Advice

Local Government Advice

District Council of Yankalilla

February 2023

Enquiries concerning this advice should be addressed to:

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: advice@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

Table of contents

Glossary of terms

ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
Commission	Essential Services Commission, established under the *Essential Services Commission Act 2002*
CPI	Consumer Price Index (Adelaide, All Groups)
Council	District Council of Yankalilla
CWMS	Community Wastewater Management System
ESC Act	*Essential Services Commission Act 2002*
F&A	Local Government Advice: Framework and Approach – Final Report
FTE	Full Time Equivalent
IAMP	Infrastructure and asset management plan (also called an AMP)
LG Act	*Local Government Act 1999*
LGA SA Financial Indicators Paper	Local Government Association of South Australia, Financial Sustainability Information Paper 9 - Financial Indicators Revised May 2019
LGGC	Local Government Grants Commission
LGPI	Local Government Price Index
LTFP	Long-term financial plan
Regulations	*Local Government (Financial Management) Regulations 2011*
RBA	Reserve Bank of Australia
SACES	The South Australian Centre for Economic Studies
SEIFA	Socio-Economic Indexes for Areas
SMP	Strategic management plan
SG	Superannuation Guarantee
The scheme or advice	Local Government Advice Scheme

1 The Commission's key advice findings for the District Council of Yankalilla

The Essential Services Commission (**Commission**) finds the District Council of Yankalilla's (**Council**) current financial position at risk of being unsustainable, with continued operating deficits resulting from its revenue base, including rates revenue, being stretched to meet the service level requirements of its infrastructure base. The Council has forecast a period of service consolidation, following its recent major capital projects for the community, and has planned an expanded capital renewal program for its existing assets. With already high rates, its costs will need to be managed carefully to limit further affordability risk for the community.

Acknowledging this outlook, the Commission considers that it would be appropriate for the Council to undertake the following steps to ensure that it budgets prudently, manages its cost base efficiently, renews its asset base to meet sustainable service levels, plans its asset needs appropriately and constrains the extent of further rate increases.

Budgeting considerations

1. **Provide** greater clarity in its long-term financial plan (and as necessary, its annual business plan and budget) concerning the annual inflation assumptions feeding into its projected revenue (including rates) and expenses as distinct from 'real' impacts.
2. **Continue** to review its inflation assumptions in its forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

Providing evidence of ongoing cost efficiencies

3. **Focus** on constraining cost growth where possible, particularly related to 'employee' and 'materials, contracts and other' expenses.
4. **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.

Continuing to manage borrowing risk

5. **Improve** the transparency and consistency of borrowing assumptions in its long-term financial plan, including interest rates and loan terms.

Refinements to asset management planning

6. **Review** the assumptions underpinning its asset management plans to ensure those plans incorporate a more accurate picture of required asset renewal expenditure and better align with the allocations in its long-term financial plan as necessary, including the estimates of asset lives and valuations feeding into the forecast rates of asset consumption and depreciation expenses.
7. **Finalise** and adopt its asset management plans across different asset categories and make them accessible from its website.

Reporting and containing rate levels

8. **Report** in its annual business plan the estimated average annual change for all categories of general rates, together with the quantum of annual revenue it expects to collect from the different categories of rates (with minimum rate revenue reported separately), providing greater clarity and transparency to its ratepayers.
9. **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.
10. **Review** and **consider** reducing minimum rate and average rate increases, in consultation with its community, particularly on rate categories which have a lower capacity to pay.
11. **Review** the rationale for the quantum of the maximum rate increase (or cap) it has imposed (currently at 15 percent) in its next annual business plan, with consideration of the community's capacity to pay for higher increases up to this level.

2 About the advice

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

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

The first cycle of the scheme extends over four years from 2022-23 to 2025-26, and the Commission has selected 15 councils for advice in the first scheme year (2022-23), including the District Council of Yankalilla (**Council**).

This report provides the Local Government Advice for the District Council of Yankalilla in 2022-23.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2023-24 Annual Business Plan (including any draft Annual Business Plan) and subsequent plans until the next cycle of the scheme.[8] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[9]), nor is it compelled under the LG Act to follow the advice. The Commission thanks the District Council of Yankalilla for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

In general, the Commission finds the District Council of Yankalilla's current financial position at risk of being unsustainable, with continued operating deficits resulting from its revenue base, including rates revenue, being stretched to meet the service level requirements of its recently expanded infrastructure base.

