Advice

Local Government Advice - Attachment

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

A The Commission's approach

In providing the Advice for the Kingston District Council (**Council**), the Essential Services Commission (**Commission**) has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**).[1]

The Commission has considered the Council's strategic management plan (**SMP**) documents (as in the box below), with a particular focus on its performance and outlook against three financial indicators: the operating surplus ratio, the net financial liabilities ratio and the asset renewal funding ratio.[2] Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.[3]

- Annual Business Plan 2022 – 2023 (adopted June 2022)
- Long Term Financial Plan 2022 – 2032 (adopted April 2022) and Long Term Financial Plan 2021 – 2031 (adopted May 2021)
- Infrastructure & Asset Management Plan 2022/23 – 2031/32 (adopted April 2022) and Infrastructure & Asset Management Plan 2019 – 2029 (adopted April 2019)

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and long-term financial plans, it has also considered the Council's performance in that context.

The Commission has reviewed the Council's template data, which contains its 2022-23 Long Term Financial Plan (**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 staffing (Full Time Equivalent (**FTE**)) numbers from 2011-12 onwards.[4] All charts and tables in the advice are primarily sourced from these datasets. In formulating this advice for the Kingston District Council, the Commission has also considered the estimates in its Annual Business Plan 2022 -2023, which are significantly different to its LTFP 2022-23 estimates. As a result, the Commission has considered the trends from 2023-24 to 2031-32 as relevant in its LTFP 2022-23 in its discussion points. In addition, the Commission has reviewed the Council audit committee reports, and other public information, as appropriate.

The Commission has reported estimates in nominal terms, for consistency with the Council's plans and actual rate levels, but it has compared estimated inflation impacts to these trends as a guide to identify 'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (**CPI**) line shows the cumulative growth in the CPI (Adelaide) series from 2011-12, and then projections of this series from 2022-23 based on the Reserve Bank of Australia (**RBA**) (Australia-wide) inflation forecasts (to the June quarter 2025), and the midpoint of the RBA target range (2.5 percent) thereafter.

---

1 Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

2 The indicators are specified in the *Local Government (Financial Management) Regulations 2011.* Since 2011, each council has been required to refer to these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. The councils can adopt their own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

3 The F&A listed 29 analytical questions that the Commission has answered in assessing the Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

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

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Kingston District Council, including its location as a rural council, its income level ($8.5 million[5]) and its relatively small rates base (around 2,600 ratepayers[6]).

5 Based on the estimated operating income in 2022-23 as published from Kingston District Council, *Annual Business Plan 2022 -2023*, June 2022, p. 26, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0020/1170434/2022-23-Annual-Business-Plan-and-Budget-FINAL-ADOPTED.pdf.

6 Based on the estimated number of property assessments in 2022-23. Kingston District Council, *Annual Business Plan 2022 -2023*, June 2022, p. 10.

B Material plan amendments in 2022-23

The Kingston District Council has made several amendments to its 2022-23 LTFP forward projections, mainly for capital works changes. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[7] To ensure a comparable analysis of estimates between the 2021-22 and 2022-23 LTFPs, the Commission has reviewed the nine overlapping years' statistics: 2022-23 to 2030-31 and identified material amendments accordingly.

Selected Financial Item	Sum of 2022-23 to 2030-31 estimates in 2021-22 LTFP ($ million)	Sum of 2022-23 to 2030-31 estimates in 2022-23 LTFP ($ million)	Change in 2022-23 estimates ($ million)	Change in 2022-23 estimates (percent)
Total operating income	73.5	76.8	+3.3	+4
Total operating expenses	76.0	79.7	+3.7	+5
Capital expenditure on renewal/replacement assets[8]	13.9	20.7	+6.8	+49
Capital expenditure on new/upgraded assets[9]	3.8	2.5	-1.3	-34

B.1 Increase to operating income and expenses forecasts

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 potentially other adjustments.

It was not possible for the Commission to determine the extent of the amendments to its individual operating cost and income items (including employee expenses and rates) because the Council does not disclose the Income Statement in its LTFP projections (only the operating income and expense aggregates[10]). This is unlike the practice of many other councils. The Commission considers that the Council needs to consider providing this information in its LTFP, as well as additional capital expenditure information, as discussed in the next section below.

B.2 Increase in estimates for capital expenditure on renewal and replacement assets

The Council's estimated expenditure on renewal or replacement assets increased by $6.8 million compared with its 2021-22 LTFP estimates, in aggregate for the years 2022-23 to 2031-32. The

---

7 This table shows only selected financial items to demonstrate the material amendments made by the Council in its 2022-23 estimates.

8 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 Uniform Presentation of Finances. Kingston District Council, *Long Term Financial Plan 2022 - 2032*, April 2022, p. 11, available at available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0025/1139425/ADOPTED-Long-Term-Financial-Plan-2022-to-2032.pdf.

9 Footnote 8 applies.

10 Kingston District Council, *Long Term Financial Plan 2022 - 2032*, April 2022, p. 11.

estimated expenditure aligns with the Council's expenditure requirement estimates in its IAMP 2022/23 – 2031/32,[11] as required by section 122 (1b) of the Local Government Act 1999 (**LG Act**).

