Advice

Local Government Advice - Attachment

Mid Murray 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 Mid Murray 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]

- 2022-23 Annual Business Plan and Budget (adopted July 2022)
- Long Term Financial Plan 2022-23 to 2031-32 (adopted September 2022) and Long Term Financial Plan 2021-22 to 2030-31 (adopted July 2021)
- Transport Asset Management Plan 2022, (adopted September 2022), Road Management Plan (adopted September 2022) and Transport Asset Management Plan (last updated April 2021)
- Building, Land & Structures Asset Management Plan (last updated April 2022)
- Bridges & Major Culverts Asset Management Plan (last updated July 2018)
- Community Wastewater Management System Asset Management Plan (last updated July 2018)
- Plant & Machinery Asset Management Plan (last updated April 2021)
- Stormwater Asset Management Plan (last updated 2020)

The Council does not yet have asset management plans (**AMP**s) for marine facilities, maritime vessels, kerbs, footpaths and information technology assets but it has indicated that it has allocated funds in its long-term financial plan (**LTFP**) to prepare these plans.[4] The Commission notes that most of its asset base is covered by its existing AMPs.

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,[5] it has also considered the Council's performance in that context. Findings regarding the content of the Mid Murray Council's AMPs, and the alignment between its LTFP and AMPs,[6] are discussed in section C.3.

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 Mid Murray Council's performance against these indicators to determine affordability, cost control and other sustainability risks.
4 Mid Murray Council, *Special Council Meeting Agenda – 5 September 2022*, p. 8, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0018/1203831/20220905-Special-Council-Agenda_attachments-updated.pdf.
5 LG Act s122(1g)(a)(i).
6 As required under s122(1b) of the LG Act.

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.[7] [8] All charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council's 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 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 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 Mid Murray Council, including its location as a regional council, its income level ($21.7 million[9]) and the size of its rates base (more than 10,400 ratepayers[10]). The Commission notes that the advice is based on the Council's 2022-23 projections and that the Council might need to reprioritise some of its spending plans to respond to the recent flooding and high river event.

7 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and Council's data.
8 The Council's estimates for the 2021-22 financial year are unaudited.
9 Based on the estimated operating income in 2022-23.
10 Based on the estimated number of property assessments in 2022-23.

B Material plan amendments in 2022-23

The Mid Murray Council has made various amendments to its 2022-23 budget and forward projections, partly for inflation and partly for other revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[11] 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)
Rates and statutory charges income	179.5	196.5	+17.0	+9
Total operating income	243.7	259.6	+15.9	+7
Capital income for new and upgraded assets (eg grants income)	2.4	5.6	+3.3	+137
Employee expenses	84.9	96.2	+11.3	+13
Total operating expenses	248.5	269.6	+21.1	+8
Capital expenditure on renewal of assets[12]	49.6	63.9	+14.3	+29
Capital expenditure on new and upgraded assets[13]	5.4	10.2	+4.8	+89
Total borrowings	130.0	143.1	+13.1	+10

B.1 Increase to income estimates

The Council's estimated operating income to 2030-31 has increased by $15.9 million or 7 percent in its 2022-23 LTFP estimates.[14] Most of this increase is due to higher rates and statutory charges which increased by $17.0 million or 9 percent on the 2021-22 estimates (for the period 2022-23 to 2030-31). The impact on current and projected rate levels are discussed more in section D. This increase was offset by lower forecasts for grants operating income (by $1.3 million or 3 percent, which is not shown in the table).

In terms of capital income for new or upgraded assets (for example, from grants and contributions), the Council's forecasts have increased by $3.3 million or 137 percent. This is partly due to the postponement of Murraylands Road upgrade works and associated grant funding of $1.5 million to 2022-23, and the additional Cambrai landfill site grant funding of $1.1 million in 2022-23.

11 This table shows 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.

12 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 different (but similar) estimates in its table of major capital expenditure. Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 14, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0024/1204980/Final-Long-Term-Financial-Plan-2022-23-to-2031-32.pdf.

13 Footnote 12 applies.

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

Based on the Council's assumptions in its 2022-23 LTFP,[15] an increase in its operating revenue and cost estimates by up to around 7 percent to 2030-31 would be appropriate for higher inflation (compared with its estimates in 2021-22). The Reserve Bank of Australia (**RBA**) has since increased its inflation forecasts further to 2025[16] from those assumed by the Mid Murray Council in its 2022-23 plans (3 percent Consumer Price Index (**CPI**) growth for 2022-23).[17] The Council has assumed a continued rate of 2.75 percent per annum CPI growth from 2023-24 to 2031-32. The Commission notes that a lower assumption for inflation from 2025 would be a reasonable assumption (given that 2.5 percent is the midpoint of the RBA's 2-3 percent target band).

Notwithstanding the need for the Council to seek to achieve greater efficiencies, where possible, to reduce its costs in real terms, the Commission considers it would be appropriate for it to:

1. **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.

B.2 Increase to expenditure estimates

The Mid Murray Council's estimated operating expenses have increased by a total of $21.1 million or 8 percent from 2022-23 to 2030-31 compared with its 2021-22 LTFP estimates.

More than half of the higher operating costs in the Council's latest budget are due to higher employee costs, with an increase of $11.3 million or $1,052 per ratepayer on the 2021-22 LTFP estimates (from 2022-23 to 2030-31).

Employee costs are forecast to increase year-on-year by 17 percent in 2022-23 (in the 2022-23 LTFP), partly due to higher inflation and partly due to the increases to the superannuation charges on wages to 2025, which together account for a 5 percent increase, compared with 2021-22.[18] The Council has also noted that it is filling more positions as it returns services to pre-COVID-19 levels.

