Advice

The Local Government Advice - Attachment

District Council of Yankalilla

February 2023

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A The Commission's approach

In providing the Advice for the District Council of Yankalilla (**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 and Budget 2022-23 including the Long Term Financial Plan for 2022 to 2032 (adopted July 2022)
- Annual Business Plan and Budget 2021-22 including the Long Term Financial Plan for 2022 to 2031 (adopted July 2021)
- Annual Report 2021-2022 (adopted November 2022)
- Infrastructure Asset Management Plan Recreation 2019-2028 (adopted August 2019)
- Infrastructure Asset Management Plan Buildings 2017-2026 (adopted July 2018)
- Infrastructure Asset Management Plan Transport 2017-2026 (adopted April 2017)
- Infrastructure Asset Management Plan Stormwater 2017-2026 (last updated November 2017)

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and LTFPs,[4] it has also considered the Council's performance in that context. Findings regarding the content of the District Council of Yankalilla'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 onwards.[6][7] All charts and tables in the Advice are primarily sourced from these datasets. In addition,

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 Area (**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.

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.

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 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 District Council of Yankalilla, including its location as a regional council, its income level ($15.8 million[8]) and the size of its rates base (more than 5,700 ratepayers[9]).

8 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 42, available at https://www.yankalilla.sa.gov.au/__data/assets/pdf_file/0024/1187070/Annual-Business-Plan-and-Budget-2022.23.pdf.

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

B Material plan amendments in 2022-23

The District Council of Yankalilla 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).[10] 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.

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)
Rates and statutory charges income	122.6	137.9	+15.3	+12.5
Total operating income	153.0	172.6	+19.6	+12.8
Employee expenses	57.3	60.2	+2.8	+5.0
Materials, contracts and other expenses	55.9	61.8	+5.9	+10.5
Depreciation, amortisation and other expenses	34.1	44.5	+10.4	+30.4
Total operating expenses	149.9	171.7	+21.8	+14.5
Capital expenditure on renewal of assets[11]	26.6	37.7	+11.1	+41.8
Capital expenditure on new and upgraded assets[12]	11.6	12.6	+1.0	+9.0
Total borrowings	96.4	125.4	+29.0	+30.1

B.1 Increase to income estimates

The District Council of Yankalilla's estimated operating income to 2030-31 has increased by $19.6 million or 12.8 percent in its 2022-23 LTFP estimates.[13] Most of this increase is due to higher rates, which increased by $14.5 million or 12.2 percent and user charges which increased by $3.2 million or 17.1 percent. A large part of the increases are for higher inflation, which is discussed below in section B.4. The impact on current and projected rate levels is discussed in section D.

10 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.

11 The capital expenditure estimates are based on the 2022-23 LTFP estimates provided by the Council to the Commission (in an Excel template). The Council reported the same estimates in its table of major capital expenditure on p. 26 of its 2022-23 LTFP.

12 Footnote 11 applies.

13 The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.

B.2 Increase to expenditure estimates

The District Council of Yankalilla's estimated operating expenses have increased by a total of $21.8 million or 14.5 percent from 2022-23 to 2030-31 compared with its 2021-22 LTFP estimates.

Almost half of the District Council of Yankalilla's higher operating expenses are due to higher 'depreciation, amortisation and impairment' expenses, with an increase of $10.4 million or 30.4 percent on the 2021-22 LTFP estimates (from 2022-23 to 2030-31).

The higher depreciation forecasts in part can be attributed to the major capital works projects that the Council has commenced from 2021-22, which result in projected asset value growth. This includes the Normanville Foreshore development, Jetty Caravan Park Cabin installations and the rebuild of Normanville Surf Live Saving Club and Café/Kiosk. The Yankalilla redevelopment is also in progress. The Council has also informed the Commission that the forecast depreciation expenses will be revised in its 2023-24 long-term financial plan.[14]

In addition, the Council has estimated higher 'materials, contracts and other' of $5.9 million or 10.5 percent and 'employee' expenses of $2.8 million or 5.1 percent in the 2021-22 LTFP estimates (from 2022-23 to 2030-31). The Commission notes that the higher estimates reflect, in part, higher inflation but also that the incremental increases to superannuation charges on wages (which would justify a higher than CPI annual increase) finishes in 2025.[15]

In terms of capital expenditure, the latest (2022-23) LTFP has factored in a total of $1.0 million additional new and upgraded capital works and $11.1 million more capital renewal and replacement works between 2022-23 and 2030-31, compared with the previous year's LTFP.[16] The combined increase is $12.1 million or 31.8 percent more expenditure on the 2021-22 estimates across these years. The impact of the higher projected asset renewal expenditure is discussed in section C.3.

