the five-year period to 2020-21 indicates the Council has grown its assets through both renewal asset expenditure and new asset investment (relative to depreciation), as:

- total capital expenditure has exceeded total depreciation expense by 12.1 percent; however, renewal capital expenditure is lower than total depreciation expense by 36.3 percent
- total assets received free of charge have totalled $14.6 million (from 2016-17 to 2020-21) or an average of $2.9 million per annum, and
- the overall asset base has continued to grow from a carrying value of $100.8 million to $121.1 million (on 30 June 2021), representing an average increase of 4.7 percent per annum (see more on this point below).

Over the 10-years to 2031-32, the Council's depreciation expenses are again forecast to outpace renewal capital expenditure on average by 19 percent, resulting in the asset renewal funding ratio (depreciation-based) averaging 81.1 percent per annum.

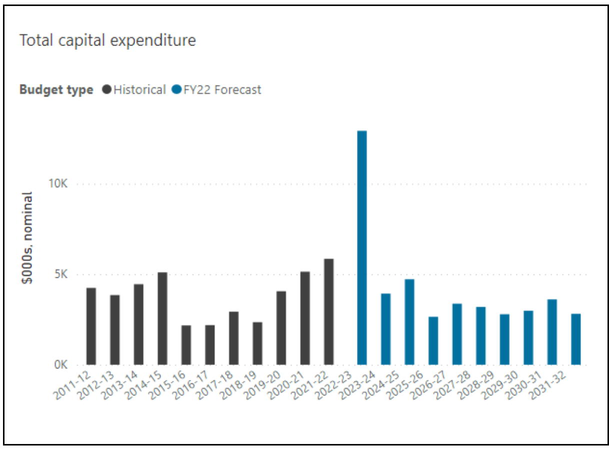
There may be legitimate reasons why depreciation expenses are higher than renewal expenditure. The risk that arises when depreciation expenses exceed spending on asset renewals is that the asset lives are assumed to be shorter (in the depreciation calculation) than occurs in practice. The implication 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.

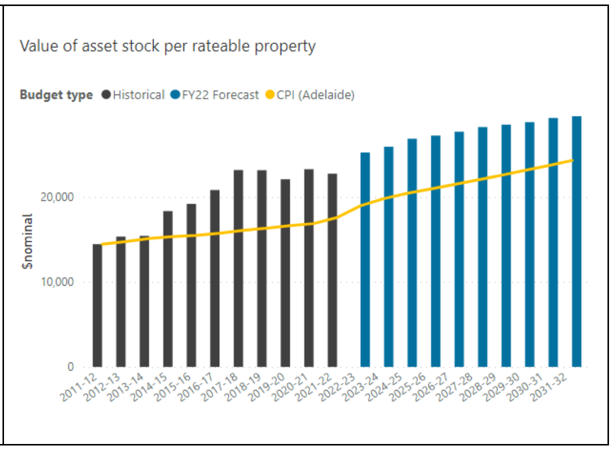
Therefore, it would be appropriate for the Council to:

6. Review the assumptions underpinning its asset management plans to ensure those plans incorporate a more accurate picture of required asset expenditure and better align with the allocations in its long-term financial plan as necessary, including the estimate for asset lives and valuations feeding into the forecast rates of asset consumption and depreciation expenses.

In 2022-23, the Council has budgeted a relatively large capital program of $8.1 million ($4.6 million on asset renewals and $3.5 million on new and upgraded works), and this compares to an average total capital expenditure of $3.8 million per annum over the last 10 years (see the left chart over the page). Practically and logistically, the increase in capital expenditure may be challenging to achieve, even though the projects incorporate grant funding and developer contributions.[33]

[33] For example, the Council will receive capital grants in 2022-23 under the Local Government Infrastructure Partnership Scheme to seal Middle Beach Road (or 50 percent of $2.4 million).





As the above right chart indicates, the growth in the value of asset stock per property was 5.4 percent in the Adelaide Plains area over the 10 years to 2020-21. This reflects a combination of capital expenditure and asset accumulation by the Council (including those assets provided by developers), as well as asset revaluations over this period.