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

In terms of capital expenditure, the Council's latest (2022-23) LTFP has factored in a total of $4.8 million additional new and upgraded capital works and $14.3 million more capital renewal and replacement works between 2022-3 to 2030-31, compared with the previous year's LTFP.[19] This includes the $3.3 million difference in new or upgrade works in 2022-23, due mainly to the deferral of Murraylands Road works from 2021-22. Excluding the estimated expenditure for these deferred works, the combined increase is $15.7 million or 28 percent more capital expenditure on the 2021-22 estimates across these years, which amounts to an additional $1,494 per ratepayer.

---

15 See footnote 14.

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

17 The Council's CPI forecasts appear to be based on the RBA's February 2022 forecasts. Its CPI forecasts are incorporated into its revenue and expense forecasts. The Council has assumed that the LGPI is 0.4 percent higher per annum, on average, than the CPI (an increase on its assumption of it being 0.28 percent higher in its 2021-22 forecasts) but it is unclear which estimates it has applied this index to, if any. Its 2022-23 LTFP states that it has still applied the CPI to 'materials, contracts and other' expenses to include a 'quasi-efficiency' factor. Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 7.

18 The Superannuation Guarantee 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 Superannuation Guarantee was legislated to rise in half per cent increments from 9.5 percent each year until it reaches 12 percent of wages in 2025.

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

The $14.3 million additional renewal works include the budget allocation of previously unfunded Building, Land and Structures AMP works, as discussed in section B.4 below. The Council's capital expenditure outlook is also discussed further in section C.3.

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

2. Focus on constraining cost growth more generally in its budgeting, including related to employee costs.

B.3 Increase to Murraylands Road upgrade works cost estimate

The Council's major project, the upgrade of Murraylands Road between Morgan and Blanchetown, was initially estimated to cost $6.2 million in the Council's Transport AMP.[20] Approximately $7.0 million is now factored into the forward estimates for this project in the 2022-23 LTFP, an increase of $0.7 million on the LTFP estimate in 2021-22 ($6.3 million).

The higher cost estimate is due to inflation impacts, including higher bitumen costs. The Council also noted in the Transport AMP that consultant assessments of the current corridor and road base condition had been conducted and the estimated residual of unsealed road pavement may be better than initially estimated.[21] This indicated that the original budget estimate ($6.2 million) could be revised down. The Commission encourages the Council to continue to review this cost estimate for efficiency.

B.4 Increase to buildings renewal expenditure estimates

The increased renewal works expenditure in the 2022-23 estimates include funding for the previously identified cumulative shortfall from the Building, Land and Structures AMP ($9.1 million).[22] The 2022-23 LTFP includes a total increase of $11.1 million in renewal works for buildings and toilet blocks from 2022-23 to 2030-31 (compared with the 2021-22 LTFP estimates), and another $3.9 million for these works in 2031-32. The additional $15.0 million in works amounts to $1,417 per property between 2022-23 to 2031-32 (in nominal terms). The Council's determination of the asset renewal expenditure requirements in its AMP are discussed more in section C.3.

As the projections stand, if other projected income and cost paths are realised, the Council should be in a reasonable financial position from which to absorb these costs, without higher rate increases at that time. The Council has included additional borrowings in its 2022-23 LTFP projections to help fund the additional renewal works.

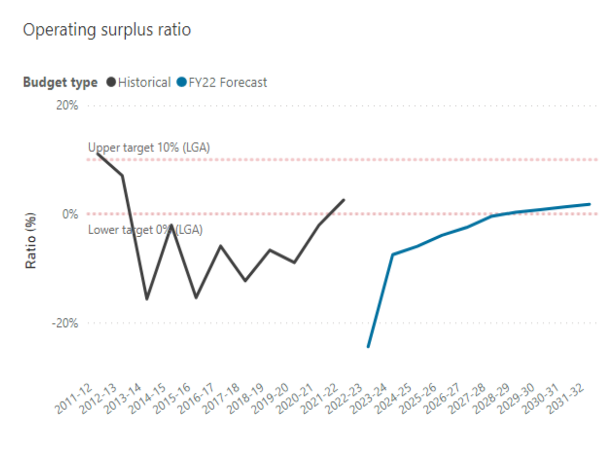
However, the extent of the works remains a cost control risk as the Council's forecast improvement to its financial position is already contingent on successive rate increases above inflation and softer expense growth than it has achieved historically. A review of the assumptions underpinning the expenditure requirements is suggested in Finding 6 in section C.3.

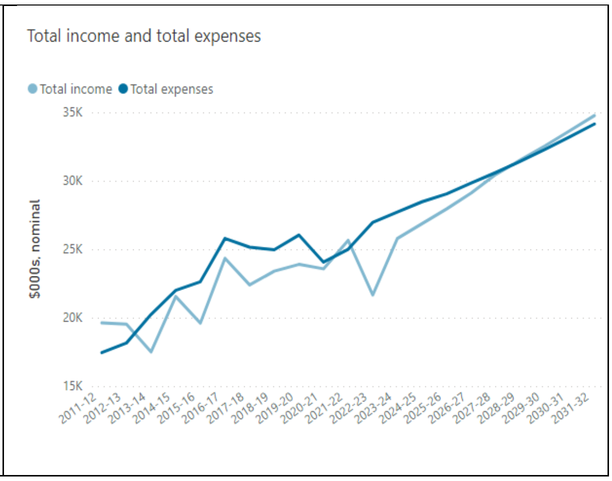
[20] Mid Murray Council, *Transport Asset Management Plan 2022,* September 2022, p. 11, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0016/1205611/Roads-AMP-Final.pdf.
[21] Mid Murray Council, *Transport Asset Management Plan 2022,* September 2022, p. 11.
[22] Mid Murray Council, *Building, Land & Structures Asset Management Plan*, April 2022, p. 17, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0023/1184441/BLSI-AMP-112042022.pdf.