The Council explained the amendments to the Commission as being reflective of asset revaluations in its updated IAMP.[12] However, the Council's LTFP does not provide a breakdown of its capital expenditure into specific renewal and replacement asset classes (for example, buildings, roads and stormwater).

To provide greater visibility to the community and stakeholders on where the Council is planning to spend its money, as well as to indicate trends in its proposed spending, 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.

In section C.3, the Commission further analyses the trends in the Council's capital expenditure on renewal and replacement of assets.

B.3 Decline in estimates for capital expenditure on new and upgraded assets

The Council's estimated capital expenditure on new or upgraded assets has decreased by $1.3 million from 2022-23 to 2030-31 in the Council's 2022-23 LTFP, relative to its 2021-22 LTFP.

According to the IAMP, the $2.5 million capital expenditure forecast has all been allocated in the 2023-24 financial year to a non-specific asset – 'foreshore development project' which is also subject to 50 percent of grant funding. One of the Council's financial strategies is to '*only proceed with major new works if external funding is secured*'.[13]

Given this strategy, it is unsurprising that no other capital expenditure on new or upgraded assets is specified in the 2022-23 LTFP. However, the LTFP does identify two further potential projects (Wyomi Beach Seawall and community wastewater management system (**CWMS**) ponds), though neither have been included in the 2022-23 LTFP projections, due to uncertainties over timing and funding options. Further consideration of these projects is provided in section C.4.

B.4 Material changes between 2022-23 LTFP and Annual Business Plan

The Commission has also observed that the Kingston District Council adopted its Annual Business Plan 2022 -2023 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. For example, while it proposed a rate revenue increase of 2.0 percent (and around $113,000) in its 2022-23 LTFP, it implemented a rates revenue[14] increase of 8.9 percent (or around $498,000) in its Annual Business Plan 2022 - 2023.[15] Similarly, it forecast a decline in employee costs in its LTFP projections (by 5.2 percent or around $119,000) in 2022-23 whereas these costs increased by

[11] As contained in the Financial Summary, noting the Council's IAMP does not have page numbers.
[12] As provided by the Council in the returned financial template.
[13] Kingston District Council, *Long Term Financial Plan 2022 – 2032,* April 2022, p. 7 *and Long Term Financial Plan 2021 – 2031*, May 2021, p. 7.
[14] Applies to 'general rates and other rates' revenue as per the Annual Business Plan. Rate revenue increases discussed in section D apply to general rates revenue only.
[15] Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 41 and the Commission's calculations.

9.2 percent (or around $204,000) in its annual business plan estimates. Its operating expense estimates also increased by 6.0 percent (or $545,000) in its annual business plan, while the LTFP projected an increase of 3.0 percent (or around $257,000).[16]

The outlook for inflation worsened from April to June 2022 and the Council stated in its annual business plan for 2022-23 that it assumed a 4.7 percent CPI increase.[17] This is significantly higher than its assumed annual inflation underpinning its 2022-23 LTFP projections, as discussed in the next section below. However, the significant 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 Council's advice from, may be inconsistent.

The Commission considers that it would be prudent for the Council, noting it is not a regulatory requirement, to include its updated 10-year projections in its annual business plan, especially if it has made such material changes to its projections in a short period of time. The definition of financial sustainability stated by the Council in its LTFP is that where *'planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.'*[18] The 8.9 percent unplanned increase in rates revenue by the Council in its 2022-23 budget follows its 10.6 percent increase in rates revenue in 2021-22.[19]

In the interests of transparency, 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.

B.5 Indexation assumptions in LTFP

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*',[20] the Council has confirmed with Commission staff that the forecast financial items in the LTFPs are in nominal terms.

The Council informed the Commission that its average inflation forecast in the 10 projected years is 1.2 percent per annum based on forecasts by the South Australian Centre for Economic Studies (SACES) in March 2021.[21] The Commission notes that the SACES forecasts were published when Australia's inflation rate was low (1.1 percent in the year to March 2021).[22] In addition, the Council stated in its annual business plan that it updated its CPI forecast for 2022-23 to 4.7 percent.

16 Footnotes 15 applies.
17 Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 7.
18 Kingston District Council, *Long Term Financial Plan 2022 - 2032*, April 2022, p. 4.
19 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).
20 Kingston District Council, *Long Term Financial Plan 2022 - 2032*, April 2022, p. 7.
21 Correspondence from the Council to the Commission.
22 Refer: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release.

RBA currently forecasts the CPI (Australia-wide) to increase by 6.7 percent in the year to the June 2023 quarter and by 3.0 percent in the year to June 2025 quarter, with a return to long run average from 2025-26 (with growth of 2.5 percent per annum).[23]

Underestimation of inflation assumptions in its LTFP can lead to an inaccurate estimation of future costs and ultimately, the rate revenue requirements for the community. On this occasion, the Council appears to have used inflation assumptions at least one year old in its 2022-23 LTFP before significantly increasing the assumption in its 2022-23 annual business plan, although there appears to also be a question around the basis of the estimates (nominal or real).

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.

