Advice

Local Government Advice - Attachment

Barunga West Council

February 2023

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A The Commission's approach

In providing the Advice for the Barunga West 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 (August 2022)
- Long Term Financial Plan 2022-2032 (updated June 2022)
- Long Term Financial Plan 2021-2031 (updated March 2022)
- Community Wastewater Management System Infrastructure Asset Management Plan (updated November 2021)
- Transport Infrastructure Asset Management Plan (updated November 2021)
- Buildings and Structures Asset Management Plan (updated October 2020)
- Stormwater Assets Infrastructure Asset Management Plan (updated May 2020)
- Strategic Plan 2020-2030 (adopted February 2020)

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

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

The Commission has also reviewed the Council's template data which contains its 2022-23 LTFP forecasts for 2022-23 to 2031-32, as well as its 2021-22 LTFP forecasts, and historical financial data and number of rateable properties and council staff (Full Time Equivalent (**FTE**)) numbers from 2011-12

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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 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.

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 Barunga West Council, including its location as a regional council, its income level ($7.9 million) and the size of its rates base (more than 2,700 ratepayers[8]).

[6] Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the 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 Barunga West Council has made various amendments to its 2022-23 budget and forward projections, partly for inflation and partly for other revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[9] 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)
Total operating income	76.0	81.2	+5.2	+7
Materials, contracts and other expenses	27.9	29.8	+1.9	+7
Total operating expenses	77.1	81.0	+3.9	+5
Capital expenditure on renewal of assets[10]	20.6	19.5	-1.1	-5
Capital expenditure on new and upgraded assets[11]	5.8	6.5	+0.7	+12
Proceeds from borrowings[12]	6.7	4.5	-2.1	-32

B.1 Increase to income estimates

The Council's estimated operating income to 2030-31 has increased by $5.2 million or 7 percent in its 2022-23 LTFP estimates.[13] Most of this increase is due to higher rates and user charges which increased by $4.0 million or 6 percent on the 2021-22 estimates (for the period 2022-23 to 2030-31).

From the period of 2025-26 to 2030-31, the Council has increased its annual escalation of rates (compared to the assumptions in the 2021-22 LTFP) ranging from 0.5 to 1.25 percentage points increase per annum. The current and projected rates are discussed more in section D. User charges also increased by 31.2 percent or by $1.4 million (for the period 2022-23 to 2030-31), reflecting, in part, the annual increases in the Community Wastewater Management System (**CWMS**) charges for properties serviced by Port Broughton and Bute CWMS, including new developments being connected

9 This table shows only 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.

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

11 Footnote 10 applies.

12 The 'proceeds from borrowings' are sourced from the Council's 'net lending / (borrowing)' calculation in the LTFPs, which the Council has also reflected in the Statement of Cash Flows (included in the Excel template). The Commission recognises the Council may also utilise some of its cash reserves (instead of new borrowings).

13 This compares the LTFP estimates aggregated over the nine years from 2022-23 to 2030-31. The 2022-23 LTFP estimates for 2031-32 are not included in the comparison.

at Fisherman Bay. The annual escalation for CWMS charges has been aligned with the projected rate increases of approximately 5 percent per annum, which is double the previous LTFP estimates.

Based on the Council's broad assumptions in its 2022-23 LTFP, an increase in its operating revenue and cost estimates by up to around 7 percent to 2030-31 generally aligns with higher inflation (compared with its estimates in 2021-22). The RBA has since increased its inflation forecasts further to 2025,[14] however this is still significantly lower (on average) than the annual escalation assumption for rates used by the Council in this period.[15] The Commission notes that a lower assumption for inflation from 2026 would be a reasonable assumption (given that 2.5 percent is the midpoint of the RBA's 2-3 percent target band).

The Commission is not able to provide further assessment of the Council's indexation assumptions, as the current LTFP does not disclose the reasons for the projected escalation in rates (for example, CPI, Local Government Price Index (LGPI) or other indexation factor) and does not disclose the bases for operating costs growth.

B.2 Increase to expenditure estimates

The Barunga West Council's estimated operating expenses have increased by a total of $3.9 million or 5 percent from 2022-23 to 2030-31 compared with its 2021-22 LTFP estimates. Approximately half of the higher operating costs are due to higher 'materials, contracts and other' expenses, with an increase of $1.9 million or 7 percent on the 2021-22 LTFP estimates (from 2022-23 to 2030-31). Additionally, higher 'employee' expenses accounts for 21 percent of the higher operating costs, with an increase of 0.8 million or 3 percent over previous years' LTFP estimates.

The Council's 'materials, contracts and other' expenses have decreased significantly on a year-on-year basis, with a decrease of 21 percent in 2020-21 and 58 percent in 2021-22, compared to the 2022-23 budgeted level of $3.1 million. This is attributed to the Council's completion of the Yorke Peninsula Alliance Road Upgrade Project, a large road improvement program delivered by the Barunga West Council on behalf of three council areas.[16]

Although some of the forecast increase in expenses is not unreasonable in the context of the current cost environment (noting that the Adelaide CPI increased by 6.2 percent in the year to June 2022), the Commission advises a general need (also given trends in past increases) for greater 'cost control' in the Council's operations, where possible, to reduce the pressure on rate levels.