Over the past two years, the Council has commenced major multi-year capital projects with partial grant funding (such as the Yankalilla library and carpark and implementation of the Normanville Foreshore Masterplan) but this has put further pressure on its operating budget. Looking ahead, the

---

1 Amendments to the *Local Government Act 1999* (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).
2 Commonly referred to as asset management plans.
3 The objectives of the advice with reference to a council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMPs.
4 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.
5 Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
6 LG Act s122(1f) (a) and (1g) (a)(ii).
7 LG Act s122(1f) (b) and (1g) (b).
8 LG Act s122(1h).
9 The Commission must publish its advice under LG Act s122(1i) (a).

Council has forecast a period of service consolidation, with relatively low spending on new and upgraded assets compared with earlier years.

It has also planned a significant asset renewal expenditure program to address its existing asset needs and the backlog of works that it has accumulated over the past 10 years. It has forecast a period of high property growth and further rate increases (above the rate of inflation for two more years after 2022-23), to generate the revenue growth it needs for sustainability.

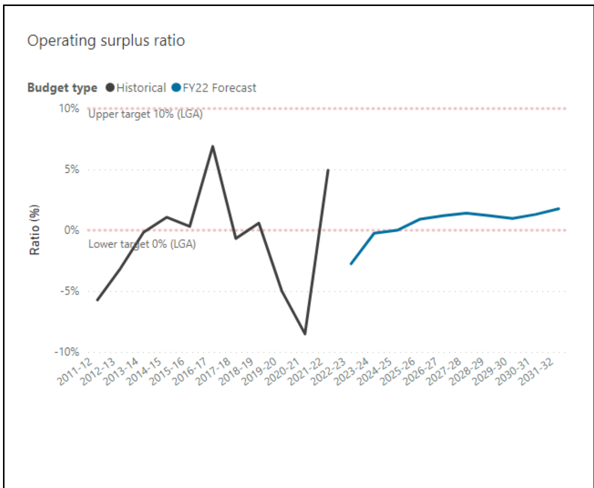
In general, a focus on managing its growth-related assumptions and consulting with its community about rate contributions and service levels should help the Council to identify and act upon opportunities to reduce any associated affordability risk to the community.

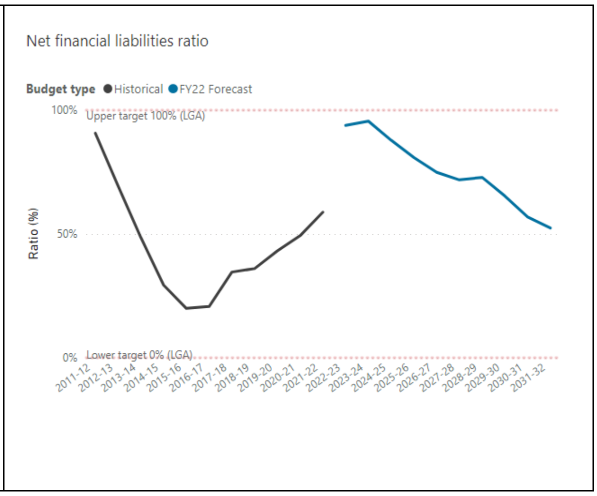
Its projected improvement to its financial performance also relies on cost constraint and the Commission considers that it should also take steps to find genuine savings in its recurrent budget where possible.

In addition, the Council should review and update its asset management plans (AMP) as a priority to ensure that its proposed capital expenditure and depreciation expenses are sufficiently reflected by and supported through these plans.