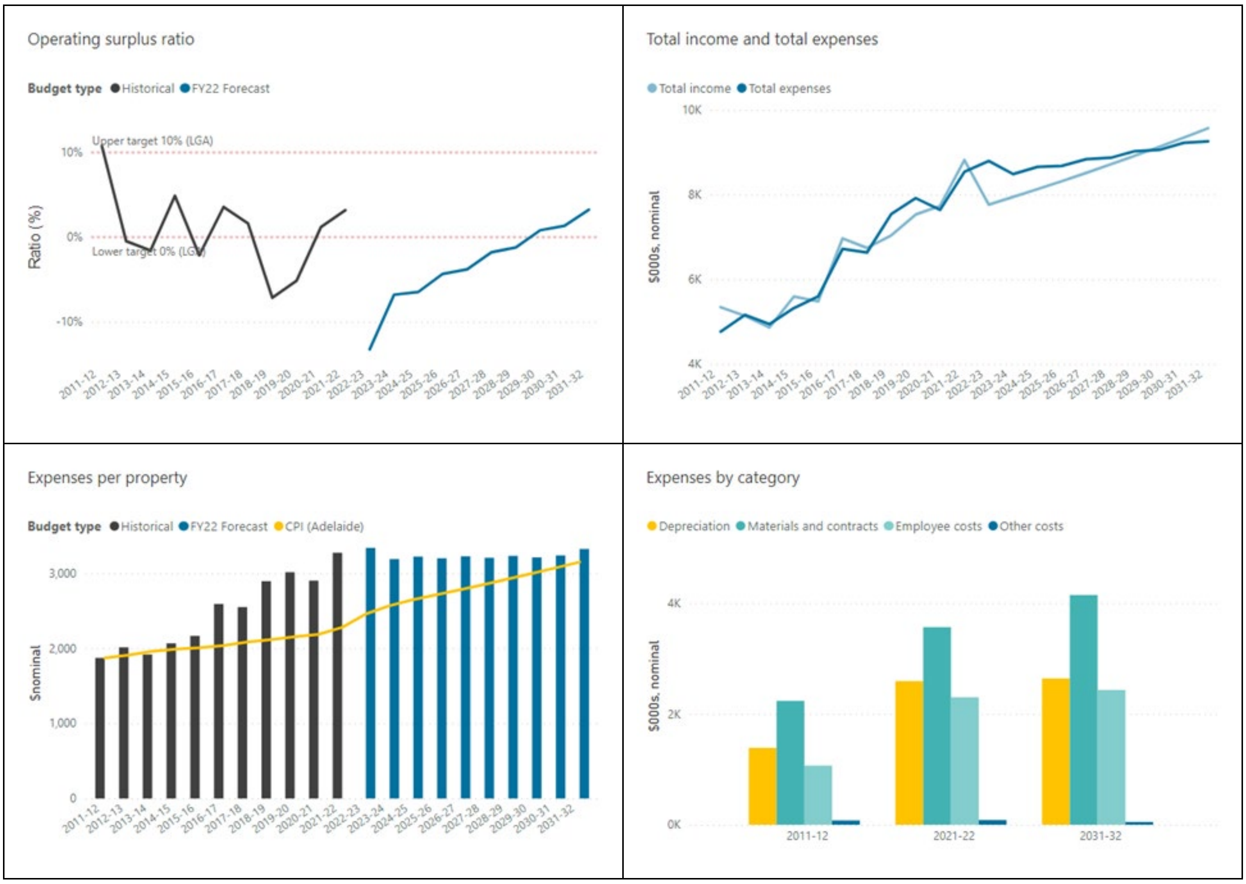
[23] RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html.

C Financial sustainability

C.1 Operating performance

For the past 10 years, the Council's operating surplus ratio[24] displays an underlying decreasing trend, from 11 percent in 2011-12, to 3 percent in 2021-22 (0.6 percent on average). In the forward years, the Council is projecting a negative operating surplus ratio, and has not forecast the ratio to be positive again until 2029-30 (see the top left chart below), with the 10-year average being negative 3 percent.[25] The average operating surplus ratio for the projected years is below the suggested LGA target range.

The gradual improvement to its projected operating performance across the 10 forecast years is attributable to budgeting for continued rates income increases and lower expenses growth (see the top right chart below).



As further discussed in section D, the Council is projecting average annual rates revenue growth of 2.7 percent from 2022-23 to 2031-32, which is forecast to outpace expense growth and is marginally

24 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).

25 The Council's estimated operating deficit in 2022-23 is similar in its Annual Business Plan 2022 -2023 and Long Term Financial Plan 2022 – 2032 estimates for 2022-23 (both $1.0 million), despite the differences in individual expense and revenue items between the two plans.

lower than the RBA-based forecast inflation growth (2.8 percent per annum).[26] However, the Council has already implemented an increase in rates revenue[27] of 8.9 percent for 2022-23 in its annual business plan and the Commission notes that from 2023-24, projected average rates revenue growth is forecast to also increase by 2.7 percent per annum. Operating income, in total, is forecast to increase by an average of 1.3 percent over this period with below inflation growth forecast for most revenue items.