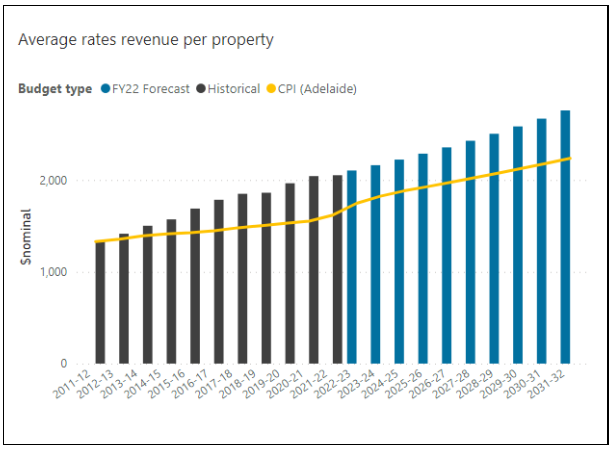
The Council's forward projections indicate that the value of the assets per property will increase at a much lower rate to 2031-32 - by an average of 1.4 percent per annum - which is lower than the RBA-based forecast rate of inflation (2.8 percent per annum). Notwithstanding that the spike in capital expenditure in 2022-23 does not yet appear to be reflected in the future asset value estimates, these projections, as they stand, would contribute to the Council's sustainability into the future and reflect a period of asset and service consolidation accompanying higher growth. Nonetheless, the Council's annual review of its LTFP from 2023-24 might also need to incorporate further revisions to the asset value estimates.

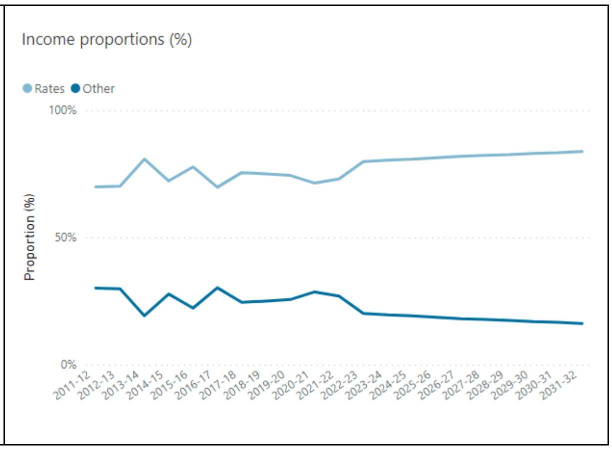
D Current and projected rate levels

D.1 Historical rates growth

The Adelaide Plains Council's rate revenue per property has increased on average by 4.9 percent per annum (or $79 per annum),[34] to reach an estimated $2,043 per property in 2020-21 (see the left chart below).[35] This has exceeded CPI growth of an average of 1.7 percent per annum over this period, but also encompasses 1.2 percent average annual growth in rateable property numbers.[36] Current rate levels partially reflect its recent history of spending growth, predominantly on the costs associated with renewing and upgrading its community infrastructure and accumulating new assets, as was discussed in the previous section.

Based on external data, the Commission notes that the Adelaide Plains Council has relatively high average rates, reflecting its relatively high-rate levels for residential categories, but relatively low non-residential rates.[37] Arguably, the residential rates are more indicative of some metropolitan council levels, rather than rural council levels.





D.2 Proposed 2022-23 rate increases

The Adelaide Plains Council has budgeted for an average rates increase of 6.2 percent applying to ratepayers in 2022-23, which will provide for an estimated increase in net general rates revenue of 9.0 percent (including growth).[38] This represents a higher increase than the Council's projection in the LTFP of 2.5 percent or 5.3 percent (including growth).[39] The Commission also notes that the Council's

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34 From 2011-12 to 2020-21.

35 These estimates are based on the Council's Excel Template data which include total general rates revenue and other service charges.

36 CPI Adelaide (All groups). Average annual growth in the Local Government Price Index (LGPI) published by the South Australian Centre for Economic Studies was similar (at 1.9 percent). Available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.

37 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/adelaide_plains_council. The Commission is not relying on these rate comparisons for its advice; the data source provides just one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

38 This year-on-year increase compares the 2022-23 adopted budget to the 2021-22 adopted budget (Adelaide Plains Council, *2022/2023 Annual Business Plan and Budget*, July 2022, p. 50).

