Advice

Local Government Advice

Kingston District Council

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	Kingston District Council
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 (published by SACES)
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 or Advice

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

The Essential Services Commission (**Commission**) finds the Kingston District Council's (**Council's**) current financial position at risk of being unsustainable based on a history of high-cost growth and forecast operating deficits. However, the Council is projecting more spending constraint and cost efficiency to move into a more sustainable position over time. The Council's eventual projected operating surplus results from forecast rates growth exceeding forecast cost growth, but there remain risks to its projections.

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 and transparently, manages its cost base efficiently, plans its asset needs appropriately, renews its asset base to meet sustainable service levels, engages with its community about desired service levels for its asset base, and ultimately, reduces the affordability risk for higher rates among its ratepayers:

Budgeting considerations

1. **Consider** updating the long-term financial plan from 2023-24 to include projections for:
   - the Statement of Income in full, and
   - a breakdown of proposed aggregated capital expenditure (including asset renewal expenditure) on different categories of infrastructure.
2. **Consider** better coordination of annual updates to long-term financial plan projections with annual business plan and budget preparation to provide more transparency to the community about changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.
3. **Ensure** that its long-term financial plan identifies whether it is in nominal or real terms and includes reasonable assumptions of annual inflation and other relevant inputs for its cost and revenue estimates, reflecting an annual review of these assumptions.

Providing evidence of ongoing cost efficiencies

4. **Focus** on constraining cost growth more generally in its annual and projected budgeting, including related to employee and other contract-related costs.
5. **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.

Refinements to asset management planning

6. **Review** the estimates of asset lives and valuations feeding into the forecast rate of asset consumption in its long-term financial plan and asset management plan.
7. **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.
8. **Monitor** community priorities regarding desired service levels for different assets and include community engagement outcomes in its infrastructure and asset management plan, as appropriate.

9. **Ensure** that the next review of its infrastructure and asset management plan caters for future community wastewater management system infrastructure requirements.

Containing rate levels

10. **Review** and **consider** limiting future increases above inflation on its rate levels, including for its more vulnerable members of the community, to help reduce affordability risk.
11. **Focus** on constraining cost growth to reduce the pressure on all rate levels (as per **Finding 4**), including consideration of the community's desired service levels (as per **Finding 8**), any proposed new capital expenditure and associated costs.

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 Kingston District Council (**Council**).

This report provides the Local Government Advice for the Kingston District Council 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 Kingston District Council for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

In general, the Commission finds the Kingston District Council's current financial position at risk of being unsustainable with forecast operating deficits resulting from its revenue base, including rates revenue, being stretched to meet the extent of recent infrastructure and cost growth.

The Council's operating cost growth has been significant, particularly related to its employee expense growth (despite limited additional staffing numbers) but also related to its other contract-related expenses. The Council has also received higher levels of grant funding in recent years but, with only a

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).

small rates base, persistent cost growth has put pressure on ratepayers to help achieve its sustainability.

Over the next 10 years, the Council has projected a shift from past trends and has forecast a period of service consolidation, incorporating below-inflation level cost growth, including for its employee expenses, and operational efficiencies in its dredging responsibilities. It is also demonstrating a cautious approach to new capital spending and is only including those initiatives in its financial projections for which it has secured grant or other funding to help deliver. Its forward projections otherwise prioritise asset spending towards renewal and rehabilitation works.

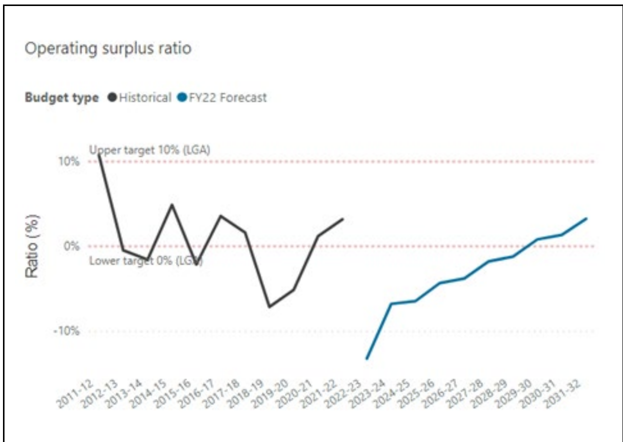
The Commission has some queries in relation to the Council's financial projections in its LTFP given the extent of the difference between estimates, including for rates, in its annual business plan for 2022-23, and the inflation forecasts that it has adopted. The Commission encourages the Council to reconsider the timing of when it adopts its LTFP to avoid these types of issues in the future.