B.3 Indexation assumptions

The Council, in its 2022-23 annual business plan and LTFP forward projections, assume that the CPI will increase to 6 percent before declining to 2 percent and that wage inflation would be 'between 1.8 percent to CPI'. However, it does not provide details of the specific percentage increases it has applied each year from 2023-24 to 2031-32.[17] It has also stated that it has assumed 4.7 percent inflation in its rate increases for 2022-23 in its annual business plan.[18] In its 2021-22 LTFP estimates, the Council assumed annual average CPI growth of 1.2 percent and wage inflation growth to average between 1.2 and 1.8 percent annually to 2030-31.

The 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.[19] Beyond June 2025 quarter, the RBA has not published inflation forecasts, but a return to the long-term average (of 2.5 percent based on the midpoint of the RBA's target range of 2 and 3 percent) is a reasonable assumption.

[14] District Council of Yankalilla, *email advice to the Commission*, 8 February 2023.

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

[16] Based on the Council's Excel template (with the 2022-23 forecasts) it provided to the Commission.

[17] District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 35.

[18] District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 28.

[19] RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html.

Assuming that the Council's intention was for CPI inflation to be 6 percent in 2022-23 and 2 percent from 2023-24 (with commensurate increases in wage inflation), then increases to its expenses and revenues by up to around 8 percent in its 2022-23 LTFP projections (compared with its 2021-22 estimates),[20] would be appropriate for higher inflation. Therefore, the increases of 14.5 and 12.8 percent respectively to its operating expense and income forecasts in its 2022-23 LTFP also incorporate 'real' impacts, likely associated with its major projects and areas of service expansion.

Although the Council's annual business plan does discuss the inflation impact and relevant estimates, the Commission notes that the LTFP component could provide better clarity about the specific inflation assumptions, as a percentage increase each year, in its forward estimates. It is important for the community to be able to distinguish inflation from real cost movements or service-related impacts in the Council's financial projections. Further, while the Commission does not consider its inflation assumptions to be unreasonable, in the current inflationary environment, uncertainty to the forecasts remains.

For these reasons, the Commission considers that it would be appropriate for the District Council of Yankalilla to:

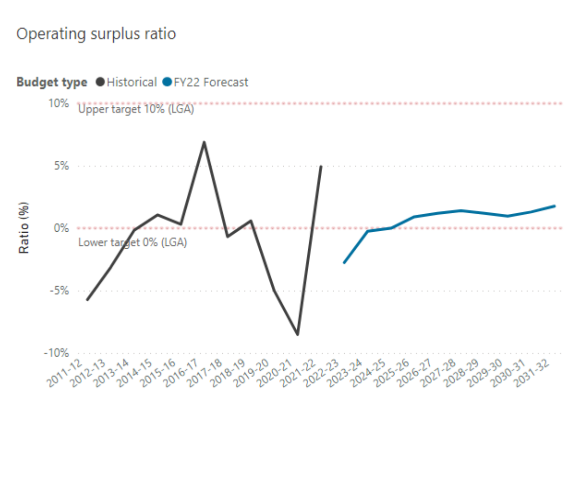
1. Provide greater clarity in its long-term financial plan (and as necessary, its annual business plan and budget) concerning the annual inflation assumptions feeding into its projected revenue (including rates) and expenses as distinct from 'real' impacts.
2. Continue to review its inflation assumptions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

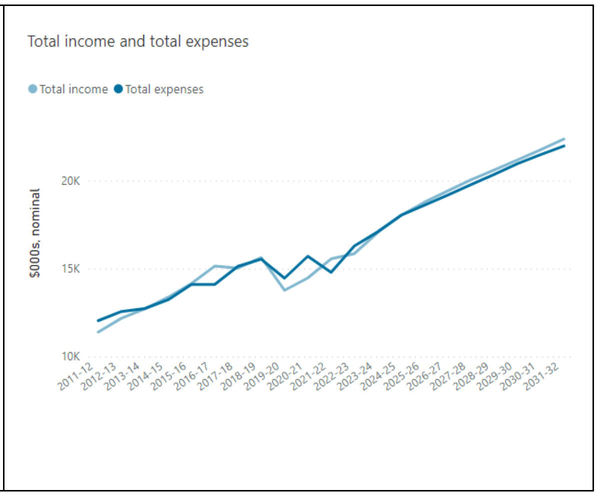
[20] The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.

