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Advice

Local Government Advice

Wattle Range Council

February 2023

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Glossary of terms

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

1 The Commission's key advice findings for the Wattle Range Council

The Essential Services Commission (**Commission**) finds the Wattle Range Council's (**Council's**) current financial position at risk of being unsustainable based on its forecast operating deficits and past high-cost growth, particularly related to staffing costs. However, the Council is projecting more spending constraint in later years to move into a more sustainable position over time. The Council's eventual projected operating surplus results from forecast rates growth exceeding forecast cost growth, but risks remain to its projections.

Acknowledging this outlook, the Commission considers that it would be appropriate for the Council to undertake the following steps to ensure that it budgets prudently and transparently, manages its cost base more efficiently, renews its asset base to meet sustainable service levels, and ultimately, looks for opportunities to constrain the extent of further rate increases:

Budgeting considerations

1. **Review** and **publish** its long-term financial plan annually (including its 10-year projections), to inform its decision-making and any relevant consultation processes.
2. **Ensure** that its long-term financial plan identifies annual inflation and other relevant assumptions for its cost and revenue estimates, reflecting an annual review of these assumptions.
3. **Consider** future coordination of annual updates to long-term financial plan projections with annual business plan and budget preparation to provide transparency to the community about changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

Demonstrating increased cost efficiency

4. **Review** the rationale for the recent high growth in 'employee' expenses and focus on constraining cost growth where possible, particularly related to 'employee' expenses.
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.

Meeting asset renewal needs

6. **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.

Refinements to asset management planning

7. **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 plans.
8. **Finalise** updating its existing asset management plans as it has indicated in its forward program, with a focus on consideration of the community's desired service levels, proposed capital expenditure and alignment with its long-term financial plan projections.

Containing rate levels

9. **Monitor** the impact of further average rate increases, in consultation with its community, particularly on rate categories where average rates are already relatively high (such as 'primary production' categories) but with continued consideration of the capacity to pay for higher rates by different ratepayers.
10. **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**).

2 About the advice

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

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

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

This report provides the Local Government Advice for the Wattle Range Council in 2022-23.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2023-24 Annual Business Plan (including any draft Annual Business Plan) and subsequent plans until the next cycle of the scheme.⁸ It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website⁹), nor is it compelled under the LG Act to follow the advice. The Commission thanks the Wattle Range Council for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

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

Its forward projections from 2022-23 forecast a gradually improved financial sustainability outlook with the rate of operating revenue growth set to outpace expense growth and:

¹ Amendments to the *Local Government Act 1999* (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).

² Commonly referred to as asset management plans.

³ The objectives of the advice with reference to a council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMPs.

⁴ 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.

⁵ Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

⁶ LG Act s122(1f)(a) and (1g)(a)(ii).

⁷ LG Act s122(1f)(b) and (1g)(b).

⁸ LG Act s122(1h).

⁹ The Commission must publish its advice under LG Act s122(1i)(a).

- ▶ continued rate increases on the community, above the rate of the Reserve Bank of Australia (RBA)-based forecast inflation
- ▶ lower average cost growth than it has experienced over the past 10 years, and
- ▶ the prioritisation of its asset spending away from new and upgraded assets and more towards renewal and rehabilitation capital works projects.

However, the Commission has some reservations about the Council's financial projections from 2022-23 to 2031-32, given the Council has not yet published a draft LTFP 2022-23 for consultation. The Commission encourages the Council to reconsider the timing of when it adopts and reviews its LTFP in the future to avoid these types of issues with its projections and to ensure that it more consistently consults its community about the long-term impact of its short-term decisions.

The Commission notes the recent staffing cost growth for the Council has been very high, and that it would be prudent for the Council to review the rationale for the extent of these increases.

The Commission further encourages the Council to:

- ▶ look for opportunities to achieve greater savings and cost efficiencies in its recurrent budget
- ▶ engage its community about desired service levels for different assets and service priorities with reference to costs and rate contributions, as appropriate, and
- ▶ integrate these outcomes into its asset management and financial planning.

Looking ahead, the Wattle Range Council will need to balance maintaining a more sustainable operating position and addressing the backlog of asset renewals it has accumulated, while at the same time having regard to the community affordability risks stemming from higher rates. The Commission notes that the Council has already taken steps to limit the impact of rate increases on members of its community which might have less capacity to pay for higher rates (including residential and minimum rate ratepayers) but notes that its rural rates are relatively high¹⁰ and the ongoing impact on these ratepayers will warrant further monitoring and consideration.