The Council's forecast average expense growth of 0.6 percent per annum in its LTFP[28] marks a shift from the Council's past performance, with average annual expense growth of 5.4 percent in the 10 years to 2020-21. However, the Council has already implemented an increase in operating expenses in its annual business plan of 6.0 percent in 2022-23. From 2023-24, expenses are forecast to increase by 1.1 percent per annum.

Historically (2011-12 to 2020-21), high operating expense growth was primarily due to two driving forces:

- an average annual increase of 7.3 percent in 'employee costs' accompanied by growth in FTE numbers over this period (which have since reduced again), and
- an average annual increase of 4.9 percent in 'materials, contracts and other' expenses.

The Commission notes the impact of the increase in the solid waste levy on councils' waste management costs (and 'materials, contracts and other' expenses) over this period.

Looking ahead, 'employee costs' and 'materials, contracts and other' expenses are projected to increase at a lower rate - by an average of 1.2 percent and 0.6 percent per annum, respectively, which appears to reflect much more contained growth (assuming the reliability of the estimates).

The Council has indicated to the Commission that the projected cost stability is based on the following assumptions:

- the same number of employees (20 FTEs) across the projected years
- a decrease of 8.7 percent in 'materials, contracts and other expenses' in 2023-24 as a result of efficiency gains related to dredging costs at Cape Jaffa from the 'dredge out of water' survey being completed (a one-off project in 2022-23), and
- limited future growth (regarding property numbers and population) in the Council area.

To improve its operating performance and 'return to a surplus position as soon as possible'[29] as stated by the Council, without the need for further rate increases, it would be appropriate for 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.

The Commission notes that administration and governance currently make up the largest share of the Kingston District Council's operating expense budget in 2022-23 (29 percent), followed by business

[26] 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.

[27] See footnote 14.

[28] 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).

[29] Kingston District Council, *Long Term Financial Plan 2022 - 2032, April 2022,* p. 6.

enterprises operation (15 percent), then coastal/foreshore and infrastructure related costs (13 and 12 percent respectively).[30]

Returning to the surplus position for the Kingston District Council relies on fiscal constraint and increased savings and efficiencies where possible in its operations (including its administration budget), and the Commission encourages the Council to:

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.

C.2 Net financial liabilities

The Council has recorded a negative net financial liabilities ratio[31] with the 10-year average being negative 10 percent (from 2011-12 to 2020-21), and this is below the suggested minimum LGA target. The performance of the ratio suggests that the Council's operating income has been able to comfortably service its net financial liabilities over this period (see the bottom right chart over the page). However, a negative net financial liabilities ratio (indicating it has accumulated cash reserves) may not always be appropriate.

More specifically, as can be seen from the top left chart over the page, since 2013-14 the net financial liabilities ratio was persistently negative, due to an increase of $2.9 million for the Council's non-current financial assets[32] in that year.

The extent of rate increases during this period (averaging 4.9 percent or $74 per property per annum from 2013-14 to 2020-21) also contributed to the build-up of cash holdings (see the bottom left chart over the page). Its cash held peaked at $6.2 million at the end of 2021-22, indicating that the extent of the community's rate contributions was either not necessary or not utilised specifically to support the Council's financial and service sustainability at this time.[33]

Cash and cash equivalents are projected to decrease to $1.5 million at the end of year 2022-23 and remain on average at this level until 2031-32. The Council has explained that this sharp decrease is due to:

- the funding received in 2021-22 as a catalyst for other spending by the Council, such as the Local Roads and Community Infrastructure fund of $1.3 million from the federal government,[34] and
- the capital expenditure in 2023-24, such as $2.5 million capital expenditure towards the foreshore precinct project as aforementioned in section B.3, and a $1.2 million road widening project.

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, with the projected 10-year average being 5 percent. The average is within the suggested LGA target range for the ratio. This reflects both the marginally lower trend in annual borrowings and other liabilities, and the projected operating income

30 Kingston District Council, *Annual Business Plan 2022 - 2023,* June 2022, p. 25.

31 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).