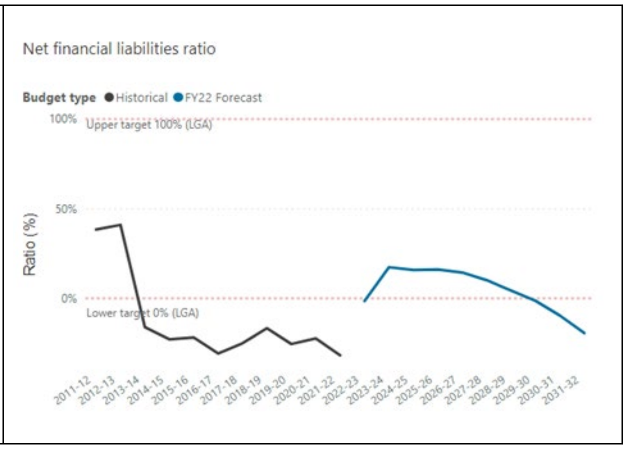
The Commission further encourages the Council to:

- engage its community about desired service levels for different assets and service priorities, with reference to costs and rate levels, as appropriate, and
- integrate these outcomes into its asset management and financial planning.

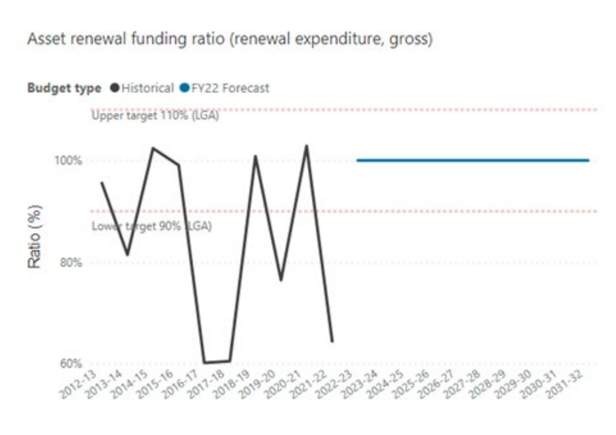
The charts below of the Council's past and projected operating surplus ratio, net financial liabilities ratio, asset renewal funding ratio, and average rate revenue per property, together support the Commission's findings.

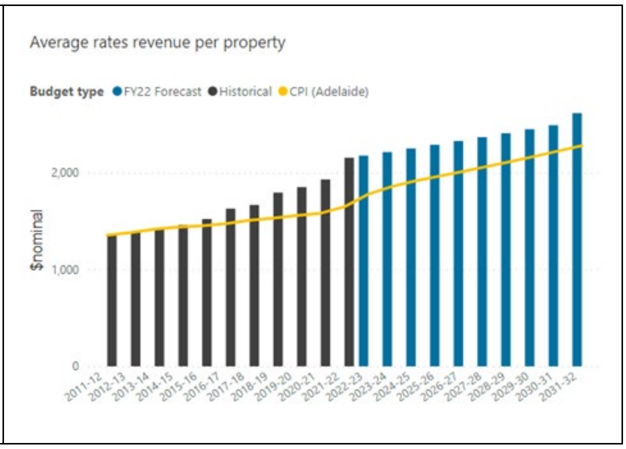
The 'heat map' diagram over the page summarises the Commission's findings with reference to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators[10] and the level of cost control and affordability risk identified 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 Kingston District Council'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%)	Ratio generally met the target ——>			Forecast operating deficits with ratio target range not met ——>	Surpluses forecast from 2029-30 ——>
Net financial liabilities ratio (target 0-100%)	Target met first 2 years	Ratio below the target ——>		Ratio forecast to meet the target	Ratio forecast below target from 2029-30
Asset renewal funding ratio (target 90-110%)	Ratio marginally below the target on average			Ratio to meet target range in projections ——>	
Identified Risks:					
Cost control risk	Operating expenses per property average growth 5.0% p.a. to 2020-21 (CPI 1.7% p.a.) ——>			Operating expenses per property average growth projeced flat to 2031-32 (low Council inflation forecast 1.2% p.a.) ——>	
Affordability risk	Rate revenue per property average growth 4.0% p.a. to 2020-21 ——>			Rate revenue per property average growth projected 2.1% p.a. (with low inflation forecast) ——>	