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

The 'heat map' diagram over the page summarises the Commission's findings with reference to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators¹¹ and the level of cost control and affordability risk identified for the Council over time.

¹⁰ Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/wattle_range_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.

¹¹ The suggested LGA target range for the ratios are discussed in more detail in the attachment.



Summary of the Wattle Range Council's financial sustainability performance and the Commission's risk assessment

Financial sustainability indicators:	Last 10 years from 2011-12 (Actual performance)	2021-22 estimate	Next 10 years from 2022-23 (Council forecasts)
Operating surplus ratio (target 0-10%)	Ratio generally met the target —>	Operating deficit	Forecast continued operating deficits and ratio target range not to be met —>
Net financial liabilities ratio (target 0-100%)	Ratio met until 2016-17 —> Ratio below target since 2017-18 —>	Ratio met from 2021-22 (as in projections from 2022-23) —>	
Asset renewal funding ratio (target 90-110%)	Spending on renewal works generally below requirements and ratio below target range —>	Ratio target range forecast to be met generally in projection years —>	
Identified Risks:			
Cost control risk	Average operating expenses per property growth of 3.5% p.a. to 2020-21 (CPI 1.7%) —>		Operating expenses per property forecast average growth of 1.8% p.a. to 2031-32 (CPI 2.8%) —>
Affordability risk	Rates revenue per property average growth 3.4% p.a. to 2020-21 —>		Rates revenue per property average growth forecast 3.4% p.a. to 2031-32 (CPI 2.8%) —>

- Ratio outside suggested target range or higher risk
- Ratio close to suggested target range or medium risk
- Ratio within suggested target range or lower risk

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the Wattle Range Council's financial sustainability (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure) and its current and projected rate levels.

In providing this advice, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (F&A). The attachment explores these matters further.¹²

2.2.1 Advice on material plan amendments in 2022-23

The Wattle Range Council has not published its draft LTFP 2022-23 for consultation¹³ and the last time the Council reviewed or updated its LTFP was in November 2019 (LTFP 2020-2029).¹⁴ As such, the Commission cannot provide commentary on the material amendments that the Council has made in its LTFP.¹⁵ In this section, the Commission has focused on material changes in the Wattle Range Council's annual budget for 2022-23, compared with the budget for the previous year.¹⁶

For 2022-23, the Council's annual budget forecasts an operating deficit of \$3.2 million and capital expenditure of \$8.9 million (with \$5.7 million on asset renewal works).¹⁷ The Council's operating income growth is estimated to be relatively flat (increasing by 0.1 percent in 2022-23) with higher rate contributions for higher inflation (assumed to be 5.1 percent),¹⁸ generally offsetting lower revenue from other sources including lower grants revenue. The Council also increased its operating expenses (by 5.9 percent), driven in part by inflationary impacts but also by significantly higher employee expenses and depreciation expenses which were partially offset by a decline in 'materials contracts and other' expenses.¹⁹

The Council's 2022-23 budget included a 24.7 percent (or \$2.8 million) increase in 'employee' expenses, explained by the Council to cover a combination of additional staff and additional staff payments.²⁰ This followed growth in these expenses of 7.2 percent (or \$0.8 million) in 2021-22 (compared with 2020-21). Average employee expenses per property in Wattle Range area subsequently increased from \$1,161 in 2020-21 to \$1,520 in 2022-23. The need for greater cost constraint by the Council, particularly related to staffing, is discussed in section 2.2.2.

Regarding the timing of its LTFP, the Commission understands that the Council intended to review its updated LTFP (from 2022-23) in December 2022 and that it would endorse it by March 2023.²¹ The

¹² The attachment will be available on the Commission's website with the Advice.

¹³ LG Act s122(4)(a) requires an annual review of LTFPs.

¹⁴ Wattle Range Council, *Long Term Financial Plan 2020-2029*. November 2019, available at https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0042/299787/Long-Term-Financial-Plan-LTFP-2020-2029.pdf.

¹⁵ Estimates for the 2022-23 financial year in its current LTFP are now three years old.

¹⁶ The financial projections, including rate revenue projections, that the Council provided to the Commission (for 2022-23 to 2031-32) to formulate this advice, but which are not otherwise published by the Council, are further discussed in the context of the Commission's advice on financial sustainability and projected rate levels in section 2.2.2 and section 2.2.3.