C Financial sustainability

C.1 Operating performance

The District Council of Yankalilla has recorded six operating deficits[21] between 2011-12 and 2020-21 (see left chart below) and the operating surplus ratio[22] averaged negative 1.4 percent over the same period. The Council is not forecasting an operating surplus again until 2025-26 (when the operating surplus ratio is estimated to be 0.9 percent). The improvement to its projected operating performance is attributable to budgeting for continued rates increases and an increase in user charges income from the Jetty Caravan Park, following the installation of 23 new cabins.





Rate revenue growth of an average of 3.0 percent per annum from 2011-12 to 2020-21[23] (when rateable property growth averaged 0.4 percent and CPI growth averaged 1.7 percent), has been partially offset by lower revenue growth from 'grants, subsidies and contributions'. Grants income has been 'lumpy' from year to year,[24] but has shown a decreasing trend with the three-year average of $163 per ratepayer in 2020-21 from $202 in 2013-14.

The operating expense growth of 3.0 percent from 2011-12 to 2020-21 was primarily driven by an average annual increase of 5.1 percent in 'employee' expenses and 4.0 percent in 'materials, contract and other' expenses (see the changes by expense type in specific time periods in the left chart over the page). The Council increased its number of full-time employees over the same period by an average of 4.1 percent each year (to 63 FTE).

21 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).

22 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).

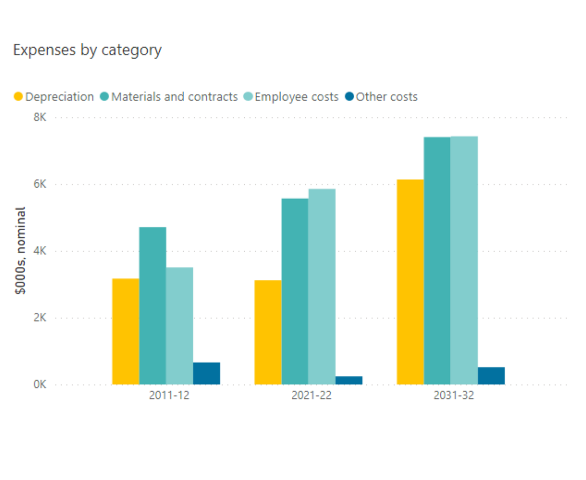
23 Based on the compound average annual growth rate formula (which is the adopted approach to calculating average annual growth rates throughout the Commission's advice).

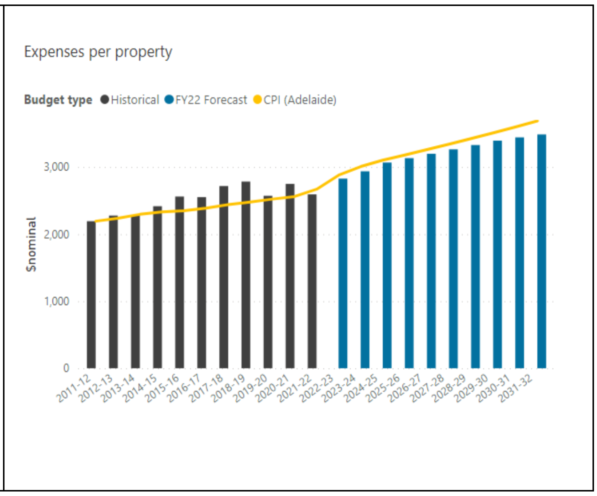
24 Due to the timing of different grants and sometimes advance grant payments (as for the 2022-23 grant allocation).

Looking forward, the Council is projecting average annual rates revenue growth of 3.9 percent to 2031-32 which is set to outpace inflation[25] and expense growth of 3.4 percent (rates are discussed in more detail in section D).

The projected expense growth of 3.4 percent is higher than the Council's past performance (with average annual growth of 3.0 percent in the 10 years to 2020-21). However, this projected expense growth also incorporates a higher property growth assumption by the Council of 1.0 percent per annum (compared with 0.4 percent between 2011-12 and 2020-21).