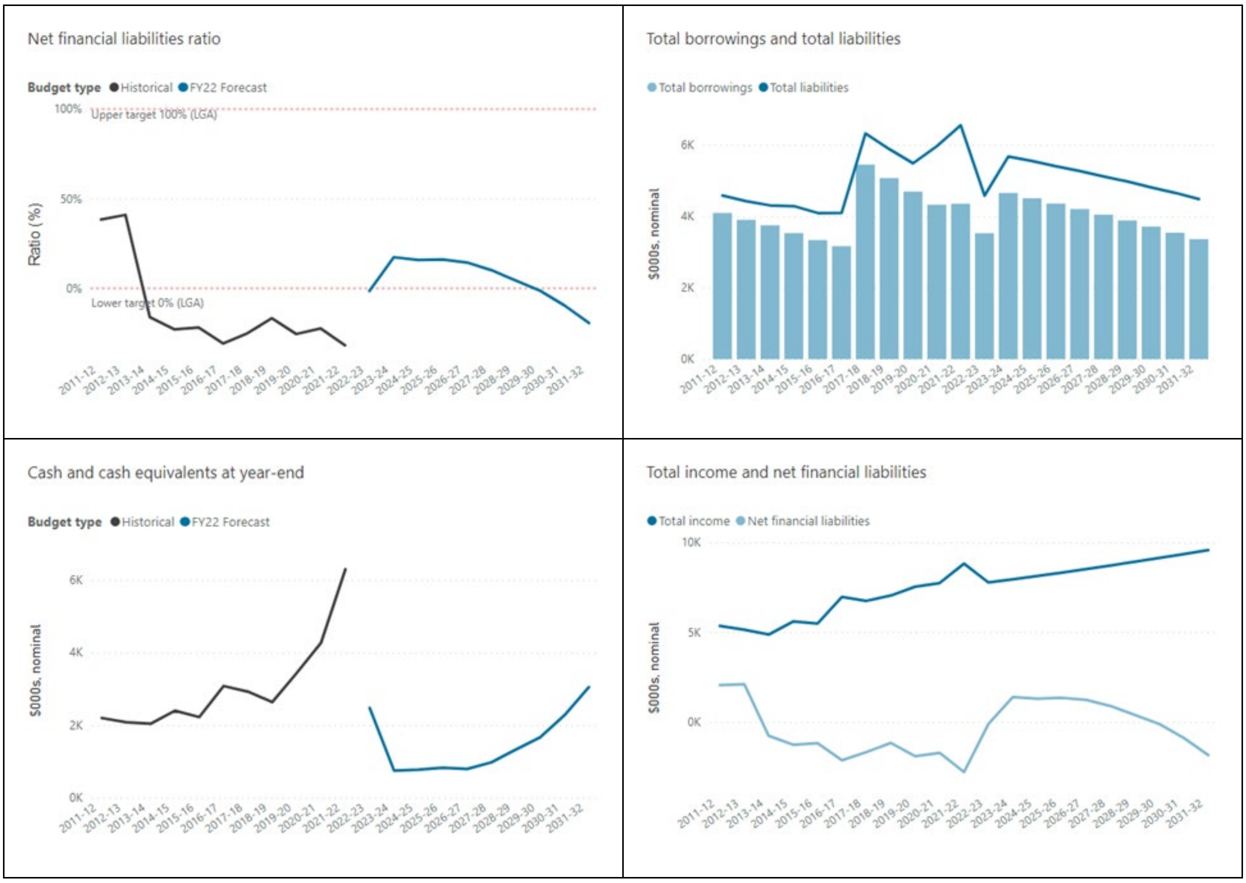
32 This can include long-term investments and other non-current financial assets.

33 The Council explained the historical cash holding behaviour as '*historically we have had a very conservative council, with belief in intergenerational equity for significant and ongoing coastal issues*'.

34 Kingston District Council, *Annual Business Plan 2022 -2023*, June 2022, p. 19.

growth (an average of 1.3 percent per annum). This suggests that the Council might have further operating income capacity for higher borrowing levels in future years, 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). However, the Council has provided the assumptions to the Commission.[35] The Commission further suggests 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, especially with such limited operating revenue options. This risk should be monitored by the Council in its LTFP reviews each year.



C.3 Asset renewals expenditure

Between 2012-13 and 2021-22, the asset renewal funding ratio[36] (under the 'IAMP-based' approach) varied between 60 to 103 percent, with the average being 87 percent. This is close to but below the lower end of the suggested LGA target range and demonstrates a marginal underspend on the renewal and rehabilitation needs of its asset stock over this period. The Council's spending on renewal or rehabilitation of assets averaged $1.3 million each year.

---

35 Correspondence from the Council to the Commission.

36 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).

From 2022-23 to 2031-32, the ratio is forecast to be 100 percent, and remain consistently within the suggested LGA target range. Average annual spending on renewal or rehabilitation of assets is projected to increase to $2.3 million.

From 2022-23, the asset renewal funding ratio (depreciation-based),[37] is projected to continue to track below the suggested LGA target range, averaging 82 percent per annum to 2031-32. This indicates that depreciation expenses are generally higher than the planned expenditure on capital renewals under its various AMPs (see bottom left below).

The Commission notes that there can be legitimate reasons why annual depreciation expenses, which represent the average rate of asset consumption, do not align with asset renewal expenditure at various points in time. However, one area that might be leading to higher depreciation forecasts by the Council relative to actual aggregated asset renewal is the assumption of shorter asset lives than the Council's planned asset renewals expenditure (because the assets can, in practice, last longer than assumed). If depreciation expenses are overstated as a result, then this can create higher than necessary operating expense estimates and create further pressure on the need for rate increases or worsen the operating position.