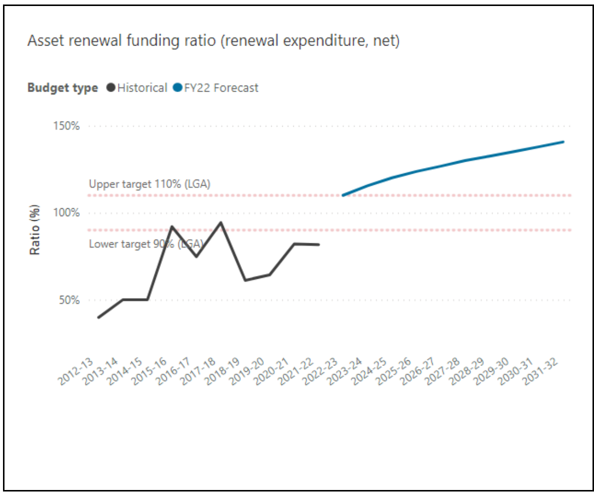
The charts below of the District Council of Yankalilla's past and projected operating surplus ratio, net financial liabilities ratio, asset renewal funding ratio and average rate revenue per property, together support these findings.

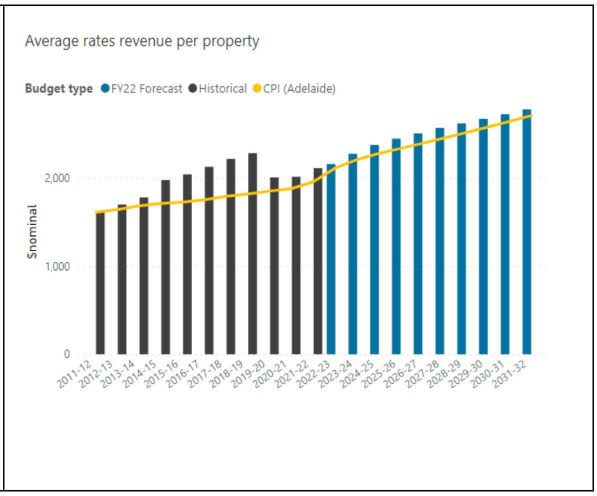
The 'heat map' diagram over the page summarises the Commission's findings with reference to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators[10] and the level of cost control and affordability risk identified for the Council over time.





10 The suggested LGA target range for the ratios are discussed in more detail in the attachment.





Summary of the District Council of Yankalilla's financial sustainability performance and the Commission's risk assessment

Financial sustainability indicators:	Last 10 years from 2011-12 (Actual performance)	2021-22 estimate	Next 10 years from 2022-23 (Council forecasts)
Operating surplus ratio (target 0-10%)	Some surpluses but operating surpluses ratio average -0.9% to 2021-22 ——>		Surpluses forecast from 2025-26 ——>
Net financial liabilities ratio (target 0-100%)	Ratio met historically and in forecast period ——>		
Asset renewal funding ratio (target 90-110%)	Ratio below suggested target range ——>	Ratio above suggested target range ——>	Council to address backlog
Identified Risks:			
Cost control risk	Operating expenses per property average growth 2.5% p.a. to 2020-21 (CPI 1.7% p.a.) ——>	Increasing expenses including depreciation	Operating expense per property growth forecast to average 2.4% p.a. to 2031-32 (CPI 2.8%) ——>
Affordability risk	Average rate revenue per property increased by 2.5% p.a. (CPI 1.7% p.a.) ——>	High residential rates	Continued increases to high rate levels (projected rate revenue per property average growth 2.8% p.a. ——>

Red: Ratio outside recommended LGA target range or higher risk

Yellow: Ratio close to recommended LGA target range or medium risk

Green: Ratio within recommended LGA target range or lower risk

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the District Council of Yankalilla's material changes to its 2022-23 plans (compared with the previous year's plans), its financial sustainability (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure) and its current and projected rate levels.

In providing this advice, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**). The attachment explores these matters further.[11]

2.2.1 Advice on material plan amendments in 2022-23

The Commission has compared the District Council of Yankalilla's projections in its 2022-23 LTFP with those from its 2021-22 LTFP and focused on the aggregate of the nine overlapping years' statistics: 2022-23 to 2030-31 to ensure a comparable analysis of material amendments.