Expenses per property (a metric which also accounts for growth[26]) are expected to increase by an average of 2.4 percent per annum over this period, which would represent a cost reduction in real terms (based on RBA rather than the Council inflation projections (see the right chart below).





'Employee' expenses are forecast to increase by an average of 2.8 percent per annum from 2022-23 to 2031-32 (see left chart above).[27]

'Materials, contracts and other' expenses are forecast to increase by an average of 1.8 percent per annum, which would reflect much more contained growth, and a reduction in real terms.

'Depreciation, amortisation and impairment' expenses have decreased slightly in the past (by an average of 0.3 percent from 2011-12 to 2020-21). These expenses are also now forecast to increase by an average of 6.7 percent per annum from 2022-23 to 2031-32, as a result of the Council's asset expansion from 2020-21.

The Council has indicated that it endeavours to keep rate rises at the level of inflation and to absorb any additional costs it faces through increased efficiencies.[28] One of its initiatives in its annual business plan is to focus on greater efficiencies and effectiveness in its service delivery. It has also indicated potential future savings associated with its investment in 'large plant' renewal needs.[29] However, the

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[25] The Council has stated that it has assumed 2 percent average annual CPI inflation (presumably from 2023-24). 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 District Council of Yankalilla has factored in a 1 percent growth rate into the number of rateable properties. Based on the Council's completed financial template submitted to the Commission.

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

[28] District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 33.

[29] District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, pp. 5 and 25.

Council has still needed to factor in rate increases above inflation in its forward projections (as discussed more in section D) to improve its financial performance in the medium to longer-term. This is despite a projected period of service consolidation when it is expecting to experience strong property growth (see section C.3 for information about its projected asset value per property over time).

To ensure that it can achieve the cost growth estimates it has forecast, it would be appropriate for the Council to:

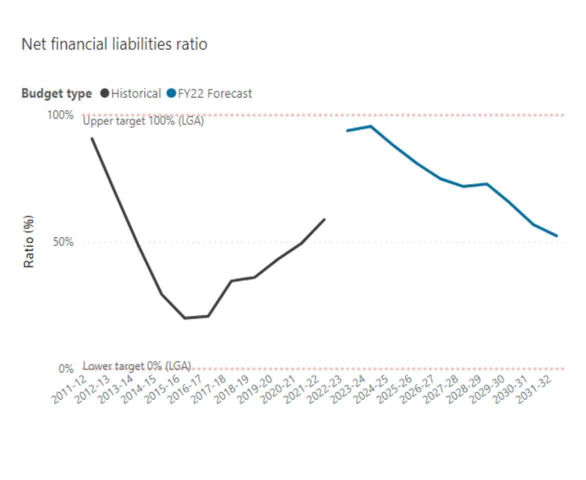
3. **Focus** on constraining cost growth, where possible, particularly related to 'employee' and 'materials, contracts and other' expenses.
4. **Report** its actual and projected cost savings in its annual budget, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

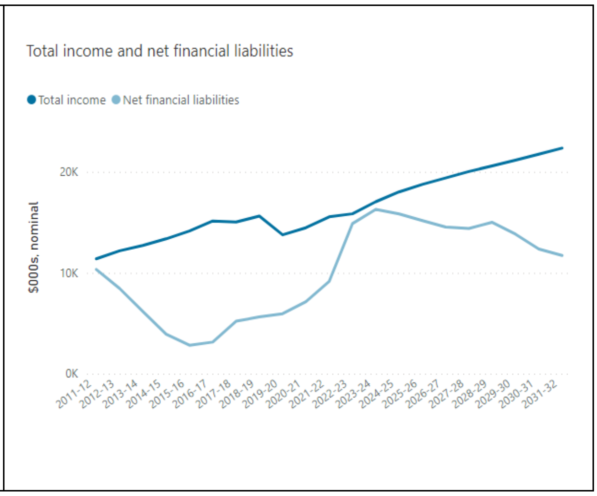
C.2 Net financial liabilities

The net financial liabilities ratio[30] has trended between 91 and 59 percent between 2011-12 and 2020-21 (see the charts below). This is within the suggested LGA target range for this ratio of between zero and 100 percent and demonstrates that the Council is only accumulating liabilities that its operating income can reasonably service.