In terms of capital expenditure, the Council's latest (2022-23) LTFP indicates a marginal reduction of $0.4 million (from 2022-23 to 2030-31), compared with the previous year's LTFP. Over the 10-year projections in the 2022-23 LTFP, the Council has factored in a total of $21.2 million in capital renewal and replacement works and $6.9 million in new and upgraded capital works. The Council's capital expenditure outlook is also discussed further in section C.3.

[14] RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html. The CPI (Australia-wide) is forecast to increase by 6.7 percent in the year to the June 2023 quarter, by 3.6 in the year to the June 2024 quarter and by 3.0 percent in the year to the June 2025 quarter.

[15] Barunga West Council, *Long Term Financial Plan 2022-2023*, June 2022, p. 11, available at https://www.barungawest.sa.gov.au/__data/assets/pdf_file/0025/1196008/Long-Term-Financial-Plan-2022-2032.pdf.

[16] Barunga West Council, *Annual Business Plan 2022/23*, August 2022, p. 13, available at https://www.barungawest.sa.gov.au/__data/assets/pdf_file/0042/1195989/Annual-Business-Plan-2022-23.pdf.

B.3 Decrease in borrowings

The Barunga West Council's estimated new borrowings have decreased by a total of $2.1 million from 2022-23 to 2030-31 compared with its 2021-22 LTFP estimates. This figure is derived from the Council's 'net lending / (borrowing)' projections included in the LTFPs and results from the projected operating performance and net capital expenditure requirements of the Council. The changes to its borrowings (from 2022-23 to 2030-31) are driven by:

- improvement in operating performance by $1.3 million, which is driven by the projected increase in income estimates, offset by a lower projected increase in expenditure estimates (discussed above)
- reduction in capital expenditure requirements by $0.4 million, and
- increase in annual escalation of rates revenue by approximately 1 percentage point per annum across its forecast horizon (discussed above).

The Council's net financial liabilities outlook is discussed further in section C.2.

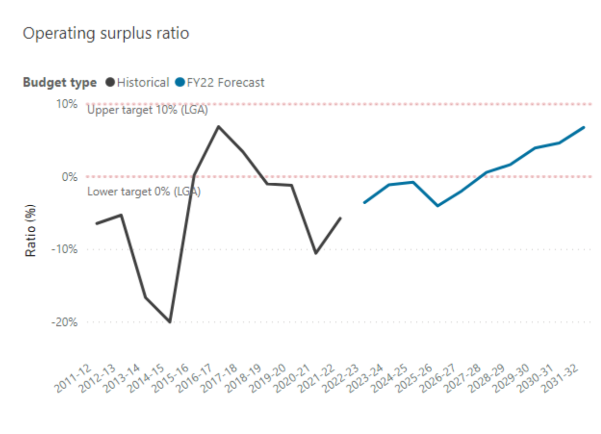
In examining all the Barunga West Council's changes to its 2022-23 plans, the Commission has found that it would be appropriate for it to:

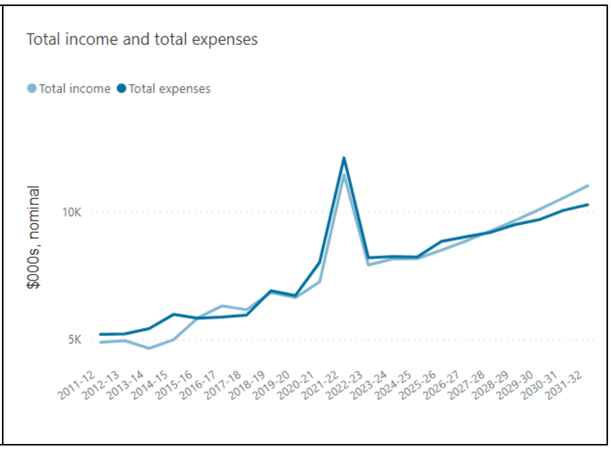
1. Provide greater transparency in its long-term financial plan (and as necessary, its annual business plan) by clearly identifying the annual inflation and other relevant assumptions as inputs to its projected revenue (including rates) and spending.

C Financial sustainability

C.1 Operating performance

The Barunga West Council has run operating deficits in all but three financial years from 2011-12 to 2020-21 with the operating surplus ratio reaching negative 10.6 percent in 2020-21 and negative 5.8 percent in 2021-22.[17] Its ratio is not forecast to be positive again (with a surplus) until 2027-28 (of 0.6 percent and then increasing to 6.8 percent in 2031-32) (see the left chart below). The improvement to its projected operating performance is attributable to the budgeting for continued rates revenue increases and slower expenses growth (see the right chart below).





Rates revenue has increased on average by 4.7 percent per annum from 2011-12 to 2020-21[18] (when rateable property growth averaged 0.3 percent and CPI growth averaged 1.7 percent). Over the same period 'grants, subsidies, and contributions' (accounting for 17 percent of total operating income) saw an average annual increase of 5.1 percent. Grants income has been 'lumpy' from year to year,[19] and the three-year average of $668 per ratepayer in 2021-22[20] compares with the three-year average of $290 in 2013-14 which, reflects a significant increase in value in real terms.