Therefore, it would be prudent for the Council to:

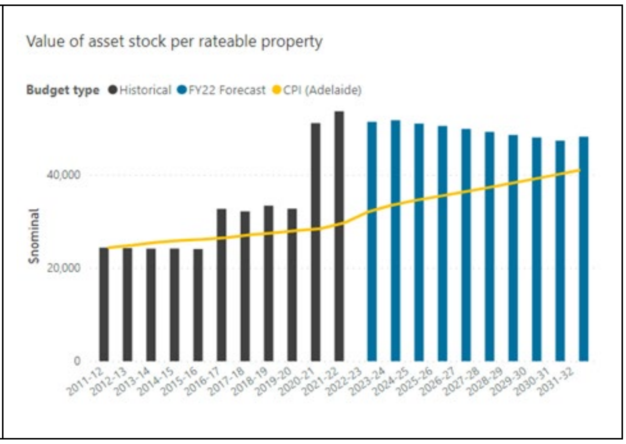
[37] The Council's asset renewal funding ratio by the depreciation-based method is where (asset renewal/replacement expenditure – sale of replaced asset) is divided by depreciation expenses. This ratio shows the extent to which capital expenditure on the renewal and replacement of assets matches the estimated rate at which these assets are used or consumed.

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.

The Council has tended to prioritise expenditure on renewal and replacement of assets, as opposed to new or upgraded assets historically (except for 2017-18). The Council has projected spending on renewal/replacement assets from 2022-23, averaging $2.3 million per annum to 2031-32, in contrast to $2.5 million one-off new/upgraded expenditure in 2023-24, highlighting its continued focus on renewing rather than purchasing or constructing new assets (see the left chart below). In doing so, the Council is ensuring that its asset stock value per property is relatively steady, albeit declining from around $51,000 per property from 2022-23 to 2031-32 (see the right chart below).

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 encourages 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.



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. As a result, the Council was not able to generate up-to-date renewal and maintenance requirements using updated asset information. The implication of this is that the current IAMP (and LTFP) are potentially based on out-of-date asset information. However, the IAMP does state that the plan has increased '*the renewal program has increased inline [sic] with the significant increase in replacement cost as per the 30 June 2021 revaluation*.'[38] The substantial increase in the value of asset stock per property in 2020-21 was due primarily to the revaluation of its transportation assets (for updated unit rates).[39]

38 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.

39 Kingston District Council, *Audit & Risk Committee Agenda – 23 November 2021*, p. 16, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0028/1066582/23-November-2021-FULL-PRESS-COPY.pdf.

In the IAMP, the Council plans to conduct a condition assessment of 'unsealed road depths' for the next four years from 2022-23.[40] The Commission otherwise observes that there is limited information in the infrastructure and asset management plan regarding desired services by the community for different assets. The Commission encourages the 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.

C.4 New assets capital expenditure

From 2011-12 to 2020-21, the expenditure on new/upgraded assets averaged around $0.9 million each year. In contrast, as mentioned in section B.3, the Council projected expenditure on new/upgraded assets ($2.5 million) has been allocated in the 2023-24 financial year to a non-specific asset - 'foreshore development project and subject to 50 percent of grant funding'.

Further, there are three new capital projects that have not been incorporated in the 2022-23 LTFP projected figures, but that may result in an increase in capital expenditure in the short to medium term.[41]

Seawall:

As indicated from Wyomi Beach Seawall Stage 2 Fact Sheet, the Council has developed a Coastal Adaptation Strategy to assist in future adaptation pathways and priority actions to reduce coastal erosion and inundation risk.[42] The Council has conducted community consultation since 2021 and indicates it has selected an option that maintains a balance between beach or long-term dune impact and cost impact.[43]

The estimated cost is $2.6 million, as indicated from the Council's annual business plan.[44] According to the Australian Government National Emergency Management Agency,[45] the Council has successfully applied for approximately $2.0 million in funding through the Coastal and Estuarine Risk Mitigation Program 2022-23. Hence, there will be a net cost to the Council of approximately $0.6 million.

Community wastewater management system ponds:

As identified in the 2022-23 LTFP, the *'Council will need to engage engineers to undertaken [sic] a condition assessment of the CWMS ponds as it is likely the ponds will need desludging and will require new liners.'*[46] However, no cost indication of the new liner works has been provided.

Community wastewater management system additional allotments:

Further, the Council has also acknowledged a potential 'catastrophic issue' regarding onsite wastewater systems (OWS).[47] In response, the Council has stated '*Council can effectively consider that*

---

[40] The Council indicates that the transport and marine assets revaluation and condition assessments were completed in June 2021. CWMS, stormwater, buildings revaluation and condition assessments were completed in June 2022.

[41] Kingston District Council, *Long Term Financial Plan 2022 - 2032*, April 2022, p. 8.

[42] Kingston District Council, *Fact Sheet: Adaptation Strategy (CAS) Wyomi Beach Seawall Stage 2*, p. 1, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0024/1268421/Nov-2022-Wyomi-Seawall-Stage-2-Fact-Sheet.pdf.

[43] Kingston District Council, *Fact Sheet: Adaptation Strategy (CAS) Wyomi Beach Seawall Stage 2*, p. 2.

[44] Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 8.

[45] Refer: https://nema.gov.au/programs/emergency-response-fund/coastal-estuarine-risk-mitigation-program.

[46] Kingston District Council, *Long Term Financial Plan 2022 - 2032*, April 2022, p. 8.

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.'[48] It is estimating that 80 to 90 percent of the 525 allotments in the Kingston township which are not part of the CWMS may need to be incorporated within the CWMS.[49] The Council has identified that it will need to obtain funding by entering into an agreement with the LGA CWMS Program. In the August 2022 Special Council meeting, the Council acknowledged the need to promptly find a solution to address the existing issues. The Commission notes that CWMS services should be implemented on a full cost recovery basis (in accordance with the National Water Initiative Pricing Principles),[50] and so the risk of associated rate increases for required works should be limited.