The District Council of Yankalilla estimated that its net financial liabilities ratio will continue to meet the suggested LGA target range in its 2022-23 forecasts and has projected a decline in the ratio from 94 percent in 2022-23 to 52 percent by the end of 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 commencing work on major multiyear capital projects that includes the Normanville Foreshore, Jetty Caravan Park Cabin Installations and Normanville Surf Life Saving Club and Café/Kiosk.





Past growth in operating income has enhanced the financial capacity of the District Council of Yankalilla to undertake such borrowings. The Commission considers that its plan to reduce its peak borrowing levels (and not take on additional debt) appears to reflect a prudent approach to managing the extent of its net liabilities, consistent with the level that its operating income can reasonably service.

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30 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).

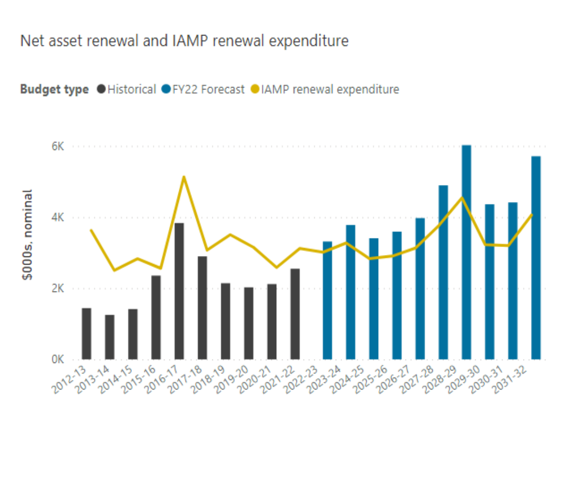
Given the accompanying risk that borrowing can entail, it would also be prudent for the Council to:

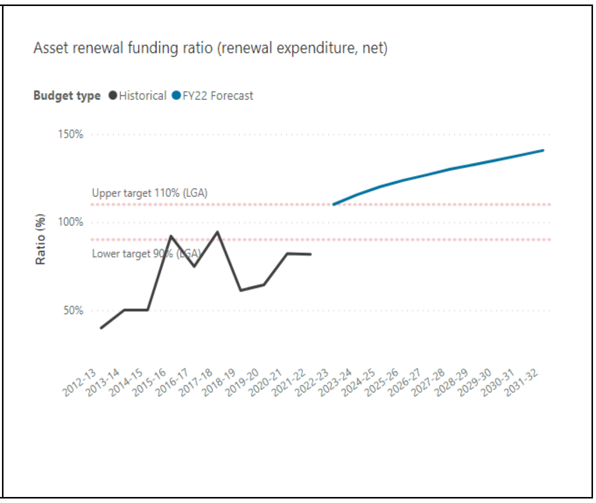
5. **Improve** the transparency and consistency of borrowing assumptions in its long-term financial plan, including interest rates and loan terms.

C.3 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[31]) was well below the suggested LGA target range of 90 to 110 percent, averaging 67 percent between 2012-13 and 2020-21 (see right chart below).

From 2022-23 to 2031-32 the ratio is forecast to average 127.3 percent and remain consistently above the suggested LGA target range of between 90 and 110 percent. Average annual spending on renewal or rehabilitation of assets is projected to increase to $4.4 million (in nominal terms), as the Council seeks to catch up on past renewal backlogs.





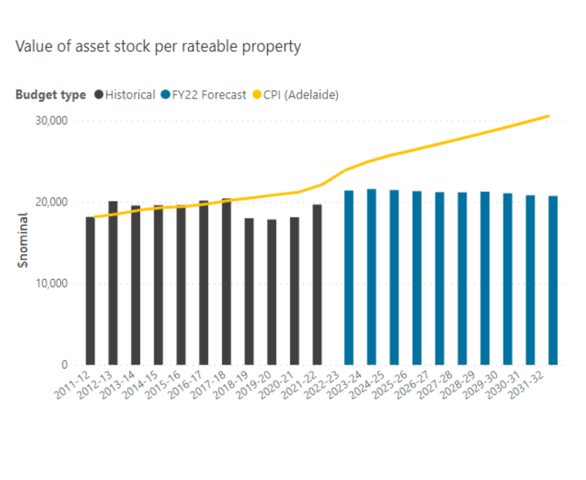
The District Council of Yankalilla has grown its asset base over the past 10 years, with expenditure on new or upgraded assets averaging $0.9 million per annum between 2011-12 and 2020-21 (see top right chart on next page). This has led to the value of the asset stock per property being relatively stable in nominal terms in the 10 years to 2020-21 (see top left chart over the page). This trend indicates that service levels (based on asset value only) have reduced in real terms from 2018-19 (which is also consistent with the transfer of water assets to SA Water).