The high operating expense growth (from 2011-12 to 2020-21) of 4.9 percent per annum was primarily due to an average annual increase of 7.2 percent in 'employee' expenses, and 5.9 percent in 'materials, contracts and other' expenses[21] (see the changes by expense type in specific time periods in the left chart over the page).

[17] 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).

[18] 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).

[19] Due to the timing of different grants and sometimes advance grant payments (as for the 2022-23 grant allocation).

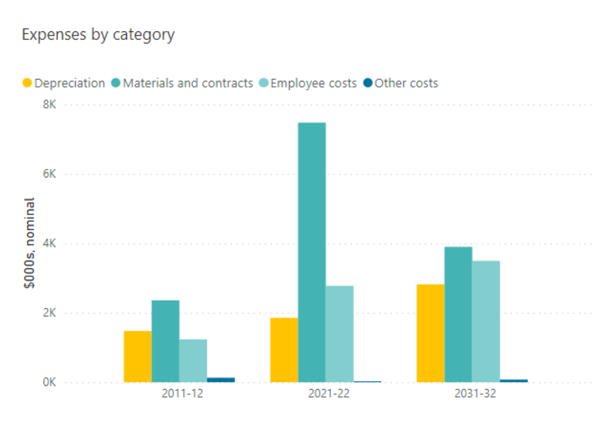
[20] This figure includes the $1.2 million in grant funding through the SA Local Government Infrastructure Partnership Program (LGIPP) for the Yorke Peninsula Region Roads Upgrade Project.

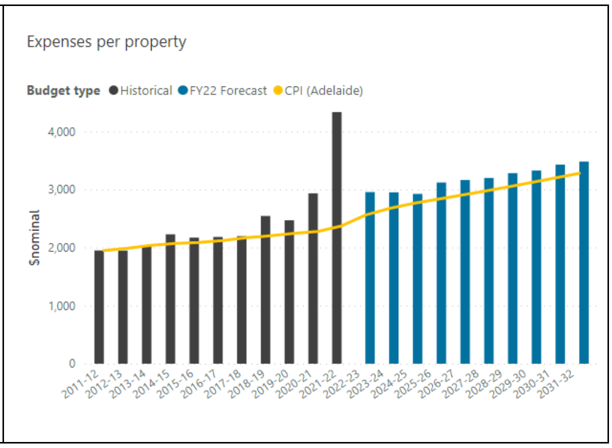
[21] This includes the increase in the solid waste levy over the past 10 years which has impacted councils' waste management costs.

Looking forward, the Council is projecting average annual rates revenue growth of 5.7 percent to 2031-32, which is set to double the RBA's estimate of inflation,[22] as well as expected expense growth (projected rate levels are discussed in more detail in section D).

Lower average expense growth of 2.5 percent per annum generally aligns with RBA-based forecast inflation[23] and suggests a shift from the Council's past performance (with observed average annual growth of 4.9 percent in the 10 years to 2020-21).

Expenses per property (a metric which also accounts for growth) are expected to increase by an average of 1.8 percent per annum over this period, which would represent a cost reduction in real terms (based on current inflation projections) (see the right chart below).





'Employee' expenses have increased significantly in the past and are a result of the Council expanding its staffing levels from 19 FTEs (in 2011-12) to 27 FTEs (in 2020-21), an average increase in costs of 7.2 percent per annum.

Both 'employee' expenses and 'materials, contracts and other' expenses are forecast to increase by an average of 2.1 percent and 2.5 percent per annum, respectively, from 2022-23 to 2031-32. Overall, this would reflect a contained growth, below forecast inflation. This is a positive trend, noting that the Council's improved financial sustainability outlook does rely on more 'cost constraint' than it has demonstrated in the past overall.

The Commission also notes the increase in 'materials, contracts and other' expenses of $3.5 million in 2021-22 is associated with the Council's Yorke Peninsula Region Roads Upgrade Project. The Council has received contributions of $2.3 million from two neighbouring councils, as well as $1.2 million in LGIPP grant income to fund these additional costs.[24]

Notwithstanding large or fully funded projects, it might be appropriate for the Barunga West Council to review its current 'materials, contracts and other' expenses and 'employee' expenses (which together accounts for 79 percent of total operating expenses)[25] to ensure it is positioned to achieve the real terms reduction in its cost base.

[22] 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.

[23] See footnote 22.

[24] Barunga West Council, *General Purpose Financial Statements for the year ended 30 June 2022,* Note 2(f), p. 15, available at https://www.barungawest.sa.gov.au/__data/assets/pdf_file/0022/1255405/BWC_Annual-Report_21-22_FINAL.pdf.

[25] This does not include the costs associated with the Yorke Peninsula Region Roads Upgrade Project.