The Council's IAMP includes the Wyomi Beach Seawall project indicative cost estimate[51] and identifies that it will need to engage engineers to undertake a condition assessment of the CWMS ponds,[52] 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 wastewater management system infrastructure requirements.

Concerning the seawall project and other potential new initiatives, in the next section on rate contributions, the Commission encourages the Council to continually engage with its community about the rate implications of any new capital spending it proposes, with reference to desired service levels, as appropriate.

---

47 Kingston District Council, *Special Council Meeting Agenda – 9 August 2022*, p. 32, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0023/1191434/9-August-2022-SCM-Agenda-PRESS-COPY-FULL.pdf.

48 Kingston District Council, *Special Council Meeting Agenda – 9 August 2022,* p. 6.

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

50 Essential Service Commission, *Subsequent Determination to vary the 2013-2017 Price Determination for Minor and Intermediate Retailers*, June 2018, p. 3, available at https://www.escosa.sa.gov.au/ArticleDocuments/1226/20180626-Water-PriceDetermination2013-17Extension-MIR-FinalDecision.pdf.aspx?Embed=Y.

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

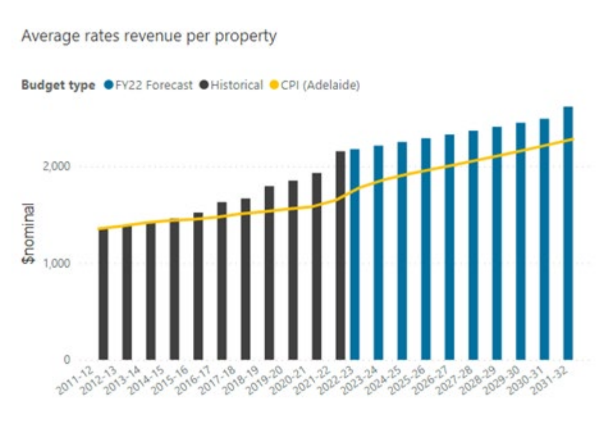
52 Kingston District Council, *Infrastructure & Asset Management Plan 2022/23 - 2031/32*, April 2022, p. 12.

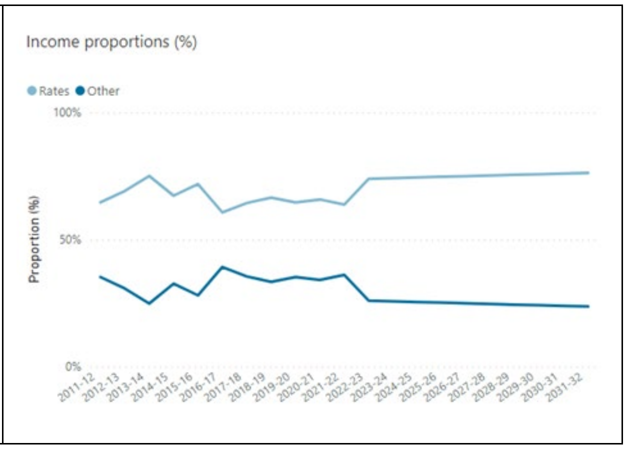
D Current and projected rate levels

D.1 Historical rates growth

The Council's rate revenue growth has averaged 4.0 percent or $54 per annum for each property over the past 10 years,[53] to reach $1,933 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.[54] The Commission notes that the Council has relatively high average rates, reflecting its relatively high rate levels for non-residential categories (including rural rates), but relatively low residential rates.[55] Current rate levels partially reflect its recent history of spending growth, predominantly reflected by higher employee costs and contract-related expenses.

The Council's three-year average for 'grants, subsidies and contributions' income increased from $1.0 million to $1.5 million from 2013-14 to 2020-21. As a small rural council, the Kingston District Council is somewhat reliant on grants income for its sustainability with this income source accounting for 21 percent of its total operating income in 2020-21.





D.2 Proposed 2022-23 rates increases

The Council has budgeted for an average rate increase of 5.3 percent or $95 per property in 2022-23.[56] 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. Total general rates revenue is forecast to increase by 6.1 percent with 0.8 percent growth of rateable properties.[57]

53 From 2011-12 to 2020-21.

54 CPI (All groups). Average annual growth in the Local Government Price Index published by the South Australian Centre for Economic Studies was similar (at 2.0 percent) as the Commission's estimated average annual CPI growth over this period. Available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.

55 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/kingston_district_council. The history of rate increases by the Council has already guided the Commission in its advice (the Councils in Focus data just provides more detail about average rate levels by rates category). Discretionary rates (rate in the dollar) for the Kingston District Council indicate that residential and 'other' categories of land use have the highest discretionary rates, although average rates (which also incorporates the average property values) are relatively low.

56 Individual rate level changes may be higher or lower depending on the rates category and property value.

57 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.