39 The Council noted a 2.25 percent increase in general rates for 'business as usual' plus 0.25 percent to fund new assets / programs, plus 2.75 percent to allow for growth. This results in a total increase to existing rates of 2.50 percent or 5.25 percent when growth is considered (Adelaide Plains Council, *2022-23 to 2031-32 Long Term*

rateable properties has increased by 4.9 percent in 2021-22 (to 5,460 rateable properties), the largest annual increase in the last 10 years, being a key driver of its large revenue increase in 2022-23.

Different rate categories are subject to varying changes, with residential ratepayers to pay an average increase of 5.5 percent (or $95 per property) on 2021-22 budget levels (which accounts for 57.2 percent of general rates revenue). Primary production (mostly farmland) ratepayers will pay an average increase of 4.0 percent (or $101 per property) on 2021-22 budget levels (which accounts for 34.3 percent of general rates revenue). Vacant land ratepayers will experience the largest increase – an average increase of 10.4 percent (or $131 per property); however, these ratepayers account for approximately 1 percent of general rates revenue.

In terms of income from other charges incurred by ratepayers, these include the Regional Landscape Levy, waste collection,[40] and CWMS charges, increasing by 2.5 percent, 6.7 percent, and 4.8 percent, respectively. These three charges account for approximately 10 percent of the Council's total expected rates revenue in 2022-23.

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average growth in total rates revenue per rateable property of 3.1 percent per annum from 2023-24 to 2031-32. In total, the LTFP effectively projects a cumulative increase of $655 per existing ratepayer (to $2,758) by 2031-32, an increase of approximately $200 above the Council's assumed inflation growth over this period (see previous chart on the left side).[41] This increase partially reflects the Council's assumption in its 2022-23 budget of an additional 0.25 percent above inflation to fund new assets/programs.[42]

The Commission notes that rate revenues are a key driver for the Council's projected financial performance but notes that it also relies on additional sources of funding such as 'grants, subsidies and contributions', statutory charges and user charges. Over the long-term (in 2031-32), grant income and user charges are projected to account for a lower percentage of total operating income, at 9.8 percent (down from 21.5 percent in 2021-22) and 0.9 percent (down from 1.4 percent in 2021-22), respectively. By implication, the Council projects higher contributions from rate revenue and statutory charges, at 83.8 percent (up from 73.0 percent in 2021-22) and 4.9 percent (up from 3.4 percent in 2021-22), respectively.

D.4 Affordability risk

Affordability risk among the community for the current and projected rate levels appears to be moderate. The Commission notes that the Adelaide Plains Council area has relatively high socioeconomics based on its Socio-Economic Indexes for Areas (SEIFA) ranking, which indicates that on average, the community has relatively higher access to economic resources than many other council areas.[43]

Financial Plan, February 2022, p. 6, available at https://www.apc.sa.gov.au/__data/assets/pdf_file/0029/1113995/Long-Term-Financial-Plan-2023-2032.pdf).

40 The Commission notes the increase in the solid waste levy over the last 10 years, which has impacted waste management costs in the local government sector.

41 The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum), which are different to Council's inflation forecasts (as was discussed in section B.1).

42 Adelaide Plains Council, *2022-23 to 2031-32 Long Term Financial Plan*, February 2022, p. 6.

43 The Adelaide Plains Council area is ranked 65 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of SEIFA (2016), where a lower ranking (eg, 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-

However, the current economic environment is putting more pressure on most communities' capacity to pay for further rate increases, including Adelaide Plains. Further, it is not evident that the Council has tested the support for the rate increases through community consultation (for example, with a survey or discussion forum about rate increases and service levels). Given that residential rates are already so comparatively high in the Council area and more increases above inflation are projected to 2031-32, the Commission considers that it would be appropriate for the Adelaide Plains Council to:

7. **Review** and consider limiting future increases above inflation on its average residential rates (for which average rate levels are high) to help reduce affordability risk in the community.
8. **Consult** directly with its community about future rate increases and service levels (for example, through a community survey or discussion forum).

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