The Commission recognises that Council may be challenged by its scale, small rates base, and geographic area (among other things); which may have impacted on its financial performance. However, to improve its operating position without the need for ongoing (or long-term) rate increases above inflation, the Council may need to consider a shorter-term plan or strategies to bring its operating budget into a surplus position. It could also seek to find more savings and efficiencies in its budgets to improve its financial sustainability.

The Commission considers that it would be appropriate for the Barunga West Council to:

2. **Focus** on controlling cost growth more generally in its operating expense budgeting.
3. **Report** its actual and projected cost savings in its annual budget, to provide evidence of controlling cost growth and achieving efficiency across its operations and service delivery.

C.2 Net financial liabilities

Despite the Council's frequent operating deficits from 2011-12, its net cash flows after operating and investing (that is, capital-related) activities has averaged $0.2 million annually between 2011-12 and 2020-21.[26] As such, the Council has relied primarily upon rates revenue and supplementary grant funding to fund its capital expenditure program over this period (before financing cash flows are considered).

The Council's net financial liabilities ratio has trended between 25 and negative 33 percent between 2011-12 and 2021-22 (see the bottom left chart over the page).[27] This is within (or below) the suggested LGA target range for the indicator of between zero and 100 percent and is at a level which demonstrates the Council's operating income has covered its net financial liabilities (see the top right chart over the page).

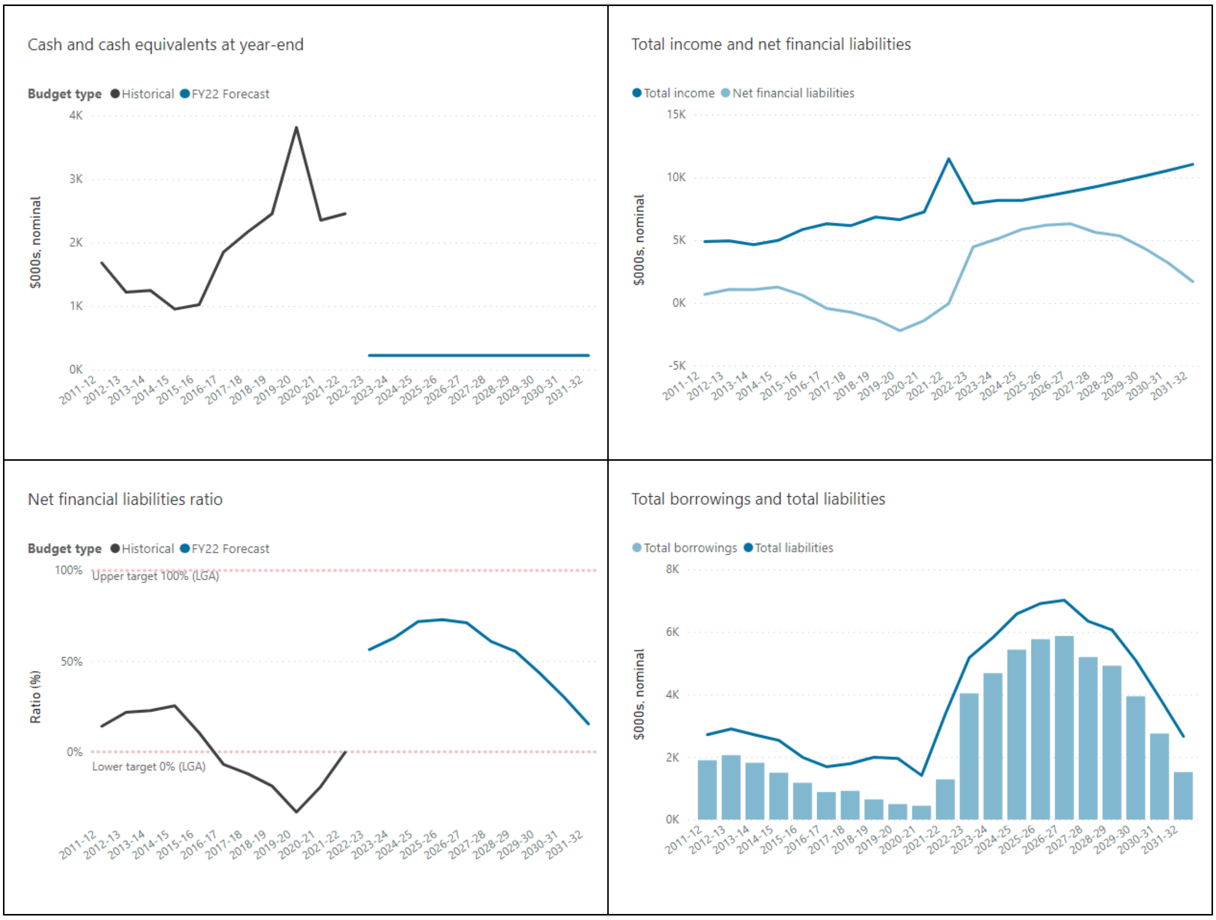
Its borrowing levels were relatively low from 2016-17 to 2021-22 and its net financial liabilities ratio was negative (averaging negative 15 percent over these years). This reflects performance outside the suggested LGA target range for this indicator. The extent of rate increases during this period (averaging 5.5 percent per property each year in the three years to 2016-17 and then 3.2 percent in the five years to 2021-22) contributed to the build-up of cash holdings. Its cash held peaked at $3.8 million at the end of 2019-20, indicating that the extent of the community's rate contributions was either not necessary or not utilised effectively to support the Council's financial and service sustainability at this time.