C Financial sustainability

C.1 Net operating result

The Mid Murray Council has run recurring operating deficits from 2013-14 to 2020-21 and its operating surplus ratio[23] is not forecast to be positive again (with a surplus) until 2028-29 (then 0.3 percent) (see the left chart below). The improvement to its projected operating position is attributable to the budgeting for continued rates revenue increases and slower expenses growth (see the right chart below).





Rates revenue growth of an average of 5.4 percent per annum from 2011-12 to 2020-21[24] (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'[25] but the three-year average of $579 per ratepayer in 2021-22 compares with the three-year average of $529 in 2013-14 which, reflects a reduction in value in real terms (since it is lower than inflation growth over this period).

The high operating expense growth (from 2011-12 to 2020-21) was primarily due to an average annual increase of 5.4 percent in 'materials, contract and other' expenses and 5.0 percent in depreciation expenses (see the changes by expense type in specific time periods in the left chart over the page). The Commission notes that the Council phased in a new roadside residential waste bin collection service to many rural residents over the past 3 to 5 years,[26] as well as the impact of the increase in the solid waste levy on councils' waste management costs over this period.

Looking forward, the Council is projecting average annual rates revenue growth of 4.4 percent to 2031-32, which is set to outpace inflation[27] and expense growth (rates are discussed in more detail in section D).

23 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).

24 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).

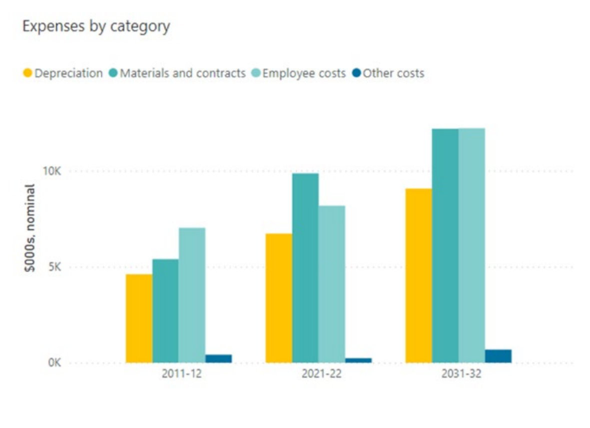
25 Due to the timing of different grants and sometimes advance grant payments (as for the 2022-23 grant allocation).

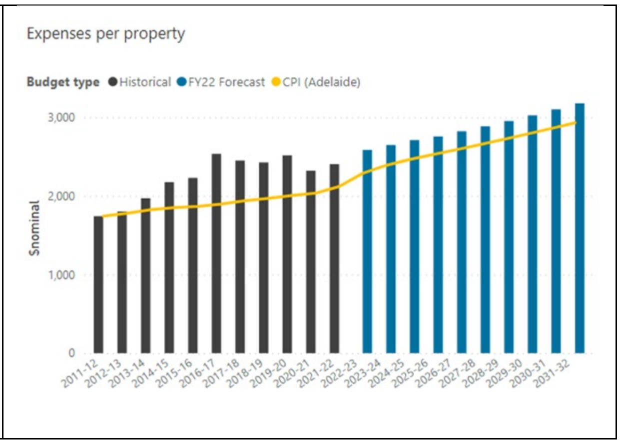
26 Mid Murray Council, email to the Commission dated 27 February 2023.

27 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.

Lower average expense growth of 2.7 percent per annum aligns with forecast inflation growth[28] and marks a shift from the Council's past performance (with average annual growth of 3.6 percent in the 10 years to 2020-21).

Expenses per property (a metric which also accounts for growth) are expected to increase by an average of 2.3 percent per annum over this period, which would represent a cost reduction in real terms (based on current inflation projections) (see the right chart below).





'Employee' expenses have increased conservatively in the past – in fact, at a rate below inflation from 2011-12 to 2020-21 (by an average of 1.5 percent per annum). These expenses are now forecast to increase by an average of 2.8 percent per annum from 2022-23 to 2031-32, aligned with inflation growth, after a significant annual increase of 17 percent in 2022-23.

'Materials, contracts and other' expenses are forecast to increase by an average of 2.6 percent per annum, which would reflect much more contained growth, below forecast inflation. Its LTFP stated that it applied its forecast of CPI inflation, rather than the Local Government Price Index (LGPI), to these projected expenses to apply a 'quasi-efficiency' levy.[29]

The Mid Murray Council has also stated that it will look for efficiencies as it manages its budget and plans moving forward.[30] This is a positive step, noting its improved financial sustainability outlook does rely on more 'cost constraint' than it has demonstrated in the past overall.