The Council's 2022-23 budget includes increases to both its projected income and expenditure items to 2030-31, compared with the 2021-22 forecasts,[12] as follows:

- An additional $19.6 million or 12.8 percent in total operating income. Most of this increase is due to higher rates which increased by $14.5 million or 12.2 percent on the 2021-22 estimates (for the period 2022-23 to 2030-31). User charges have also increased by $3.2 million or 17.1 percent. The Council's annual business plan and budget states it is expecting an increase in income once the 23 new cabins are completed at the Jetty Caravan Park.[13]
- An additional $21.8 million or 14.5 percent in total operating expenses (for example, for contracts or employees) and $12.1 million or 31.6 percent in total capital expenditure. The higher capital expenditure estimates reflect a significant new allocation for previously unfunded building renewal works in the early years of the forecast period. Also, more than half of the Council's higher operating expenses are due to an increase of $10.4 million or 30.4 percent in depreciations costs. This reflects the major multiyear capital projects that are included in the Normanville Foreshore Masterplan and the Yankalilla library and carpark. However, the Council has also informed the Commission that the depreciation figures will be revised in its 2023-24 long-term financial plan.[14]

Based on the Council's inflation assumptions,[15] an increase in total revenue and expenditure estimates by around 8 percent over the nine years to 2030-31,[16] compared with its 2021-22 estimates, would appear to reflect its adjusted inflation estimates. However, these calculations rely on the Council's assumed Consumer Price Index (**CPI**) inflation of 6 percent in 2022-23[17] and 2 percent thereafter (and commensurate increases to wage inflation compared with its LTFP 2021-22), but it is not exactly clear the timing of the annual inflation estimates, or extent of wage inflation assumed by the Council.

Although the Council's annual business plan does discuss the inflation impact and estimates, the Commission notes that the LTFP component could provide better clarity about the specific CPI and wage-cost inflation assumptions, as a percentage increase each year, in its forward estimates. Further,

---

11 The attachment will be available on the Commission's website with the Advice.
12 The overlapping forecast period in both LTFPs (2021-22 to 2030-31 and 2022-23 to 2031-32).
13 District Council of Yankalilla, *2019-20 Annual Business Plan and Budget*, July 2022, p. 26, available at https://www.yankalilla.sa.gov.au/__data/assets/pdf_file/0031/447079/Council-Agenda-16-July-2019-1.pdf.
14 District Council of Yankalilla, *email advice to the Commission*, 8 February 2023.
15 The Council has increased its CPI growth forecast for 2022-23 from 1.2 percent annually over the period 2021-22 to 2030-31 to a range from 6 to 2 percent annually over the period 2022-23 to 2031-32.
16 The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.
17 The Council did also assume a 4.7 percent increase for inflation to its rates in 2022-23 (but the Commission's estimates of the aggregate inflation impact focus on the upper limit).

while the Commission does not consider the Council's inflation assumptions to be unreasonable,[18] in the current inflationary environment, uncertainty to the forecasts remains.

Notwithstanding the need for the District Council of Yankalilla to endeavour to find savings in real terms to reduce any inflationary impact on its community, the Commission considers that it would be appropriate for it to:

1. Provide greater clarity in its long-term financial plan (and as necessary, its annual business plan and budget) concerning the annual inflation assumptions feeding into its projected revenue (including rates) and expenses as distinct from 'real' impacts.

2. Continue to review its inflation assumptions in its forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

2.2.2 Advice on financial sustainability

Operating performance

The District Council of Yankalilla had operating deficits[19] in six of the years between 2011-12 and 2020-21, with an average operating surplus ratio[20] performance of negative 1.4 percent over these years. This is below the suggested LGA target range for the ratio.

In the same period, the Council's operating income increased by an average annual rate of 2.7 percent, compared with average CPI growth of 1.7 percent.[21] [22] The increase in income was due to an average increase in rates revenue of 3.0 percent per annum, and a 5.2 percent increase in user charges revenue. At the same time, property growth averaged 0.4 percent annually in the Yankalilla District.

The Commission notes that the Council's rate revenue was impacted by the transfer of the district's community wastewater system (sewerage) and Wirrina Water Service to SA Water which occurred on 1 July 2019.