Red: Ratio outside suggested target range or higher risk

Yellow: Ratio close to suggested target range or medium risk

Green: Ratio within suggested target range or lower risk

The extent of rate increases historically by the Council presents an affordability risk which could be addressed:

- in part, by sharing the rate revenue requirement more equitably and charging larger increases on rates categories where the affordability risk is lower (based on lower comparative rate levels and the Council's own assessment)
- more comprehensively, through a greater focus by the Council on cost control and achieving tangible savings - this could then reduce the pressure on all rate levels.

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed advice findings regarding the Council'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 Kingston District Council'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 proposed relatively minor increases to its operating income and expenses (of 4 and 5 percent respectively) between its 2021-22 and 2022-23 LTFP estimates. These changes could be accounted for by some minor revisions to inflation, as well as other minor adjustments.

The Council does not publish its projections for its Income Statement, only for total income and expenses. While this meets its legislative requirements, it is not possible to determine the individual cost items such as employee expenses and rate revenue projections over time.

The Council has made other capital expenditure related amendments to its 2022-23 LTFP forward projections, compared with the 2021-22 LTFP forecasts,[12] including an increase of $6.8 million for estimated capital expenditure on renewal of assets (for revaluations) and a reduction of $1.3 million on new and upgraded asset expenditure (for lower grant funding and spending reallocations).[13]

However, the Council's LTFP does not provide a breakdown of its capital expenditure into specific asset classes (for example, buildings, roads, stormwater). To provide greater visibility to stakeholders on where the Council is spending its money, as well as trends in its expenditure, the Commission considers that it would be appropriate for the Council to:

1. Consider updating the long-term financial plan from 2023-24 to include projections for:
   - the Statement of Income in full, and
   - a breakdown of proposed aggregated capital expenditure (including asset renewal expenditure) on different categories of infrastructure.

The Kingston District Council adopted its annual business plan in June 2022, two months after it adopted its LTFP 2022-23 in April 2022. The Council proposed further material amendments to its 2022-23 estimates for the financial year, from those proposed in its LTFP (including a rates revenue increase of 8.9 percent, compared with 2.0 percent in its 2022-23 LTFP).[14]

While the outlook for inflation worsened from April to June 2022, the extent of the amendments to the budget for 2022-23, which is also the base year of the LTFP projections over 10 years, suggests that the financial projections published for its community and provided to the Commission to formulate the

[11] The attachment will be available on the Commission's website with the Advice.
[12] The overlapping forecast period in both LTFPs.
[13] As provided by the Council in the returned financial template.
[14] Applies to 'general rates and other' revenue as per the annual business plan. More specifically, general rates plus service charges (Mobile Garbage Bin charge, Regional Landscape Levy and community wastewater management system charge).

Council's advice from, may be inconsistent. For this reason, the Commission considers that it would be appropriate for the Council to:

2. **Consider** better coordination of annual updates to long-term financial plan projections with annual business plan and budget preparation to provide more transparency to the community about changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

The Council's 2022-23 LTFP is presented in nominal terms, however the Council has not published the inflation assumptions that underpin its LTFP. Further, while the 2022-23 and 2021-22 LTFPs both state that '*The content of the LTFP is based on real dollars values for all future years to make it easier to compare between years.*'[15] the Council has confirmed with Commission staff that the forecast financial items in the LTFPs are in nominal terms, not real terms.

The Council has informed the Commission that its inflation forecast in the 10 projected years is 1.2 percent per annum, but it adjusted its Consumer Price Index (**CPI**) forecast to 4.7 percent for 2022-23 in its annual business plan.[16] The Reserve Bank of Australia (**RBA**) currently forecasts the CPI (Australia-wide) 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 June 2025 quarter, with an anticipated return to long-run average from 2025-26 (with growth of 2.5 percent per annum).[17]

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

3. **Ensure** that its long-term financial plan identifies whether it is in nominal or real terms and includes reasonable assumptions of annual inflation and other relevant inputs for its cost and revenue estimates, reflecting an annual review of these assumptions.