The Council is intending to take on additional borrowings over the medium term (of $4.5 million) to help fund its asset renewal expenditure (including deferred renewals) and significant CWMS upgrades. As a result, the Council has estimated that the net financial liabilities ratio will peak at 73 percent in 2025-26 (see the bottom right chart over the page).

The ratio will then decline to an average of 41 percent in the five years to 2031-32, which reflects both the marginally lower trend in borrowings and other liabilities and the projected operating income growth (an average of 3.8 percent per annum). As previously stated, the Council is relying predominantly on further rates revenue growth and lower growth in operating expenses to improve its overall financial sustainability.

[26] This is different to the chart over the page which shows cash held by the Council at the end of each year, including the impact of financing activities such as loan drawdowns and repayments.

[27] 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).



The Council has not disclosed the assumptions underpinning its borrowing forecasts in its LTFP (such as interest rates and loan facilities and/or terms, if applicable), and the Commission recommends greater transparency regarding its LTFP assumptions, as in Finding 1. The Commission notes that with continued operating deficits, if the Council's financial projections are not achieved (because interest rates are higher than anticipated, for example), the Council's financial sustainability could be further impacted, creating a need for more rate increases.

C.3 Asset renewals expenditure

Over the period 2011-12 to 2021-22, the Council has not enhanced its performance on its asset renewal funding ratio;[28] however, its recent 2022-23 budget (and LTFP projections) indicate a shift in its asset spending priorities (see the top charts over the page).

Between 2011-12 and 2020-21, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 65 percent,[29] signifying an underspend on the renewal and rehabilitation needs of its asset stock over this period. The Council's spending on renewal and rehabilitation of assets averaged $0.9 million each year (over this period).

28 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).

29 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'.

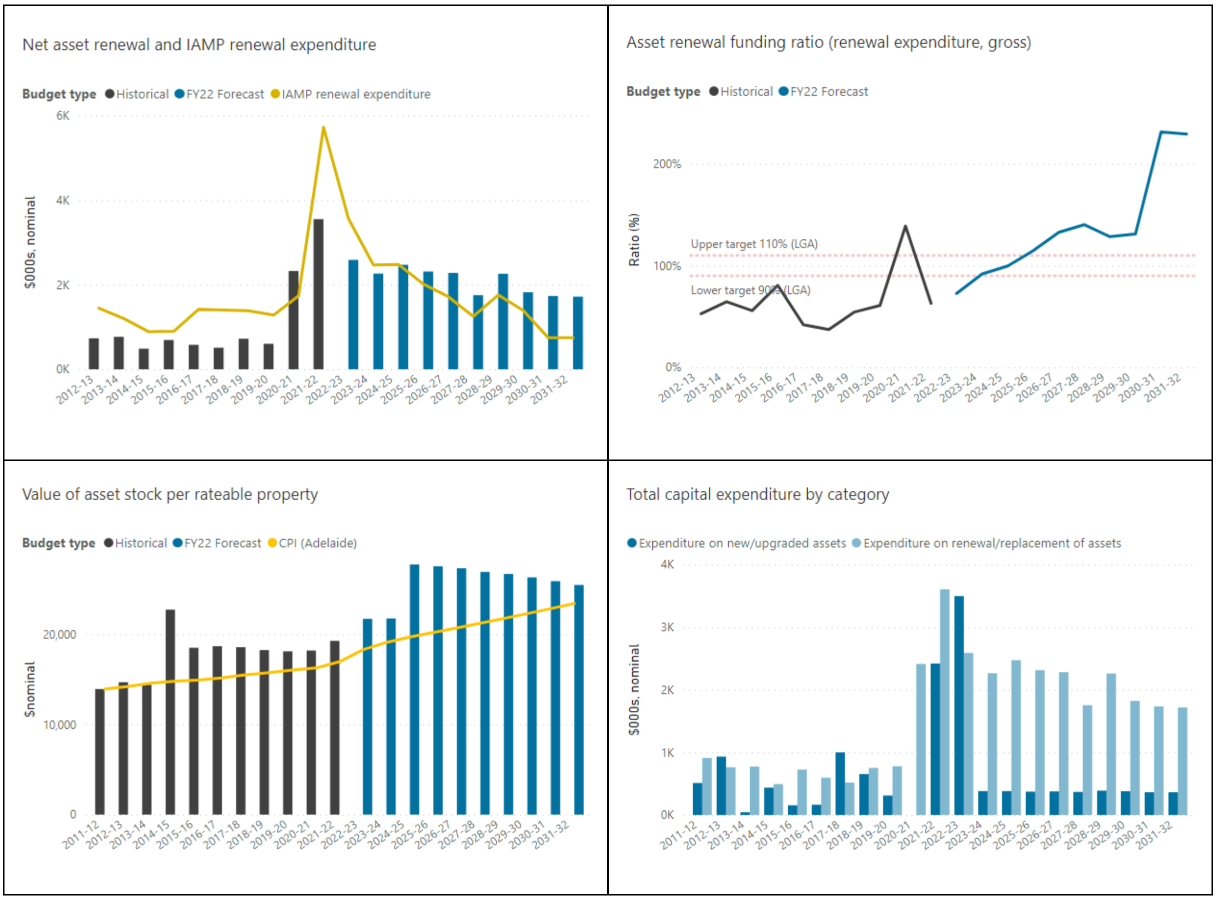
From 2022-23 to 2031-32, the ratio is forecast to average 137 percent reflecting the additional expenditure on previous years' deferred renewal expenditure. Average annual spending on renewal or rehabilitation of assets is projected to increase to $2.1 million (in nominal terms).