As an example, it might be appropriate for the Council to review its current maintenance and operations budget for plant and equipment, given the projected costs for the size of its fleet.[31] The Council had identified technology changes in its AMP which would allow it to manage plant and machinery use and maintenance more efficiently, and this might help to reduce costs.[32]

In general, it would be appropriate for the Mid Murray Council to find additional savings, where possible, that can be directly factored into its future budgets for enhanced financial sustainability and less pressure on its rates base. Its recent Transfer Station (for waste) operation review in response to the relatively high cost of these services in the council area, should yield savings.[33] Seeking value for money

---

28 See footnote 26.
29 Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 7.
30 Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 8.
31 Mid Murray Council, *Plant & Machinery Asset Management Plan*, April 2021, pp. 2 and 15, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0041/943997/Final-Plant-and-Machinery-AMP-04082021.pdf.
32 Mid Murray Council, *Plant & Machinery Asset Management Plan,* April 2021, p. 9.
33 Mid Murray Council*, Council Ordinary Meeting Agenda and Minutes - 12 July 2022, Item 8.2*. pp. 61-70, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0040/1175998/20220712-Council-Agenda-and-Attachments-Public..pdf.

through competitive tender processes in its contracts and other procurement activities will also help to contain costs, as it has identified it would continue to do.[34]

Based on the outcomes from these approaches, it would be appropriate for the Council to:

3. **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

With the Council's recurring operating deficits from 2013-14, its net cash shortfall after its operating and investing (capital-related) activities has averaged $0.4 million annually between 2011-12 and 2020-21. (This is different to the chart over the page which shows cash held by the Council at the end of each year, including financing activities, which has averaged $1.3 million.)

The Mid Murray Council has used loan borrowings including a 'Cash Advance Debenture' facility with the Local Government Finance Authority of South Australia (**LGFA**) to fund its cash shortfalls in the short to medium term when required, which allows it to pay off the 'principal' portion of the loan as soon as net cashflow is available.[35]

The Council's net financial liabilities ratio has trended between 30 and 61 percent between 2011-12 and 2021-22 (see the bottom left chart over the page). This is within the suggested LGA target range for the indicator of between zero and 100 percent and is at a level which demonstrates that the Council is accumulating liabilities that its operating income can reasonably service (see the top right chart over the page).[36]

The Council has estimated that the ratio will peak at 90 percent in 2022-23 with additional borrowings of almost $10 million to help fund the forecast peak in asset renewal works expenditure (up by 147 percent on the unaudited 2021-22 estimate) (see the bottom right chart over the page).

The ratio will then decline to an average of 50 percent in the five years to 2031-32, which reflects both the marginally lower trend in borrowings and other liabilities and the projected operating income growth (an average of 2.7 percent per annum). As previously stated, the Council is relying predominantly on further rates income growth to improve its overall financial sustainability and any further debt funding will presumably need to be considered with reference to operating capacity and capital expenditure requirements.

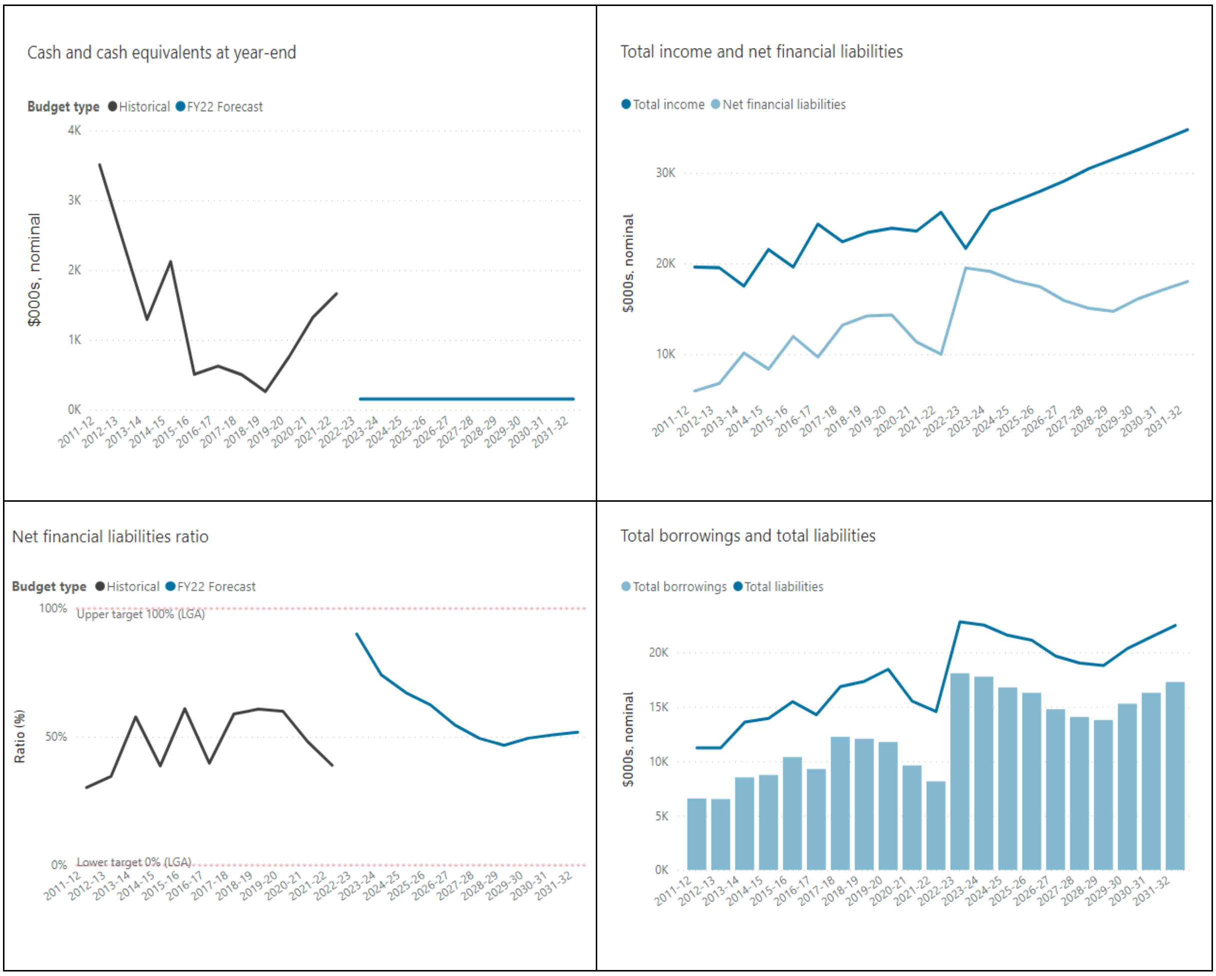
The LTFP projections also include new borrowings which effectively provide funding for the additional building renewal works (a total of $15 million or $1,417 per property between 2028-29 to 2031-32) which it has introduced into its forward budget from 2022-23.