¹⁷ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, pp. 42-46, available at https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0025/1179034/WRC-Annual-Business-Plan-2022-2023-Final-Copy-Adopted-12-July-22.pdf.

¹⁸ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 10.

¹⁹ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, Appendix 1 – Budgeted Financial Statements 2022/2023 and the Commission's calculations.

²⁰ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 26.

²¹ Wattle Range Council, *Audit and Risk Committee - 25 October 2022 Agenda*, Attachment 6.3.1 – Long Term Financial Plan, p. 78, available at

Commission notes that its current LTFP (2020-2029) identified the approach to formulating its estimates, including the modelling of Consumer Price Index (CPI) and other changes, and it is anticipated that its next LTFP will include similar detail. However, the Council did not identify the actual percentage growth inflation assumptions applied to the forward years, which are important for the community and other stakeholders to understand the projected inflationary impacts, as distinct from 'real' or service-related impacts.

With budgeting practice in mind, the Commission also encourages the Council to consider integrating its LTFP review into its annual business plan and budget process, to ensure better alignment between its projections and avoid substantial revisions to estimates.

For these reasons, the Commission considers that it would be appropriate for the Wattle Range Council to:

1. **Review** and **publish** its long-term financial plan annually (including its 10-year projections), to inform its decision-making and any relevant consultation processes.
2. **Ensure** that its long-term financial plan identifies its annual inflation and other relevant assumptions for its cost and revenue estimates, reflecting an annual review of these assumptions.
3. **Consider** future coordination of annual updates to long-term financial plan projections with annual business plan and budget preparation to provide transparency to the community about changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

2.2.2 Advice on financial sustainability

Operating performance

The Wattle Range Council has run recurring operating surpluses from 2011-12 to 2020-21 with the operating surplus ratio²² averaging 6.8 percent over this period. This reflects a period of strong operating performance for the Council.

The Council's operating income growth (which averaged 3.7 percent over this period) exceeded its operating expense growth (which averaged 3.4 percent per annum²³), while both were at least double the rate of CPI inflation growth (which averaged 1.7 percent per annum). At the same time, property (numbers) growth declined by a small margin (an average of 0.1 per cent per annum), although higher growth followed in 2021-22 and 2022-23. Costs were driven largely by employee, materials, contract-related and depreciation expenses, consistent with a period of service expansion, while rates growth led income growth.

In the forward years, the Council is projecting a negative operating surplus ratio averaging negative 4.9 percent (to 2031-32). This is outside the suggested LGA target range for the ratio and puts the financial sustainability for the Council at risk. The ratio is not forecast to be positive again until 2031-32.

https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0030/1227774/Audit-and-Risk-Committee-Agenda-and-Papers-25-October-2022.pdf.

²² The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income. The general target is to achieve, on average over time, an operating surplus ratio of between zero and 10 percent (Local Government Association of South Australia, *Financial Sustainability Information Paper 9 - Financial Indicators Revised*, May 2019 (**LGA SA Financial Indicators Paper**), p. 6).

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

In addition, the Council has forecast lower average expense growth of 1.8 percent per annum to 2031-32, which is below the RBA-based average inflation forecast (2.8 percent).²⁴ This would represent a significant shift from the Council's past operating performance, when its employee expenses increased by 6.1 percent per annum from 2011-12 to 2020-21 (with full time equivalent (FTE) in staffing numbers increasing from 95 to 129) and its 'materials, contracts and other' expenses increasing by 2.8 percent per annum.

The Wattle Range Council also increased employee expenses by 33.7 percent over two years from 2020-21 to 2022-23. The extent of the increase in Council's staffing costs was raised as a concern in community consultation on the annual budget, including in the context of the planned expenditure by the Council on the new administration facility for staff.²⁵ The Commission further notes that the Council's estimated employee expenses in 2022-23 are approximately \$14.0 million, \$3.6 million higher than it estimated in its existing 2020-29 LTFP for this year (\$10.3 million),²⁶ although, as noted above, the Council has not reviewed its LTFP projections since November 2019.