The Barunga West Council has grown its asset base over the past 10 years, with total capital expenditure averaging $1.3 million per annum (including $0.4 million per annum on new or upgraded assets) between 2011-12 and 2020-21 (see the bottom right chart below). This has led to average growth in the value of the asset stock per property of $475 or 3.0 percent per annum in the 10 years to 2020-21 (see the bottom left chart below). The Council has identified several potential capital initiatives that could be delivered over the short, medium, and long-term, however due to the early stage in feasibility, planning or uncertainty, the costs and any external funding have not been incorporated in the 2022-23 LTFP.[30]

The Council has recognised that its historical capital spending profile has given rise to an accumulation of deferred asset renewals (indicated by actual asset renewal expenditure being lower than required under the AMPs). The Council's review of its AMPs indicates the 'backlog' of works is predominantly associated with transport assets, such as sealed and unsealed roads, and kerbs and footpaths. However, over the term of its LTFP, the Council is forecasting to address this 'backlog' of asset renewal expenditure (see the bottom right chart below).

For these reasons, the Commission considers that it would be appropriate for it to:

4. **Adhere** to the principles underpinning its long-term financial plan projections to provide more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.



30 Barunga West Council, *Long Term Financial Plan 2022-2023,* June 2022, pp. 4 and 13.

The Council's planned renewal expenditure is mainly attributed to the transport assets (covering sealed roads, unsealed roads, kerbs and footpaths), and which account for approximately 90 percent of the total renewals budget.[31] The 'renewal funding gap' has been identified for sealed and unsealed roads, and the Council has calculated a cumulative underfunding of approximately $4 million by 2025-26.[32] Aside from transport works, the Council has smaller planned renewals for buildings and structures, and CWMS assets (or totalling less than 10 percent of the total renewals budget).

The Commission notes that the uplift in the Council's asset stock from 2024-25 is driven by the Fisherman Bay Freehold project which forecasts significant developer assets (of $16.6 million) being transferred to the Council,[33] as well as the Council's investment to increase capacity of the Port Broughton CWMS.[34] As such, a considerable part of the total investment in infrastructure (of approximately $25 million[35]), is expected to have a material impact on the Council's asset base as well as depreciation projections (the Council estimates an additional $0.5 million per annum in depreciation from 2025-26[36]).

As a result, from 2025-26, the depreciation-based asset renewal funding ratio,[37] is projected to track below the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 72 percent per annum to 2031-32. For reasons previously discussed, this indicates depreciation expenses will be higher than the required expenditure on capital renewals under its various AMPs (see charts over the page). The higher depreciation for relatively new assets (such as for Fisherman Bay) means that the Council may need to be financially strategic and disciplined in the use of funds for future asset renewals in the area. In general, it would be prudent for the Council to re-examine the key drivers of its depreciation modelling (such as average asset lives and asset valuations) to better align the relationship between its operating revenues and its asset renewal expenditure needs.

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31 Based on an analysis of the renewal expenditure forecasts (in real terms) in the Council's AMPs.

32 Barunga West Council, *Infrastructure Asset Management Plan Transport*, November 2021, p. 34, available at https://www.barungawest.sa.gov.au/__data/assets/pdf_file/0018/1133316/Infrastructure-asset-management-plan-transport.pdf.

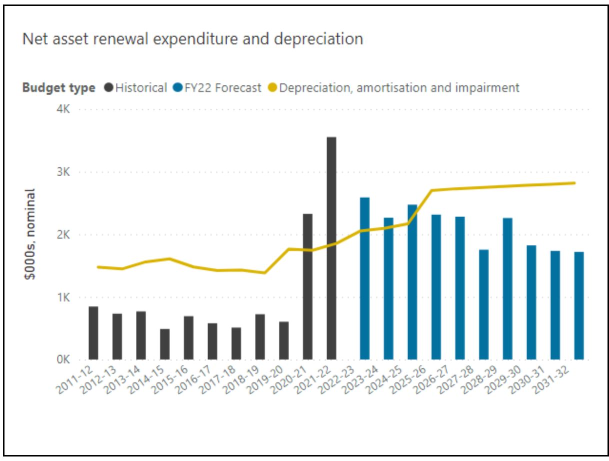
33 Barunga West Council, *Ordinary Meeting of Council held 9 August 2022,* Item 10.18 Long Term Financial Plan 2022-32, p. 315, available at https://www.barungawest.sa.gov.au/__data/assets/pdf_file/0014/1191011/2022.08.09-Agenda-PUBLIC-Ord.pdf.