---

34 Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 8.

35 Mid Murray Council, *Annual Business Plan and Budget 2022-23*, July 2022, p. 19, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0023/1184432/20220725-ABP.pdf.

36 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).



C.3 Asset renewals expenditure

The Council has significantly improved the performance of its asset renewal funding ratio[37] with recent budgets indicating a significant shift in its asset spending priorities (see the top charts over the page).

Between 2012-13 and 2018-19, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 59 percent,[38] signifying an 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 $3.1 million each year (over this period).

From 2022-23 to 2031-32, the ratio is forecast to average 100 percent and remain consistently within the suggested LGA target range for the sector of between 90 to 110 percent. Average annual spending on renewal or rehabilitation of assets is projected to increase to $7.5 million (in nominal terms).

The Mid Murray Council has grown its asset base over the past 10 years with expenditure on new or upgraded assets averaging $4.3 million per annum between 2011-12 and 2020-21 (see the bottom right chart over the page), which includes a portion of grant funding for certain projects, including the Cambrai Landfill Site. This has led to average growth in the value of the asset stock per property of $322 or 2.0 percent per annum in the 10 years to 2020-21 (see the bottom left chart over the page).

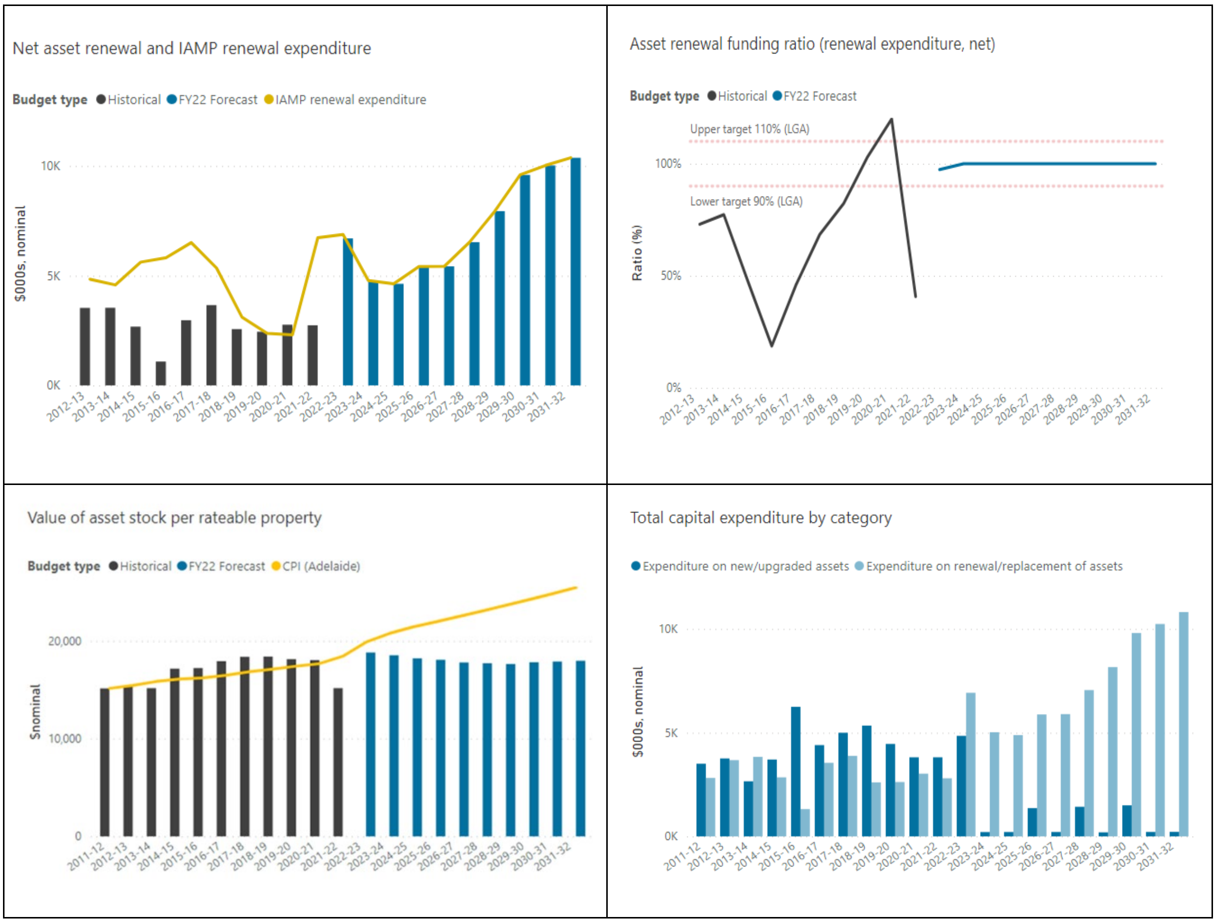
37 The IAMP-based method is the current industry standard whereby asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). Ideally, this will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan. The suggested LGA target range for the ratio is 90 to110 percent (LGA SA Financial Indicators Paper, p. 9).