Different rate categories are subject to varying changes, with residential ratepayers to pay a slightly lower increase than the average, 4.1 percent or $41 per property on 2021-22 average rate levels. Vacant land ratepayers will pay the largest increase, an average increase of 8.5 percent or $48 more, noting the Council stated that it is adopting a higher differential rate for vacant land users to discourage land banking behaviour.[58]

The Council's minimum rates, which are often paid by the more vulnerable members of the community, will increase by 6.2 percent or $37 to $635.[59]

The Council has demonstrated its willingness to establish community engagement and act upon stakeholders' feedback regarding its rate structure and rate levels. In the draft 2022-23 annual business plan, the Council proposed to decrease the differential rate for primary production ratepayers from a factor or 75 percent in 2021-22 to 73 percent in 2022-23 (the residential category differentiating factor is 100 percent). After receiving 50 written submissions that expressed concerns about the proposed higher differential rate on primary production, the Council revised it to 70 percent.[60]

Other than 'general rates' income (which represents around 80 percent of total rates income in 2022-23), the Council collects income from the CWMS charge, the Mobile Garbage Bin charge, and the Regional Landscape levy[61] (around 8 percent, 7 percent and 4 percent of total rates revenue respectively).[62] Compared with the 2021-22 financial year, the CWMS charge has increased by 5.3 percent, the Mobile Garbage Bin charge has increased by 2.8 percent, and the Regional Landscape levy has increased by 2.5 percent.[63]

D.3 Projected further rate increases

The projected rate increases to 2031-32 are not published in either the Kingston District Council's LTFP 2021-22 or LTFP 2022-23. However, based on the Council's returned financial template, over the forward years, the Council is projecting average annual rates increases for its existing ratepayers of 2.7 percent from 2022-23 to 2031-32. This is aligned with RBA-based forecast inflation over this period (2.8 percent).[64] The 2.7 percent growth was supposed to comprise a 1.0 percent increase above CPI (although the CPI assumption[65] is likely to require revision as it is much lower than RBA-based inflation forecasts)[66] and a 0.5 percent increase due to forecast property growth.[67] In total, the Council projects a cumulative increase of $440 per existing ratepayer (to $2,618) by 2031-32. Given the material change to the LTFP forecasts for 2022-23 in its annual business plan, there remains uncertainty around the reliability of the forward forecasts in nominal terms until the Council adjusts its inflation assumptions. It is likely that the Council is planning higher rate increases than these projections indicate.

---

58 Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 31.

59 Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 39.

60 Kingston District Council, *Special Council Meeting Agenda, 16 June 2022*, p. 7, available at https://www.kingstondc.sa.gov.au/__data/assets/pdf_file/0028/1162099/16-June-2022-SCM-Agenda-FULL-COPY.pdf.
Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 33. By way of comparison, the differential rate for residential ratepayers is 100 percent.

61 Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 35. This revenue is not retained or determined how to be spent by the Council.

62 There are also other minor rates and service charges.

63 Kingston District Council, *Annual Business Plan 2022 - 2023*, June 2022, p. 37.

64 See footnote 24.

65 The Council confirmed the inflation forecast in the projected years is 1.2 percent on average as per SACES forecast in March 2021.

66 Kingston District Council, *Long Term Financial Plan 2022 – 2032,* April 2022, p. 7 *and Long Term Financial Plan 2021 – 2031*, May 2021, p. 7.

67 Kingston District Council, *Long Term Financial Plan 2022 – 2032,* April 2022, p. 8 *and Long Term Financial Plan 2021 – 2031*, May 2021, p. 8.

D.4 Affordability risk

Affordability risk among the community for these further rate increases arises when considering:

- the mid-range Socio-Economic Indexes for Areas (**SEIFA**) economic resources ranking for the Council area[68]
- the relatively high average rates levels, noting that primary production ratepayers have already raised issues with rates affordability and the Council has shown its willingness to respond to these concerns
- the risk from higher inflation to the current projections, and
- the future proposed rate increases (in real terms[69]) are still relatively high.

Further, the current economic environment is generally impacting many communities' capacity to pay, including the Kingston District community.

The Council's projected return to operating surplus currently relies upon further rate increases and yet, it has not factored in spending allocations for key capital works projects in its further budgets. This presents further risk to these rate estimates (namely related to the Wyomi Beach Seawall, noting the CWMS projects should be funded on a cost recovery basis).

The Council also appears to have factored in conservative 'grants, subsidies and contributions' income forecasts to its forward budgets (to average $1.0 million per annum from 2022-23 to 2031-32, compared with an average of $1.3 million per annum received from 2011-12 to 2020-21). The LTFP projections do not yet include the likely grant funding (not yet agreed) for future projects.

Ultimately, it will be the balance of rates revenue required to fund any gaps in grants income for the seawall and any additional projects, which will present further risk to ratepayers, especially given the Council's relatively small rates base and limited alternative revenue-raising options. Additional borrowing may also present an option to spread the costs out for ratepayers in future years.

At this stage, to reduce the affordability risk to the Council's ratepayers, 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.

[68] 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 SEIFA Index of Economic Resources (2016), where a lower score (eg, 1) denotes relatively lower access to 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.

[69] Assuming inflation assumptions are adjusted as needed.

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