The Commission notes that the Council's rate revenue decreased to $11.3 million in 2019-20 (from $12.7 million in 2018-19) resulting in the average rate income per rateable property decreasing to $2,012 per property in 2019-20 (down from $2,288 per property in 2018-19) (see top right chart in section 2.1). The Council's operating expenses also decreased to $14.4 million in 2019-20 (from

---

[18] The Reserve Bank of Australia (RBA) revised its inflation forecasts for CPI to increase by 6.7 percent in the year to the June 2023 quarter, by 3.6 percent in the year to the June 2024 quarter and by 3.0 percent in the year to the June 2025 quarter (noting that these are 'through-the-year' rather than 'average annual' forecasts). Beyond June 2025 quarter, the RBA has not published inflation forecasts, but a return to the long-term annual average (of 2.5 percent based on the midpoint of the RBA's target range of 2 and 3 percent) is a reasonable assumption.

[19] This means the Council's operating expenses (including depreciation) have exceeded operating income (including rates and other revenue sources but excluding capital grants, subsidies, and contributions).

[20] The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income, where the balance includes depreciation expenses. A strong operating result for a council is a positive indicator of financial viability. 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] CPI (All groups). Average annual growth in the Local Government Price Index 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.

[22] 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).

$15.6 million in 2018-19). At the time the Council stated that it would run a deficit for a period as it worked towards achieving a '*surplus budget in year five*'.[23]

The Council's growth in its operating expenses in the 10 years to 2020-21 was higher than its growth in operating income - averaging 3.0 percent per annum. This was driven by 'employee' expense growth (averaging 5.1 percent per annum, owing to more staff) and 'materials, contracts and other' expenses growth (averaging 4.0 percent per annum).[24]

The Council has not forecast to generate an operating surplus again until 2025-26 (when the operating surplus ratio is estimated to be 0.9 percent). The continued deficits between 2022-23 and 2025-26 are largely due to higher 'depreciation' expense growth (averaging 9.5 percent per annum from 2021-22 to 2025-26).

The improved financial position over the medium-term results from its projected operating income growth (estimated to average 3.9 percent per annum) exceeding its projected operating expense growth (estimated to average 3.4 percent per annum). At the same time, the Council has forecast higher growth in property numbers (averaging 1.0 percent per annum) which is higher than previously achieved (0.4 percent from 2011-12 to 2020-21). This suggests that both its estimated cost and revenue growth per property is higher than its forecast annual average inflation growth (if it is assumed to be 2 percent from 2023-24), but not too dissimilar from RBA-based average forecast inflation growth (2.8 percent to 2031-32).[25]

Based on its historical performance, it would be prudent for the Council to exercise cost constraint and generate tangible savings in its budgets to achieve the improvement to its financial sustainability that it has forecast. To this end, the Commission has found that it would be appropriate for the Council to:

3. Focus on constraining cost growth where possible, particularly related to 'employee' and 'materials, contracts and other' expenses.
4. 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.

Net financial liabilities

The Council's net financial liabilities ratio[26] has comfortably met the suggested LGA target range (between zero and 100 percent) over the past 10 years, with an average of 44 percent between 2011-12 and 2020-21.

The District Council of Yankalilla has estimated that its net financial liabilities ratio will continue to meet the suggested LGA target range in its 2022-23 forecasts but has projected a decrease in the ratio from 94 percent in 2022-23 to 52 percent by 2031-32.

Total borrowings are forecast to peak in 2023-24 at $15.1 million, and then reduce to $11.5 million in 2031-32. The increase in borrowings in the short term is due to the Council embarking on major multiyear capital projects. The Council's plan to reduce its peak borrowing levels appears to reflect a

---

[23] District Council of Yankalilla, *2019-20 Annual Business Plan and Budget*, p. 5.

[24] The Commission notes the impact of the increase in the solid waste levy on councils' waste management costs over this period.

[25] The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.8 percent based on (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.

[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).

prudent approach to managing the extent of its net liabilities, consistent with the level that its operating income can reasonably service.

Given the accompanying risk that such borrowing entails, it might also be prudent for the Council to include more assumptions in its LTFP about the terms of the borrowing, including interest rates and loan terms. For this reason, the Commission considers it appropriate for the Council to:

5. Improve the transparency and consistency of borrowing assumptions in its long-term financial plan, including interest rates and loan terms.