2.2.2 Advice on financial sustainability

Operating performance

For the past 10 years, the Council's operating surplus ratio[18] has displayed an underlying decreasing trend, from 11 percent in 2011-12 to 3 percent in 2021-22. It averaged a small surplus over the period, with the ratio averaging 0.6 percent. The Council's operating expense growth (which averaged 5.4 percent per annum) exceeded its operating income growth (which averaged 3.8 percent per annum), while both were substantially higher than CPI inflation growth (which averaged 1.7 percent per annum). Costs were driven largely by employee, contract-related and depreciation expenses, consistent with a period of service expansion, while rates growth led income growth.

---

15 District Council of Kingston District Council, *2022-32 Long Term Financial Plan 2022 - 2032*, April 2022, p. 7, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0025/1139425/ADOPTED-Long-Term-Financial-Plan-2022-to-2032.pdf.

16 Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 7, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0020/1170434/2022-23-Annual-Business-Plan-and-Budget-FINAL-ADOPTED.pdf.

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

18 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).

OFFICIAL

In the forward years, the Council is projecting a negative operating surplus ratio averaging negative 3 percent to 2031-32, with the ratio not forecast to be positive again until 2029-30. This is outside the suggested LGA target range for the ratio.

In the projected years in its LTFP, lower average operating income growth of 1.3 percent per annum and average expense growth of 0.6 percent per annum[19] are below the RBA-based average inflation forecast (2.8 percent).[20] This marks a shift from the Council's past operating performance when its employee expenses increased by 7.3 percent per annum (with net growth in staffing numbers from 18 to 19) and its 'materials, contracts and other' expenses increased by 4.9 percent per annum.[21]

Given the Council's inflation forecast is 1.2 percent per annum, it is effectively forecasting stable or reducing costs in real terms, although there are clear risks to the inflation forecasts, as was discussed in the previous section.

The Council has factored in future efficiencies from lower dredging costs at Cape Jaffa to be achieved from the 'dredge out of water' survey being completed (a one-off project in 2022-23), such that there will be a decrease of 8.7 percent in 'materials, contract and other' expenses in 2023-24. It is also assuming stable employee numbers.

Returning to a surplus position for the Kingston District Council relies on fiscal constraint and greater cost efficiency than the Council has achieved in the past, and the Commission encourages it to:

4. Focus on constraining cost growth more generally in its annual and projected budgeting, including related to employee and other contract-related costs.
5. 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 has recorded a negative net financial liabilities ratio[22] with the 10-year average being negative 10 percent (from 2011-12 to 2020-21), and this is below the suggested LGA minimum target. The negative ratio has been largely due to an increase of $2.8 million for the Council's non-current financial assets[23] from 2013-14.

Cash and cash equivalents gradually increased from $2.2 million to $6.2 million between 2011-12 and 2021-22[24] but are projected to decrease to $1.5 million at the end of year 2022-23,[25] and remain on average at this level until 2031-32.

19 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). From 2023-24, the Council's operating expense growth is forecast to average 1.1 percent per annum (noting the unreliability of the 2022-23 estimate).

20 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.

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

22 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 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).

23 This can include long-term investments and other non-current financial assets.

24 The reason for accumulating cash, as explained by the Council, is that '*historically we have had a very conservative Council, with belief in intergenerational equity for significant and ongoing coastal Issues*.'

25 Please see attachment for the rationale of this sharp decrease.

The Council has estimated that its net financial liabilities ratio will become positive from 2023-24 but then decline and continue to be negative again from 2029-30. The projected 10-year average for the ratio is 5 percent, which is at the lower end of the suggested LGA target range and suggests that the Council might have further income capacity for higher borrowing levels in future years (if needed for yet to be defined projects), although further borrowing costs would also add to its operating expenses.

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),[26] and the Commission recommends greater transparency to the community regarding its LTFP assumptions, as in Finding 2. The Commission notes that, with continued operating deficits, if the Council's financial projections are not achieved (for example, because interest rates are higher than anticipated), the Council's financial sustainability could be further impacted, creating a need for more rate increases. This risk should be monitored by the Council in its LTFP reviews each year.