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

4. **Review** the rationale for the recent high growth in 'employee' expenses and focus on constraining cost growth where possible, particularly related to 'employee' expenses.
5. **Report** its actual and projected cost savings in its annual budget, to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Net financial liabilities

The Wattle Range Council has recorded a 10-year average net financial liabilities ratio²⁷ of 16.0 percent (from 2011-12 to 2020-21), and this is within the suggested LGA target, which indicates that its income capacity has comfortably met its borrowing costs. However, the four-year average from 2017-18 to 2020-21 was negative 17.3 percent, which is outside the suggested LGA target range. A negative ratio over time can indicate an opportunity for the Council to either reduce rate contributions or increase spending (although in this case, the 10-year average was positive).

Cash and cash equivalents gradually increased from \$78,000 in 2011-12 to \$14.7 million in 2020-21 but are projected to decline to \$1.9 million at the end of 2022-23 and remain on average at \$1.4 million annually until 2031-32. According to the LTFP 2020-2029, the cash will be drawn down to fund the planned capital expenditure.²⁸

The Council has estimated that its net financial liabilities ratio will become positive from 2023-24 and peak at 82.0 percent in 2025-26, with total borrowings and liabilities forecast to increase significantly

²⁴ 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.

²⁵ Wattle Range Council, *Special Council Meeting Agenda – 5 July 2022*, Items 5 Deputations and 7 Correspondence, available at: https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0020/1172441/050722-Special-Council-Agenda-and-Papers-Full-Copy.pdf.

²⁶ Numbers do not equate due to rounding.

²⁷ 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).

²⁸ Wattle Range Council, *Long Term Financial Plan 2020-2029*, November 2019, p. 11.

until 2025-26 (\$21.3 million). The projected 10-year average for the ratio is 57.8 percent with marginally reduced borrowings from 2025-26.

The 2022-23 Annual Business Plan indicated that the Council has not budgeted for any new borrowings in 2022-23, but that it would '*consider borrowing funds if successful in obtaining grant funding for multiple 'Shovel Ready' infrastructure projects.*'²⁹ The Commission encourages the Council to consider the full life cycle cost implications of such projects given its past high-cost growth, the extent of operating deficits it has forecast and the current risks to its financial sustainability.

Asset renewals expenditure

The Wattle Range Council's expenditure on renewal or replacement assets averaged \$3.4 million per annum between 2012-13 and 2020-21 which fell short of the spending requirements that the Council identified in its AMPs. For this reason, the Council's asset renewal funding ratio (IAMP-based³⁰) was well below the suggested LGA target range of 90 to 110 percent, averaging 78 percent to 2020-21.³¹

From 2022-23 to 2031-32, the asset renewal funding ratio is forecast to average 102 percent and generally remain within the suggested LGA target range. Average annual spending on renewal or rehabilitation of assets is projected to increase to \$4.7 million (in nominal terms).

The Council has grown its asset base over the past 10 years with expenditure on new or upgraded assets averaging \$3.2 million per annum between 2011-12 and 2020-21.³² Since 2014-15, the Council has tended to prioritise expenditure on renewal and replacement of assets, as opposed to new or upgraded assets (except for 2024-25). As a result, the Council's is ensuring that its asset stock value per rateable property is projected to be relatively steady.

The Commission notes that this is a positive step for the Council to better sustain its existing asset base, rather than increasing its operating cost pressures through capital expenditure on new or upgraded assets, and considers it is appropriate for the Wattle Range Council to:

6. **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.

From 2022-23, the depreciation-based asset renewal funding ratio,³³ is projected to continue to track below the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 70 percent per annum to 2031-32. This follows an average of 65 percent from 2011-12 to 2020-21 and indicates that estimated depreciation expenses, which should represent the average rate of asset consumption, are significantly higher than the required annual expenditure on capital renewals under its various asset management plans (AMPs).

To consider whether there should be a closer alignment between depreciation expenses and asset renewals expenditure, it would be appropriate for the Council to:

²⁹ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 32.

³¹ From 2012-13 as data was not provided for 2011-12.

³¹ From 2012-13 as data was not provided for 2011-12.

³² As advised by the Council, the value of assets is not only driven by new assets but also upon revaluation of the assets.

³³ 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.

7. **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 plans.

The Council recently adopted its community wastewater management system (CWMS) AMP in September 2022, which covers collection network, treatment infrastructure and irrigation infrastructure for the four townships - Penola, Kalangadoo, Southend and Beachport.³⁴ However, most of the Council's other AMPs have not been updated for at least three years, with the roads AMP not having been updated since 2015. Therefore, the information contained in its existing plans might include out-dated assessments of the Council's asset conditions, service levels and community expectations.