Asset renewals expenditure

The District Council of Yankalilla has consistently prioritised expenditure on renewal and replacement assets, as opposed to new and upgraded assets. Its expenditure on new or upgraded assets averaged $0.9 million per annum between 2011-12 and 2020-21, compared with $2.2 million on the renewal of its assets base. Despite the priority of its spending, the amount on asset renewals has fallen short of the requirements the Council identified in its AMPs. For this reason, the Council's asset renewal funding ratio (IAMP-based[27]) was well below the suggested LGA target range of 90 to 110 percent, averaging 67 percent between 2012-13 and 2020-21.

Looking ahead, the Council is forecasting significantly higher expenditure on the renewal of its asset base (an average of $4.4 million per annum to 2031-32). As such, its asset renewal funding ratio is forecast to perform consistently above the suggested LGA target range for the 10-year period to 2031-32 (with the 10-year average of 127.3 percent), as it seeks to catch up on past renewal backlogs.

The depreciation-based asset renewal funding ratio[28] is projected to average 86 percent per annum to 2031-32, reflecting that the depreciation expenses are still estimated to be higher than the annual spend on renewing assets over this time. This is likely explained by the increased asset values associated with the redevelopment of the Yankalilla library, Normanville foreshore project and Jetty Caravan Park cabin installations. However, it could also be due to there being a misalignment between asset lives assumed in each case (with potentially longer lives being assumed in the LTFP than in the AMPs).

The Council's Stormwater AMP and Transport AMP were last updated in November 2016, while the Recreation AMP was last updated in December 2018 and the Buildings AMP was last updated in December 2017. The Council has stated that its AMPs are currently under development.[29] The Commission has observed that the Council's LTFP projections for capital expenditure are not aligned to these plans. Furthermore, since the Council's AMPs were last updated, the Council has commenced major multiyear capital projects which should also be reflected in these plans. The Commission notes that the Council will also embark on a community satisfaction survey in 2023, which could further

---

27 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).

28 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.

29 District Council of Yankalilla, *Ordinary Council Meeting Agenda – Item 14.11 Attachment Chief Executive Officer – Performance Review,* p. 18*, available at* https://www.yankalilla.sa.gov.au/__data/assets/pdf_file/0023/1271903/Ordinary-Council-Meeting-Agenda-17-January-2023.pdf.

inform the service priority areas and the further development of these plans.[30] The Commission considers that it would be appropriate for it to:

6. **Review** the assumptions underpinning its asset management plans to ensure those plans incorporate a more accurate picture of required asset renewal expenditure and better align with the allocations in its long-term financial plan as necessary, including the estimates of asset lives and valuations feeding into the forecast rates of asset consumption and depreciation expenses.
7. **Finalise** and adopt its asset management plans across different asset categories and make them accessible from its website.

2.2.3 Advice on current and projected rate levels

The District Council of Yankalilla's average rate revenue per property increased by an average of 2.5 percent or $45 per annum over the past 10 years.[31] This compares with CPI growth of an average of 1.7 percent per annum over this period and encompasses average annual growth of 0.4 percent in rateable property numbers. As a result of these increases, its average rates per property are relatively high, including residential and rural rates.[32]

The Council has budgeted for an average rate increase of 5.5 percent for its existing ratepayers in 2022-23,[33] which was higher than it had anticipated charging for this year in its 2021-22 LTFP projections (1.8 percent) due to the impact of higher inflation.

It appears that the Council has applied the average increase of 5.5 percent across its land use rating categories, but the rates revenue information provided in its annual business plan and budget does not show the average rate impact for each land use category (distinct from the minimum rate impact). The *Local Government (Financial Management) Regulations 2011* (**Regulations**) requires that, at a minimum, the annual business plan provides a statement on the average change in the expected rates for each land use category.[34] The Commission considers that it would be appropriate for the District Council of Yankalilla to:

8. **Report** in its annual business plan the estimated average annual change for all categories of general rates, together with the quantum of annual revenue it expects to collect from the different categories of rates (with minimum rate revenue reported separately), providing greater clarity and transparency to its ratepayers.