38 The quoted averages for the ratio are based on 'net asset renewal expenditure' (after the sale of replaced assets) rather than 'gross asset renewal expenditure'.

With higher historical spending on new or upgraded assets, the Council has accumulated a backlog in asset renewals, with historical expenditure lower than required under the Council's AMPs. However, the Council is forecasting to 'catch up' on required asset renewal expenditure from 2022-23 (see the bottom right chart below). It has also identified potential asset disposal options in its Buildings, Land & Structures AMP[39] as part of its Disposal Plan, and it might have other feasible asset sale options to generate funding and reduce recurrent expenses. For these reasons, the Commission considers that it would be appropriate for it to:

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

5. **Consider** actioning asset sale or disposal options, where reasonable, in consultation with its community, as necessary.



Aside from planned expenditure on transport works, which accounts for around 50 percent of total renewals budget, the Council has planned renewals expenditure of $3.0 million on the landfill and transfer stations, which includes additional works on the Cambrai Landfill Site. The Commission understands that the Council has not yet been able to attract shared usage from other council areas for this facility, as it had initially intended, and that, in addition to the significant community costs to date for this facility, further site works are equivalent to around $290 per property over the next 10 years.

The Council has also significantly increased its projected expenditure on renewal works for buildings and toilet blocks ($15 million or an average of $3.8 million per annum between 2028-29 and 2031-32).

39 Mid Murray Council, *Building, Land & Structures Asset Management Plan*, April 2022, p. 15.

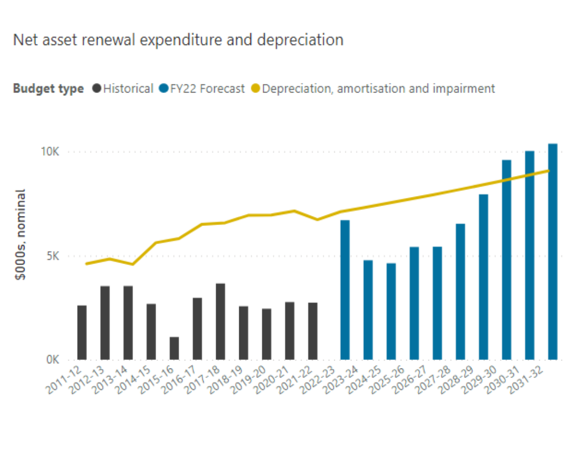
The Building, Land & Structures AMP has indicated that there was a significant shortfall in renewal works funding ($9.1 million in 2030-31)[40], which the 2022-23 LTFP has addressed, with additional funding of $5.5 million due to asset demand and indexation assumption revisions.[41]

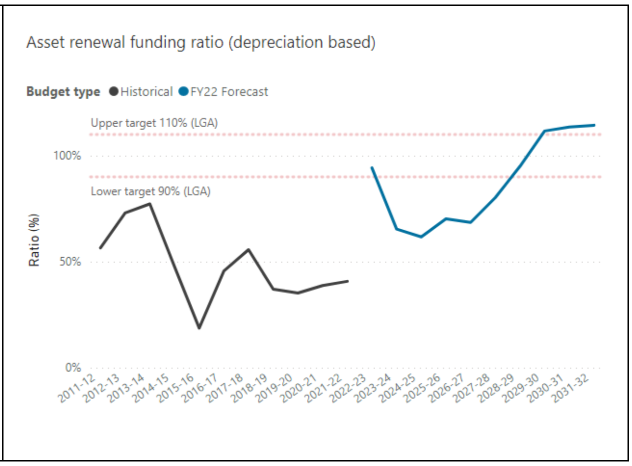
This additional expenditure is significant ($1,417 per property) and should be based on a rigorous assessment of asset renewal requirements specific to the council area. The Council's AMP states that it has not yet quantified the desired levels of service for its building and land asset base, although it has undertaken condition assessments.

From 2022-23, the depreciation-based asset renewal funding ratio,[42] is projected to continue to track below the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 87 percent per annum to 2031-32. This indicates depreciation expenses are generally higher than the required expenditure on capital renewals under its various AMPs (see charts below).

However, the depreciation-based ratio is projected to increase above 90 percent in 2028-29 (when it is forecast to be 95 percent), coinciding with significant new expenditure on building renewals at this time.

One area that might be leading to higher depreciation forecasts by the Council relative to actual aggregate 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).





The Commission has observed other differences in estimates, either between the Council's AMPs or an AMP and LTFP (including the 2022-23 LTFP estimates provided by the Council), for example:

- A significant change in the value of its total asset base ('infrastructure, property and equipment') in the Council's unaudited 2021-22 estimate to $157.6 million, which is a $29.2 million reduction on the 2020-21 estimate. The Council has advised the Commission that this reflects the removal of earthworks from unsealed roads in the asset base and that the valuation change is not yet properly incorporated into the LTFP's forward estimates. Further depreciation expense changes are also anticipated in the next LTFP update by the Council.[43]
- Some material changes to sealed and unsealed road estimates in its latest Transport AMP (compared with the 2021 version), including around 66.4 km less unsealed road length.[44]

40 Mid Murray Council, *Building, Land & Structures Asset Management Plan*, April 2022, p. 17.
41 Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 4.
42 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.
43 Confirmed in an email from the Council to the Commission, 10 October 2022.
44 Mid Murray Council, *Transport Asset Management Plan 2022*, September 2022, pp. 4 and 10. The Commission's calculations are based on the Council's estimates in its Transport AMP 2022 and 2021 version of the AMP (p. 1).