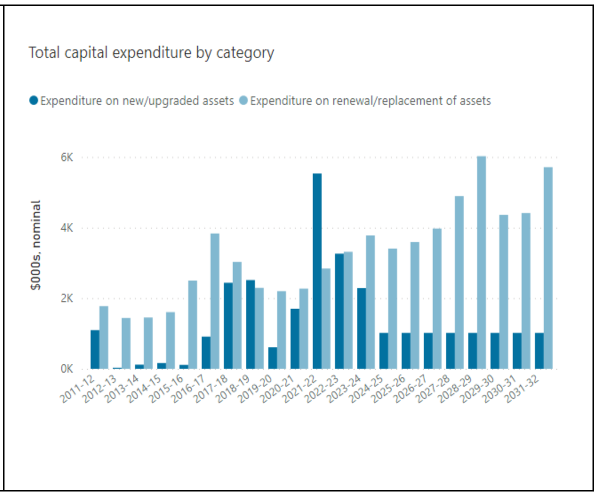
The Council has projected spending on new or upgraded assets from 2022-23, averaging $1.3 million per annum to 2031-32 ($0.4 million greater than the previous 10-year average, noting the estimates are in nominal terms). By comparison, the Council has projected $4.3 million annual spending to 2031-32 on renewal and replacement of assets, highlighting its continued focus on renewing rather than purchasing or constructing new assets.

[31] 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).

The Commission notes that, rather than reprioritising capital expenditure from new or upgraded capital works towards renewal or rehabilitation works, the Council has increased its overall capital expenditure projections by $12.1 million in its 2022-23 LTFP estimates.

The Council's asset stock value per rateable property is forecast to remain relatively steady, at around $20,000 per rateable property from 2022-23 to 2031-32, a forecast decline in real terms.



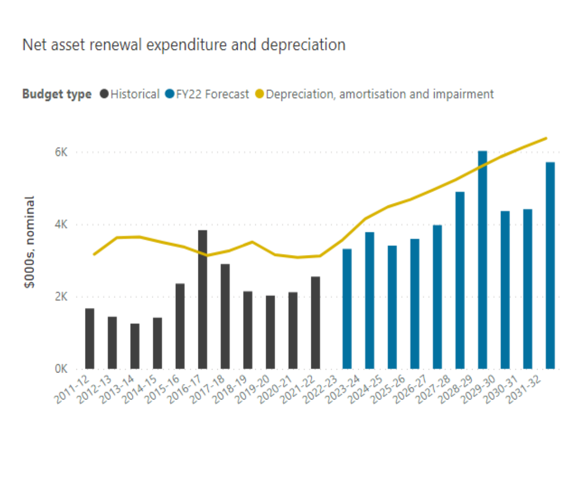


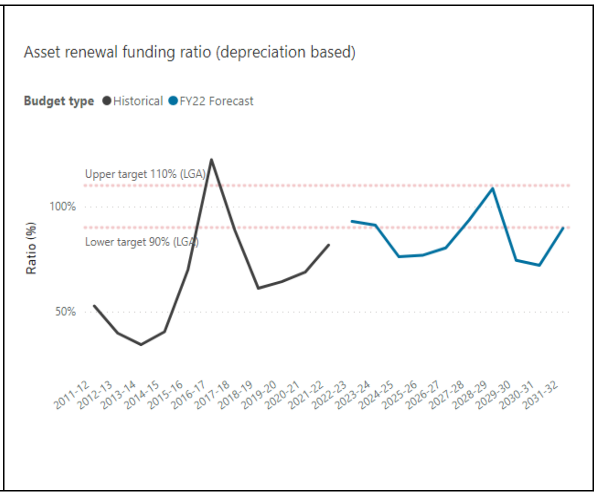
The depreciation-based asset renewal funding ratio[32] is projected to average 86 percent per annum to 2031-32 (see right chart over the page), reflecting that the depreciation expenses are still estimated to be higher than the annual spend on renewing assets over this time. The Council has informed the Commission that the forecast depreciation expenses will be revised in its 2023-24 long-term financial plan which could result in a lower forecast for the expense.[33]

One area that might be leading to higher depreciation expense forecasts, relative to annual asset renewal expenditure needs, is the Council's recent accumulation of new assets following its capital expenditure projects. Another 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.