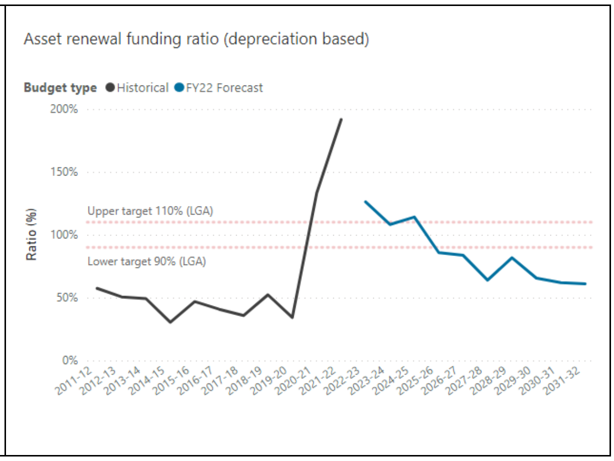
34 Key infrastructure works include coastal protection, roads, stormwater, and wastewater management. A grant from the LGA administered CWMS Subsidy Fund of $3 million was received by the Council to fund the upgrade and expansion of the Port Broughton Wastewater Treatment Plant in 2021-22. Barunga West Council, *Long Term Financial Plan 2022-2023*, June 2022, p. 9.

35 Barunga West Council, *Fisherman Bay Freehold Update,* October 2022, available at www.barungawest.sa.gov.au.

36 See footnote 33.

37 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.





The Commission has observed other matters between the Council's AMPs and its 2022-23 LTFP estimates,[38] for example:

- It is not clear how the AMP budgets (for asset renewals, and new and upgraded works, including the 'backlog' expenditure) align with the projections in the LTFP. In 2022-23 the Council is budgeting $6.1 million in its LTFP, whereas its AMPs indicate $2.4 million (in real terms).
- The escalation assumptions in its AMP and LTFPs have not been disclosed making direct comparisons difficult.
- The replacement expenditure for 'plant and equipment' of $4.1 million (included in the 2022-23 LTFP over 10 years[39]) could be considered for inclusion into an AMP.

The Commission also notes that the Council could improve on its review and reporting upon desired service levels (in its AMPs), in consultation with its community, to better the identify the service level that the community is willing to pay for.

Overall, to improve the robustness and consistency of the Council's asset management, the Commission considers that it would be appropriate for it to:

5. 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, including:
    - the estimates of asset lives and valuations feeding into its forecast rate of asset consumption (and depreciation expenses).
    - the estimated desired service levels for different assets by the community.

38 Based on the Council's Excel template data provided to the Commission.

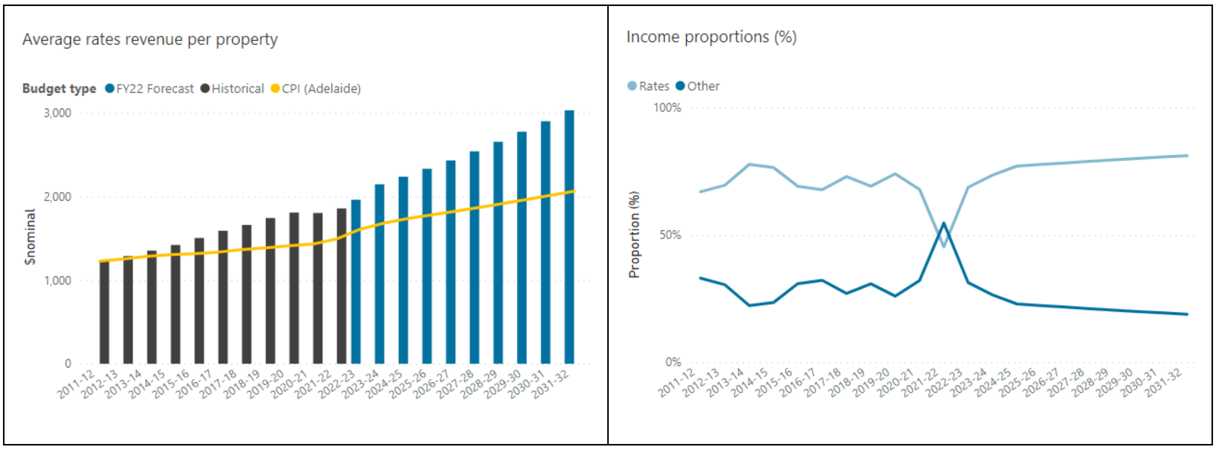
39 Barunga West Council, *Long Term Financial Plan 2022-2023*, June 2022, p. 12.