Asset renewals expenditure

Between 2012-13 and 2021-22, the asset renewal funding ratio[27] (under the 'IAMP-based' approach) varied between 60 and 103 percent, with the average being 87 percent, which is close to but below the lower end of the suggested LGA target range. From 2022-23 to 2031-32, the ratio is forecast to be 100 percent and remain consistently within the LGA target range. Average annual spending on renewal or rehabilitation of assets is projected to increase from $1.3 million to $2.3 million. Annual spending on new or upgraded capital projects is forecast to average $250,000 to 2031-32 with a single allocation of $2.5 million for foreshore development works in 2023-24.

The Council has forecast that its depreciation expenses, which should represent the average rate of asset consumption over time, will continue to exceed spending on the renewal or rehabilitation of assets across the forward projections.[28] There can be legitimate reasons why depreciation expenses will exceed asset renewal expenditure at various times, but if depreciation expenses are overstated (perhaps because assets have longer lives than assumed), then this will result in higher than necessary operating expense estimates. In turn, this can create further pressure on the need for rate increases or worsen the operating position.

To ensure a closer alignment between depreciation expenses and asset renewals expenditure over the longer term, it would be appropriate for the Council to:

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

Considering the extent of continued operating deficits already forecast in its forward budgets and the potential for new assets to add to its operating requirements, the Commission considers it appropriate for the Council to:

7. 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.

26 The Council has provided the assumptions to the Commission in correspondence.

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 Annual asset renewal/replacement expenditure is forecast to average 82 percent of annual depreciation expenses from 2022-23 to 2031-32.

The Council has indicated it did not have access to the predictor module from its asset management system when it drafted the most recent IAMP, but its renewal program does reflect its 30 June 2021 revaluation.[29] In the IAMP, the Council plans to conduct a condition assessment of 'unsealed road depths' for the next four years from 2022-23. The Commission otherwise observes that there is limited information in the Council's IAMP regarding desired services by the community for different assets. The Commission encourages the Kingston District Council to:

8. Monitor community priorities regarding desired service levels for different assets and include community engagement outcomes in its infrastructure and asset management plan, as appropriate.

New assets expenditure

From 2011-12 to 2020-21, the expenditure on new/upgraded assets averaged around $0.9 million each year but, in its future projections, the Council has allocated $2.5 million in expenditure for the 'foreshore development project' (which is subject to 50 percent grant funding).

There are two new capital projects – Wyomi Beach Seawall and community wastewater management system (CWMS) ponds that have not been incorporated in the 2022-23 LTFP projected figures but may result in an increase in capital expenditure in the short to medium term.

Further, the Council identified in May 2022 an issue with onsite wastewater systems (OWS) within its area. In response, the Council has stated '*Council can effectively consider that the only viable solution is an extension to the existing CWMS in Kingston and that this is vital to encourage and support new residential development.*'[30] It is estimating the issue could affect 80 to 90 percent of the 525 allotments in the Kingston township not currently connected to the existing CWMS.[31]

The Council's IAMP includes the Wyomi Beach Seawall project indicative cost estimate[32] and identifies that it will need to engage engineers to undertake a condition assessment of the CWMS ponds,[33] although it does not yet include requirements for the additional allotments due to the OWS issue. To this end, it would be appropriate for the Council to:

9. Ensure that the next review of its infrastructure and asset management plan caters for future community waste management system infrastructure requirements.

2.2.3 Advice on current and projected rate levels

The Council's rate revenue growth has averaged 4.0 percent, or $54 per annum for each property over the past 10 years,[34] compared with average annual CPI growth of 1.7 percent over this period.

The Council has budgeted for an average rates revenue increase of 5.3 percent or $95 per property in 2022-23. The rates increase reflects higher short-term inflation (anticipated by the Council to be 4.7 percent in 2022-23), and an additional 0.6 percent rate increase. The estimated growth in rates revenue

29 Kingston District Council, *Infrastructure & Asset Management Plan 2022/23 - 2031/32*, April 2022, p. 9, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0026/1139426/ADOPTED-Infrastructure-Asset-Management-Plan-2022-23-2031-32.pdf.