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.

33 District Council of Yankalilla, *email advice to the Commission*, 8 February 2023.





According to the Council's website, it last updated the Transport AMP in January 2017 and the Stormwater AMP in November 2017, with the amendment of the Second Valley upgrade expenditure. It updated the Recreation AMP in December 2018 and the Buildings AMP in December 2017. The Council has stated that its AMPs are currently being developed.[34] The Commission has observed that the Council's LTFP projections for capital expenditure are not aligned to these plans.

Since the Council's AMPs were last updated, the Council has commenced major multiyear capital projects, as stated. This indicates that the Council has commenced these capital projects without assessing the asset life cycle in the context of up-to-date AMPs and the renewal needs of the existing asset stock. To improve the robustness and consistency of the Council's asset management, the Commission considers that 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 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.

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

D Current and projected rate levels

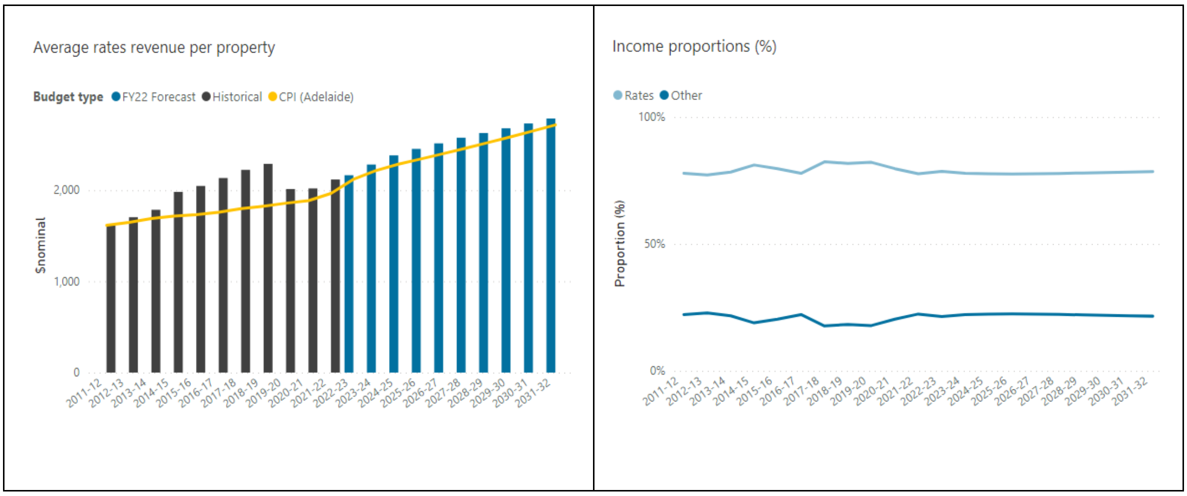
D.1 Historical rates growth

The District Council of Yankalilla's rate revenue growth has averaged 2.5 percent or $45 per annum for each property over the past 10 years,[35] to reach an estimated $2,018 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 0.4 percent average annual growth in rateable property numbers.[36]

The Council has long been reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for around 79 percent of budgeted operating income in 2022-23, compared with 77 percent of income in 2011-12.

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. Accordingly, the Council's rate revenue declined to $11.3 million in 2019-20 (from $12.7 million in 2018-19) resulting in the average rate revenue per property declining to $2,012 (from $2,288 in 2018-19) (see left chart below).

The District Council of Yankalilla has relatively high average rates, reflecting its relatively high residential and rural rates.[37] The Council levies two discretionary rates (or rates in the dollar); one for residential, primary production and other commercial categories and another for vacant land (135 percent of the residential rate in the dollar).[38] The Council also applies a minimum rate (instead of applying a fixed rate charge to all rates).



D.2 Proposed 2022-23 rates increases

The District Council of Yankalilla has budgeted for an average rate increase of 5.5 percent for its existing ratepayers in 2022-23[39], which was higher than it had anticipated charging for this year in its

35 From 2011-12 to 2020-21.

36 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

37 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_yankalilla. 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.