- A large cost variation in the final LTFP for bridge renewal works, compared with the estimates in the Bridges and Major Culverts AMP (the LTFP estimate is 46 percent higher).[45] The Bridges and Major Culverts AMP was last updated in July 2018 and is due for complete revision and updating by 2022.[46] The Community Wastewater Management System (CWMS) AMP states it will be updated annually.[47]

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

6. Review the assumptions underpinning its asset management plans to ensure those plans incorporate a more accurate picture of required asset expenditure and better alignment with the allocations in its long-term financial plan, including:
    - the estimate for asset lives and valuations feeding into the forecast rates of asset consumption and depreciation expenses, and
    - the asset renewal expenditure requirements for buildings (and other relevant assets), with consideration of the service levels desired by the community.

As stated, the Council has projected lower spending on new or upgraded assets from 2023-24, averaging $0.6 million per annum to 2031-32. Some of the shift in capital spending to renewals is due to kerbing and footpath works, which were previously planned as 'new and upgraded' expenditure being shifted to 'renewals' expenditure. The Council intends to first revise the township plans and conduct condition assessments on these assets to assess the nature of the works required.[48]

The Council does not yet have an AMP specifically for footpaths and kerbs, but has indicated that it will develop one, and this should help to better focus and align the expenditure requirements. This is in addition to the other new AMPs it proposes (for marine facilities, maritime vessels, and information technology assets). Accordingly, the Commission considers that it would be appropriate for the Council to:

7. Complete its asset management plan for footpaths and kerbs, as well as its other proposed new plans, to support and align with the associated asset expenditure requirements included in its long-term financial plan.

45 The Commission's calculations based on the Council's estimates in its *Bridges & Major Culverts Asset Management Plan*, July 2018, p. 19, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0020/170633/Bridges-Asset-Management-Plan.pdf and *LTFP 2022-23 to 2031-32*, p. 10.

46 Mid Murray Council, *Bridges & Major Culverts Asset Management Plan*, July 2018, p. 21.

47 Mid Murray Council, *Community Wastewater Management System Asset Management Plan*, July 2018, p. 28, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0016/170017/CWMS-Asset-Management-Plan.pdf.

48 Mid Murray Council, *Transport Asset Management Plan 2022*, September 2022, p. 11.

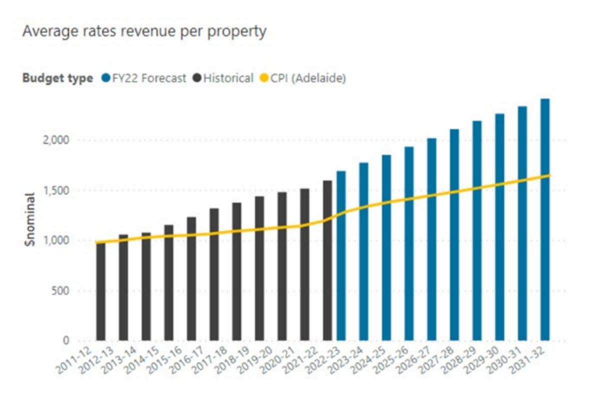
D Current and projected rate levels

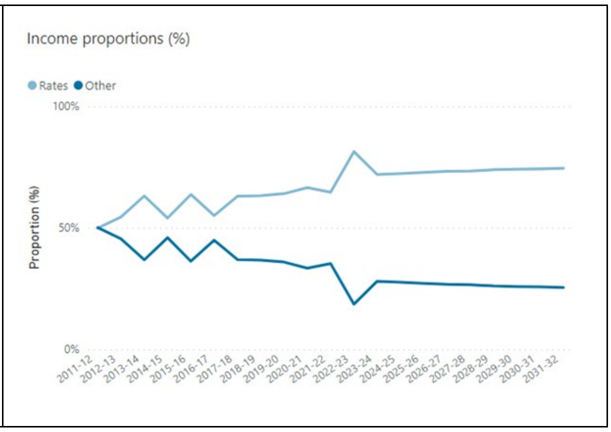
D.1 Historical rates growth

The Mid Murray Council's rate revenue growth has averaged 5.4 percent or $60 per annum for each property over the past 10 years,[49] to reach an estimated $1,515 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.[50] Current rate levels partially reflect its recent history of spending growth, predominantly on new and upgraded assets and higher contract-related expenses.

The Council has become increasingly reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 81 percent of budgeted operating income in 2022-23, compared with 50 percent of income in 2011-12.

Based on external data, the Commission notes that the Mid Murray Council has relatively low average rates, reflecting its relatively low-rate levels for non-residential categories, but marginally high residential rates.[51].





D.2 Proposed 2022-23 rate increases

The Mid Murray Council has budgeted for an average rate increase of 6.0 percent or $87 for its existing ratepayers in 2022-23,[52] which was higher than it had anticipated charging for this year in its 2020-21 and 2021-22 LTFP projections (3.5 percent for existing assessments in the 2021-22 LTFP). The rates increase reflects higher short-term inflation (anticipated by the Council to be 3 percent in 2022-23), an extra 1 percent for a retrospective 2021-22 CPI adjustment, and an allowance of 2 percent for 'sustainability', which is its own term to 'gradually reduce its deficit position so long as operational expenses are kept near CPI'.[53] The Council's projected total 'general rates' revenue growth is higher (7.2 percent) and includes growth of 0.4 percent in rateable property numbers, as well as a new special rate and mandatory rebate adjustments.[54]

---

49 From 2011-12 to 2020-21.

50 CPI (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 1.9 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.

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

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

53 Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32,* September 2022, p. 6.