D Current and projected rate levels

D.1 Historical rates growth

The Barunga West Council's rate revenue per property increased on average by 4.4 percent or $64 per annum for each property over the past 10 years,[40] to reach an estimated $1,803 per property in 2020-21 (see the left chart below). This has exceeded CPI growth of an average of 1.7 percent per annum over this period, but also encompasses 0.3 percent average annual growth in rateable property numbers.[41] Current rate levels partially reflects its recent history of spending growth, predominantly on higher employee and contract-related expenses.

The Council remains reliant on its ratepayers for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 74 percent of budgeted operating income in 2022-23, compared with 67 percent of income in 2011-12.[42]



D.2 Proposed 2022-23 rate increases

The Barunga West Council has budgeted for an average rate increase of 4.0 percent per rateable property or $68 for its existing ratepayers in 2022-23[43], which is lower than its 2022-23 LTFP projections (that is, 5.6 percent annual increase in rates in 2022-23). The rates increase continue to reflect higher funding requirements for both operating and capital expenditure (including the backlog of works identified in the Council's AMPs).[44] Its projected total 'general rates' revenue growth in 2022-23 is higher (5.0 percent) and includes an assumed growth of 0.9 percent in rateable property numbers.[45]

Different rate categories are subject to varying changes, with residential ratepayers to pay a slightly lower increase of 2.8 percent or $33 per property on 2021-22 average rate levels. Primary production (mostly farmland) ratepayers will pay the largest increase - an average increase of $156 or 5.4 percent

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

[41] CPI Adelaide (All groups). Average annual growth in the 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.

[42] The Council's audited financial statements for 2021-22 include one-off increase in other income of $2.3 million related to contributions for the Council's Yorke Peninsula Alliance Road Upgrades Project, which has temporarily impacted on the rates revenue proportion (Barunga West Council, *General Purpose Financial Statements for the year ended 30 June 2022,* Note 2(f), p. 15).

[43] Barunga West Council, *Annual Business Plan 2022/23*, August 2022, p. 26. Individual rate level changes may be higher or lower depending on the rates category and property value.

[44] Barunga West Council, *Long Term Financial Plan 2022-2023*, June 2022, p. 16.

[45] Barunga West Council, *Annual Business Plan 2022/23*, August 2022, p. 26.

more, which appears reasonable because these ratepayers are on relatively lower differential rates.[46] On a proportional revenue basis, primary production ratepayers account for 57.3 percent of expected 2022-23 rates revenue, followed by residential ratepayers at 38.5 percent, and vacant land ratepayers comprising 2.7 percent.

Other than 'general rates' revenue (which represents around 88 percent of total rates revenue in 2022-23),[47] the Council collects income from the CWMS charge and the regional landscape levy[48] (around 9 and 4 percent of total rates revenue respectively).

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average rates increases for its existing ratepayers of 5.1 percent per annum from 2023-24 to 2031-32,[49] which is above RBA-based forecast average inflation of 2.8 percent per annum.[50] Additionally, in 2023-24, it has forecast a much higher 9.4 percent increase to its average rate revenue per property,[51] which is significantly different to the percentage increase included in its LTFP. The Council is also projecting rateable property growth of 0.7 percent per annum (or an additional 20 properties per annum) from 2023-24 to 2031-32.

In total, the LTFP effectively projects a cumulative increase of $1,069 per existing ratepayer (to $3,030 per annum) by 2031-32, reflecting the average annual rate increase per property almost double the RBA-based forecast for average inflation (refer to the previous page chart on the left side).[52]

As a result of further rates increases, the percentage of the Council's total income contributions from ratepayers is projected to approach 81 percent by 2031-32, compared to a historical average of approximately 71 percent.

D.4 Affordability risk

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

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Barunga West Council area[53]

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46 Rate in the dollar applied to the capital value of the property in the Council area.

47 Before discretionary rebates.

48 This levy is not retained by councils and is collected on behalf of the state's regional landscape boards.

49 Barunga West Council, *Long Term Financial Plan 2022-2023*, June 2022, p. 11.

50 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.

51 Based on the Council's Excel template submitted to the Commission.

52 The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum).

53 The Barunga West Council area is ranked 32 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/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

- no reported community concerns have been expressed regarding further rate rises in the 2022-23 budget process,[54] and
- the current lower rates for residential ratepayers, compared with the current higher rates for primary production ratepayers.[55]

The current economic environment is reducing the capacity to pay for higher rates for many communities including the Barunga West Council. The effect of cumulative increases in rates per existing ratepayer of approximately 5.0 percent per annum to the period 2031-32, which is almost double the RBA-based forecast inflation, may result in increased affordability risks. It is important for the Council to adequately engage its community about the proposed rate increases with reference to service level outcomes, to ensure that it remains broadly supportive of any future contribution increases.

To minimise the affordability risk to ratepayers, it would be appropriate for the Barunga West Council to:

6. Review and consider limiting future average rate increases above inflation, in consultation with its community, particularly on rate categories which have lower capacity to pay.

[54] Barunga West Council, *Audit Committee Meeting 3 August 2022, Item 6.1 Annual Business Plan*, p. 7, available at https://www.barungawest.sa.gov.au/__data/assets/pdf_file/0024/1187061/2022.08.03-Audit-Committee-Agenda-PUBLIC.pdf.

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

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