30 Kingston District Council, *Special Council Meeting Agenda – 9 August 2022*, p. 6, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0023/1191434/9-August-2022-SCM-Agenda-PRESS-COPY-FULL.pdf.

31 Kingston District Council, *Special Council Meeting Agenda – 9 August 2022*, p. 32.

32 Kingston District Council, *Infrastructure & Asset Management Plan 2022/23 - 2031/32*, April 2022, p. 10.

33 Kingston District Council, *Infrastructure & Asset Management Plan 2022/23 - 2031/32*, April 2022, p. 12.

34 From 2011-12 to 2020-21.

(6.1 percent) also incorporates 0.8 percent growth in rateable properties.[35] Minimum rates, which are often paid by the more vulnerable members of the community, will increase by 6.2 percent or $37 (to $635).[36]

To 2031-32, the Council's average projected growth in rates revenue is 2.7 percent per annum, which was intended to comprise 1.5 percent growth in real terms (the Council assumed CPI inflation to average 1.2 percent per annum,[37] whereas RBA-based forecast inflation is now 2.8 percent from 2022-23 to 2031-32).[38]

Affordability risk among the community for the further rate increases exists based on a range of factors, including the existing rate levels,[39] current forecasts of inflation, an assessment of the economic resources available to the community[40] and the community concerns expressed about the past proposed increases.[41]

Ultimately, it will be the balance of rates revenue required to fund any gaps in grants income for the major seawall (planned but not yet allocated), and any additional projects, which will present further risk to ratepayers, especially given the Kingston District Council's relatively small rates base and limited alternative revenue-raising options.

To minimise the affordability risk to the Council's ratepayers and in the context of the period of service consolidation it has now forecast, it would be appropriate for the Council to:

10. **Review** and **consider** limiting future increases above inflation on its rate levels, including for its more vulnerable members of the community, to help reduce affordability risk.
11. **Focus** on constraining cost growth to reduce the pressure on all rate levels (as per **Finding 4**), including consideration of the community's desired service levels (as per **Finding 8**), any proposed new capital expenditure and associated costs.

---

[35] Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 34. Individual rate level changes may be higher or lower depending on the rates category and property value.

[36] Kingston District Council, Annual Business Plan 2022- 2023, June 2022, p. 39.

[37] The Council's inflation forecast in the projected years of 1.2 percent annually is based on the South Australian Centre for Economic Studies forecast in March 2021.

[38] See footnote 20.

[39] Average residential rates (which incorporates the discretionary rate and average property values) are relatively low whereas average 'non-residential' rates (including primary production rates) are relatively high. (Refer to Councils in Focus rates data for 2019-20 by rate category available at https://councilsinfocus.sa.gov.au/councils/kingston_district_council.) On the other hand, Kingston District Council's discretionary rates (the rate in the dollar by land-use category) are such that 'residential' and 'other' categories of land use have the highest rates while 'primary production' have the lowest. In general, the historical and projected rate increases by the Council has primarily guided the Commission in its advice.

[40] The Kingston District Council area is ranked 39 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.

[41] The Council has demonstrated its willingness to establish community engagement and act upon stakeholders' feedback. In the draft 2022-23 annual business plan, the Council proposed to decrease the differential base rate of primary production ratepayers from 75 percent in 2021-22 (the residential rate is 100 percent) to 73 percent in 2022-23. After receiving 50 written submissions that expressed concerns about the proposed increase in the differential rate on primary production, the Council revised this rate to 70 percent in the finalised budget. (Kingston District Council, *Special Council Meeting Agenda – 16 June 2022*, p. 6, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0028/1162099/16-June-2022-SCM-Agenda-FULL-COPY.pdf).

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 Council's:

- assumptions in its LTFP projections and ongoing performance against its LTFP estimates
- general demonstration of the focus on cost constraints
- achievement and reporting of specific cost savings and efficiencies (including operational savings), and its reporting of these achievements
- actions to address any misalignment between the capital expenditure and depreciation estimates in its LTFP and IAMP
- its expenditure on the renewal of its asset base and inclusion of relevant CWMS infrastructure in its IAMP
- monitoring and reporting of the desired levels of service by the community for its various service assets in its IAMP, and
- how it has sought to address affordability risks.

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