54 Mid Murray Council, *Annual Business Plan and Budget 2022-23*, July 2022, p. 22.

Different rate categories are subject to varying changes, with residential ratepayers to pay a slightly lower increase - 5.3 percent or $77 per property on 2021-22 average rate levels. Primary production (mostly farmland) ratepayers will pay the largest increase - an average increase of $150 or 10.4 percent more, the Commission notes these ratepayers are on relatively lower differential rates.[55] Ratepayers on the minimum rate, amounting to a third of all ratepayers and likely to include the more vulnerable members of the community, will pay 9.6 percent or $73 more (to $860) in 2022-23.[56] [57]

Other than 'general rates' revenue (which represents around 84 percent of total rates revenue in 2022-23),[58] the Council collects income from waste management charges, the CWMS charge, and the regional landscape levy[59] (around 9, 4 and 3 percent of total rates revenue respectively).[60] The budgeted charges include the small extra charges (around $10 per ratepayer) for additional wastebin services.

The Mid Murray Council has also introduced a new 'Separate Rate for Mannum Waters' for it to recoup the water entitlement costs on benefiting properties (residential, commercial and marina berth). This follows its extensive consultation on this rate.[61] The application of the beneficiary-pays principle appears appropriate to recoup these costs, notwithstanding that the separate rate does present an additional impost on affected properties (by up to another $115 to $163 per residential property) when these are also being charged higher general rates.[62]

The Commission notes that a deed between the Council and the Marina developer did initially specify the charging of a separate rate on properties to finance the purchase of any water needs to meet the evaporation loss. Following consultation with the community, the Council increased its contribution by 11 percent towards the costs, thereby reducing the separate rate but increasing the cross-subsidisation of costs by the broader rates base.[63]

D.3 Projected further rate increases

The Mid Murray Council has acknowledged that it would be unrealistic for it to achieve an operating surplus in the near term, due to the financial hardship it would cause the community.[64] Over the forward years of its LTFP, the Council is still projecting average rates increases for its existing ratepayers of 4.75 percent per annum from 2023-24 to 2031-32, including a further 2 percent 'sustainability' allowance on top of inflation each year.[65] In total, the LTFP effectively projects a cumulative increase of $704 per existing ratepayer (to $2,017) by 2031-32, an increase of $337 above the Council's assumed inflation growth over this period (refer back to the previous chart on the left side).[66]

---

55 Rate in the dollar applied to the capital value of the property in the Council area.
56 Mid Murray Council, *Annual Business Plan and Budget 2022-23*, July 2022, p. 20.
57 Other ratepayers such as commercial, industry, vacant land and marina berth ratepayers will incur different rate variations including some rates reductions, Mid Murray Council, *Annual Business Plan and Budget 2022-23*, July 2022, p. 22.
58 Before discretionary rebates.
59 Income is not retained by the Council.
60 There are also other minor rates and service charges.
61 Mid Murray Council, *Annual Business Plan and Budget 2022-23*, p. 26. UHY Haines Norton Adelaide on behalf of the Council, *Mannum Waters Separate Rate Consultation Paper – April 2022*, p. 9.
62 The Council considered 48 submissions on its consultation paper and held two community information sessions and one stakeholder information session. It considered the options and consultation outcomes at its public meeting (14 June 2022).
63 The Annual Business Plan and Budget 2022-23 has not specified the amount of the final separate rates.
64 Mid Murray Council, *Annual Business Plan and Budget 2022-23*, July 2022, p. 18.
65 Mid Murray Council, *Long Term Financial Plan for the period 2022-23 to 2031-32*, September 2022, p. 6.
66 The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum), which are different to Council's inflation forecasts (as was discussed in section B1).

D.4 Affordability risk

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

- the relatively low Socio-Economic Indexes for Areas (**SEIFA**) economic resources ranking for the Mid Murray Council area[67]
- the growing value of long-term rates arrears that the Council has reported[68]
- the community concerns which have been expressed about further rates rises in the 2022-23 budget process (all seven comments on the budget related to the affordability of the rises, and/or the need for further cost constraint or service rationalisation by the Council)[69]
- a large increase in minimum rate levels this year (by 9.6 percent or $73), higher than the percentage increase to existing average rate levels
- a new separate rate being introduced for some properties (in and around Mannum Waters), in addition to the general rates increase these properties will incur, and
- the existing relatively high residential rates without further increases above inflation.

To minimise the affordability risk to certain ratepayers, it would be appropriate for the Mid Murray Council to:

8. **Review** and **consider** limiting future increases on its minimum rates and residential rates (for which average rate levels are high) to help reduce affordability risk in the community.

It would be further appropriate for the Council:

9. **Focus** on constraining cost growth to reduce the pressure on all rate levels (as per **Finding 2**), including consideration of the community's desired service levels, proposed capital expenditure and associated costs.

---

67 The Mid Murray Council area is ranked 24 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2016), where a lower score (eg, 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

68 Mid Murray Council, *Ordinary Council Meeting Agenda -12 July 2022, Item 7.1.1-3 Graph Showing Rate Arrears,* available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0040/1175998/20220712-Council-Agenda-and-Attachments-Public.pdf.

69 Mid Murray Council, *Ordinary Council Meeting Agenda -14 June 2022, Item 7.1.4 Summary of responses, to Annual Business Plan and draft LTFP*, available at https://www.mid-murray.sa.gov.au/__data/assets/pdf_file/0019/1160029/20220614-Council-Agenda-Released-20.1.2.pdf.

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