To 2031-32, the average rate across all categories is forecast to increase by 2.8 percent per annum, from $2,163 to $2,785, a cumulative increase of $622 per property.[35] This rate of growth is higher than

---

[30] District Council of Yankalilla, District Council of Yankalilla Strategic Plan, 2030 Vision, p. 18, available at https://www.yankalilla.sa.gov.au/__data/assets/pdf_file/0020/804314/Strategic-Plan-2030-Vision.pdf.

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

[32] Refer to the Councils in Focus website available at https://councilsinfocus.sa.gov.au/councils/district_council_of_yankalilla. The Commission is not relying on the rates comparisons for its advice; it is one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

[33] District Council of Yankalilla, *2022-23 Annual Business Plan and Budget*, July 2022, p. 5, available at https://www.yankalilla.sa.gov.au/__data/assets/pdf_file/0024/1187070/Annual-Business-Plan-and-Budget-2022.23.pdf.

[34] Under Regulations s6(ec).

[35] This includes rates growth of 1 percent expected each year.

the Council's forecast inflation,[36] but aligned to the RBA-based forecast average inflation (2.8 percent).[37]

The District Council of Yankalilla's rates revenue forecast also factors in average annual growth of 1.0 percent in property numbers.[38] This is lower than the rate of property growth from 2011-12 to 2020-21 (averaging 0.4 percent annually). Should lower growth eventuate, this might result in the Council increasing rate levels by more than it had forecast to generate the same amount of revenue. Therefore, it would be appropriate for it to:

9. **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.

In considering the affordability risk for the proposed rate increases, the Commission acknowledges the assessment of the economic resources available to the community as indicated by the area's marginally high economic resources ranking.[39]

However, existing rates (including residential and rural rates) are already relatively high and the District Council of Yankalilla's consultation on its annual business plan, which incorporated the proposed rate increases for 2022-23, did receive some community concern on the proposed increases.[40] It also received criticism about the proposed higher 'rate cap',[41] which it adjusted to 15 percent from 10 percent in 2021-22 (but not to 20 percent as it originally proposed in its draft annual business plan for 2022-23).[42]

With current economic conditions affecting many communities' capacity to pay for higher rates, including the Yankalilla District's, the Commission considers that it would be appropriate for the Council to:

10. **Review** and **consider** reducing minimum rate and average rate increases, in consultation with its community, particularly on rate categories which have a lower capacity to pay.
11. **Review** the rationale for the quantum of the maximum rate increase (or cap) it has imposed (currently at 15 percent) in its next annual business plan, with consideration of the community's capacity to pay for higher increases up to this level.

---

[36] The Council has increased its CPI growth forecast for 2022-23 from an average of 1.2 percent annually between 2021-22 and 2030-31 to a rate of 6 percent and then 2 percent to 2031-32.

[37] See footnote 25.

[38] Based on the Council's completed financial template submitted to the Commission.

[39] The District Council of Yankalilla area is ranked 44 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 Socio-Economic Indexes for Areas Index of Economic Resources (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-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

[40] From the 67 participants there were 8 comments on rates with 7 of those comments supporting no increase.

[41] Council will introduce a new policy to apply a cap on the rates for any property where the rating category is unchanged in the prior year, so general rates cannot increase by more than 15 percent.

[42] District Council of Yankalilla, *Special Council Meeting Agenda -12.2 July 2022, Item 5.1.2 Attachment B Annual Business Plan Community Engagement Report,* p. 93*, available at* Special-Council-Meeting-Agenda-12-July-2022.pdf (yankalilla.sa.gov.au).
From the 67 participants, there were 8 comments on rate capping with 4 of those submissions supporting the proposed 20 percent rate capping and 4 submissions that indicated the 20 percent was too high.

2.3 The Commission's next advice and focus areas

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

- ongoing performance against its LTFP estimates
- review of its LTFP assumptions, including for inflation, borrowings and growth
- demonstration of cost constraint and similarly, its achievement of cost savings and efficiencies (including operational savings), and its reporting of these achievements
- progress in finalising its AMPs and actions to address any misalignment between the capital expenditure and depreciation estimates in its LTFP and various AMPs, as appropriate, and
- reporting of average rates by land use category and how it has sought to address the affordability risks identified.

The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444
E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au