38 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, pp. 33-34.

39 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 5.

2021-22 LTFP projections (1.8 percent in 2021-22 for existing assessments) due to the impact of higher inflation (which it estimated to be 4.7 percent).[40] This includes a $50 increase in minimum rates (to $950).

It appears that the Council intended this 5.5 percent increase in 2022-23 to apply across its land use categories (including residential, primary production, commercial and industrial categories) since it does not appear to have altered its rating structure, but the information on average rates by land use category could be clearer in its annual business plan. In particular, it is not clear whether the revenue by land use category, which is listed in the plan, includes or excludes minimum rates revenue.[41]

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.[42] 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.

The Council had previously identified the need to increase rates by 0.25 percentage points above inflation each year for four years from 2019-20 to account for the transfer of the Council's wastewater and potable water businesses to SA Water, with 2022-23 being the last year of the additional increment.[43]

The Council also has a separate charge for the Wirrina Water service, which is applicable to a small number of properties which were not transferred to SA Water services. The proposed charge, which is set to be cost-reflective, is to increase by $300 in 2022-23, or 25 percent (to $1,500).[44]

The Council's waste management services are provided by Fleurieu Regional Waste Authority and these fees and charges did not change in 2022-23.[45] [46]The Commission has observed that the District Council of Yankalilla does not identify the Regional Landscape Levy for 2022-23 in its annual business plan, although this is usually a small levy for ratepayers only.

D.3 Projected further rate increases

Between 2022-23 and 2031-32 the average rate across all categories is forecast to increase from $2,163 to $2,785[47], a cumulative increase of $621 per property. This equates to a 2.8 percent average annual increase (between 2022-23 and 2031-32), which is aligned to the RBA-based forecast average inflation of 2.8 percent per annum.[48] The Council intends for rates to increase by 0.5 percentage points above its estimated inflation rate for two years from 2023-24.[49]

40 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 26.
41 Based on the table provided in the District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 33.
42 Under Regulations s6(ec).
43 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 33.
44 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 34. SA Water's charges did not change in 2022-23 for the Wirrina water supply service.
45 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, pp. 62-65.
46 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.
47 This includes rates growth of 1 percent expected each year.
48 See footnote 27.
49 District Council of Yankalilla, *Annual Business Plan & Budget 2022-23*, July 2022, p. 35.

D.4 Affordability risk

When considering the affordability risk for projected rate increases in the District of Yankalilla, the Commission acknowledges the area's marginally high socio-economic indexes for areas (SEIFA) economic resources ranking.[50]

As stated, the Council's projected rate increases are aligned to the RBA-based forecast average inflation (2.8 percent per annum), although this is reflective of the Council's inflation assumptions since it intends to increase rates above its estimated rate of inflation for two more years.[51]

Residential rates are already high[52] and affordability risks for the District of Yankalilla are emerging. The Council'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.[53] It also received criticism about the proposed higher 'rate cap' [54], 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).[55]

The Commission has further noted:

- the increase in minimum rate levels in 2022-23 (by 5.6 percent or $50 - up to $950 per ratepayer), and
- increased serviceability risk from the Council embarking on multiyear capital expenditure projects without assessing the viability in the context of up-to-date AMPs.

Projected rate revenue is also dependent on the Council's growth forecasts, which are significantly higher than it has achieved in the past 10 years (averaging 1.0 percent per annum rather than 0.4 percent).[56] If growth does not eventuate as forecast, it might result in the need for additional average rate increases by the Council to generate similar forecast revenue.

To minimise any affordability risk to ratepayers, it would be appropriate for the District Council of Yankalilla to:

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50 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 SEIFA 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.

51 See footnote 27.

52 Refer to the Councils in Focus website available at https://councilsinfocus.sa.gov.au/councils/district_council_of_yankalilla or 2019-20 rates data by council, noting the history of rate increases by the Council and the SEIFA indicator has already guided the Commission in its advice (the Councils in Focus data provides more detail about average rate levels by rates category).

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

54 The 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.

55 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* https://www.yankalilla.sa.gov.au/__data/assets/pdf_file/0037/1176778/Special-Council-Meeting-Agenda-12-July-2022.pdf
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.

56 Based on the Council's completed financial template submitted to the Commission.

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.

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