The Council has acknowledged the requirement to update those out-of-date AMPs and is in the process of updating the AMPs in 2022-23 for the assets of kerb, footpaths, and road.³⁵

Acknowledging these steps, the Commission considers that it would be appropriate for the Council to:

8. **Finalise** updating its existing asset management plans as it has indicated in its forward program, with a focus on consideration of the community's desired service levels, proposed capital expenditure and alignment with its long-term financial plan projections.

2.2.3 Advice on current and projected rate levels

The Council's rate revenue growth has averaged 3.4 percent, or \$56 per annum for each property over the past 10 years,³⁶ compared with average annual CPI growth of 1.7 percent over this period.³⁷

The Council has budgeted for an average general rate increase of 5.5 percent for its existing ratepayers in 2022-23.³⁸ The rates increase reflects higher short-term inflation (anticipated by the Council to be 5.1 percent in 2022-23). Its revenue estimates also allow for a 0.4 percent increase in new rateable properties.³⁹ The Council kept the minimum rate for ratepayers the same in 2021-22, being \$610.⁴⁰ The Council indicated that the majority of the rates increase in 2022-23 will be paid by 'primary production' ratepayers, and to a lesser extent 'vacant land' ratepayers. Commercial, industrial and 'other land' average rates per property is all estimated to decline, while residential ratepayers are expected to pay approximately the same as in 2021-22, on average, \$3 more per property.⁴¹ The Commission notes that the Council has sought to limit rate increases on those ratepayers who might have less capacity to pay for higher rates, such as 'residential', and 'minimum rate' ratepayers.

To 2031-32, the Council's average projected growth in rates revenue per rateable property is 3.4 percent per annum. This is 0.6 percent per annum higher than RBA-based forecast inflation (2.8 percent). Affordability risk among the community for the further rate increases could emerge, based on a range of factors including:

³⁴ Wattle Range Council, *Asset Management Plan Community Wastewater Management Systems*, September 2022, p. 7, available at https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0010/1213003/CWMS-AMP-Version-2.0.pdf.

³⁵ Wattle Range Council, *Annual Report 2021-22*, p. 70, available at <https://www.wattlerange.sa.gov.au/our-council/council-documents/annual-reports>.

³⁶ From 2011-12 to 2020-21.

³⁷ CPI (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 1.9 percent) to CPI growth over this period. Available at <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index>.

³⁸ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 34.

³⁹ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 34.

⁴⁰ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 37.

⁴¹ Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 36.

- ▶ the existing rate levels (which are relatively high for 'primary production' ratepayers but low for residential ratepayers)
- ▶ continued intended rate increases above inflation
- ▶ some concerns expressed about rates and cost containment by the Council in the community consultation on the annual budget,⁴² and
- ▶ an assessment of the economic resources available to the community (which places the area in the bottom half of all areas in terms of access to resources).⁴³

To minimise the affordability risk to the Council's ratepayers, it would be appropriate for the Council to:

9. **Monitor** the impact of further average rate increases, in consultation with its community, particularly on rate categories where average rates are already relatively high (such as 'primary production' categories) but with continued consideration of the capacity to pay for higher rates by different ratepayers.
10. **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**).

2.3 The Commission's next advice and focus areas

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

- ▶ development of its LTFP forecast and assumptions and annual review of its LTFP projections
- ▶ review of its recent high growth in employee expenses and general demonstration of a greater focus on cost constraint, with associated reporting of savings and efficiencies
- ▶ revisions of existing AMPs and adoption of new AMPs, to meet the 10-year requirement and its intended program, and actions to identify desired service levels and to address the need to update outdated condition assessments and valuations in certain AMPs, and
- ▶ actions to limit any potential affordability risk for its ratepayers.

⁴² One out of the six submissions objects to the rate increases proposed in 2022-23. Wattle Range Council, *Special Council Meeting Agenda – 5 July 2022*, p. 95.

⁴³ The Wattle Range Council area is ranked 26 among 71 South Australian 'local government areas' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics Socio-Economic Indexes for Areas Index of Economic Resources (2016), where a lower ranking (eg, 1) denotes relatively lower access to economic resources in general, compared with other areas, available at <https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest>.



The Essential Services Commission
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