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Advice

# Local Government Advice - Attachment

Wattle Range Council

February 2023

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**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](mailto:advice@escosa.sa.gov.au)  
Web: [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

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## A The Commission's approach

In providing the Advice for the Wattle Range Council (**Council**), the Essential Services Commission (**Commission**) has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**).<sup>1</sup>

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.<sup>2</sup> Analysis of these three indicators captures financial and service sustainability, in addition to cost control and affordability risk.<sup>3</sup>

- ▶ 2022/2023 Annual Business Plan (adopted July 2022)
- ▶ Long Term Financial Plan 2020 - 2029 (adopted November 2019)
- ▶ Asset Management Plan Roads (last updated November 2015)
- ▶ Asset Management Plan Kerb (last updated November 2017)
- ▶ Asset Management Plan Footways (last updated June 2017)
- ▶ Asset Management Plan Buildings and Structures (last updated October 2019)
- ▶ Asset Management Plan Plant and Equipment (last updated September 2016)
- ▶ Community Wastewater Management System Asset Management Plan (adopted September 2022)

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 (**LTFPs**),<sup>4</sup> it has also considered the Council's performance in that context. Findings regarding the content of the Wattle Range Council's AMPs, and the alignment between its LTFP and AMPs,<sup>5</sup> are discussed in section C.3.

The Commission has also reviewed the Council's template data which contains its forecasts for 2022-23 to 2031-32,<sup>6</sup> as well as its LTFP 2020-2029 forecasts, and historical financial data and number

<sup>1</sup> Commission, *Framework and Approach – Final Report*, August 2022, available at [www.escosa.sa.gov.au/advice/advice-to-local-government](http://www.escosa.sa.gov.au/advice/advice-to-local-government).

<sup>2</sup> The indicators are specified in the *Local Government (Financial Management) Regulations 2011 (Regulations)*. 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).

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

<sup>4</sup> *Local Government Act 1999 (LG Act)* s122(1g)(a)(i).

<sup>5</sup> As required under s122(1b) of the LG Act.

<sup>6</sup> The Council advised that the forward figures provided were provided as a preliminary draft and is subject to review and refinement in the next adopted version of the Long Term Financial Plan.

of rateable properties and council staff (Full Time Equivalent (**FTE**)) numbers from 2011-12 onwards.<sup>7 8</sup> All charts and tables in the Advice are primarily sourced from these datasets. 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.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Wattle Range Council, including its location as a large rural council, its income level (\$28.3 million<sup>9</sup>) and the size of its rates base (more than 9,000 ratepayers<sup>10</sup>).

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<sup>7</sup> Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.

<sup>8</sup> The Council's estimates for the 2021-22 financial year, relied on at the time of preparing this advice, were unaudited.

<sup>9</sup> Based on the estimated operating income in 2022-23.

<sup>10</sup> Based on the estimated number of property assessments in 2022-23.

## B Material plan amendments in 2022-23

The Wattle Range Council has not drafted its LTFP 2022-23 and the last time the Council updated the LTFP was in November 2019 (LTFP 2020-2029).<sup>11</sup> As such, the Commission cannot provide commentary on the material amendments that the Council has made in its LTFP.<sup>12</sup> 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.

### B.1 Material annual changes in 2022-23 budget

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).<sup>13</sup>

The Council's operating income growth is estimated to be relatively flat (increasing by 0.1 percent in 2022-23) with higher rate contributions (increasing by 4.6 percent or \$0.9 million) for higher inflation (assumed to be 5.1 percent).<sup>14</sup> This increase is generally offset by lower revenue from other sources including lower grants revenue (decreasing by 11.2 percent or \$0.6 million).<sup>15</sup>

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 (of 7.4 percent or \$0.9 million).<sup>16</sup>

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 to increase service delivery, particularly in areas of road construction/maintenance, administration and parks/gardens as well as additional staff payments.<sup>17</sup> 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 the Wattle Range Council subsequently increased from \$1,161 in 2020-21 to \$1,520 in 2022-23. Opportunities to focus on cost constraints by the Council, particularly related to staffing, are discussed in section C.1.

The Council also budgeted for a capital expenditure program of \$8.9 million in 2022-23, including \$5.7 million on asset renewal works, and \$3.2 million for the upgrade and acquisition of new assets. One focus in the budget is on roads, for example, unsealed road re-sheeting works (\$1.5 million).<sup>18</sup> The annual budget also included a reduction in borrowing levels of \$0.4 million for 2022-23, although the forward projections provided to the Commission indicate that borrowings would increase significantly in 2023-24 (as discussed in section C.2).

### B.2 Review of LTFP

Under s122(4)(a) of the LG Act, a council must undertake a review of its LTFP (and any other elements of its strategic management plans prescribed by the regulations), on an annual basis. In addition, under

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<sup>11</sup> 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](https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0042/299787/Long-Term-Financial-Plan-LTFP-2020-2029.pdf).

<sup>12</sup> Estimates for the 2022-23 financial year in its current LTFP are now three years old.

<sup>13</sup> 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](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).

<sup>14</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 10.

<sup>15</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 42.

<sup>16</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, Appendix 1 – Budgeted Financial Statements 2022/2023 and the Commission's calculations.

<sup>17</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 26.

<sup>18</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 5.

s122(4)(b), a council must undertake a comprehensive review of its strategic management plans within two years after each general election of the council (s122(4)(b)).

The Wattle Range Council has indicated that it would adopt the LTFP 2022-23 by March 2023 post the following considerations:

- ▶ adoption of the Community Wastewater Management System (CWMS) Asset Management Plan
- ▶ adoption of the 2021/22 Annual Financial Statements
- ▶ the conclusion of the caretaker period before and after the election of the new Council, and
- ▶ the timing of the Strategic Plan for the next four years for Council (as the LTFP needs to be in conjunction with this).

The Commission notes that its current LTFP (2020-2029) identified the approach to formulating its estimates, including the modelling of CPI and other changes, and it is anticipated that its next LTFP will include similar details.<sup>19</sup> 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.

RBA revised its inflation forecasts for CPI 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.<sup>20</sup> Beyond June 2025 quarter, the RBA has not published inflation forecasts, but a return to the long-term average of 2.5 percent from 2025-26 is not unreasonable.

The Commission encourages the Council to consider integrating its LTFP review into its annual business plan and budget process in the future, to ensure better alignment between its projections and avoid substantial revisions to estimates for the coming year within two to three months of the LTFP being finalised.

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 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.

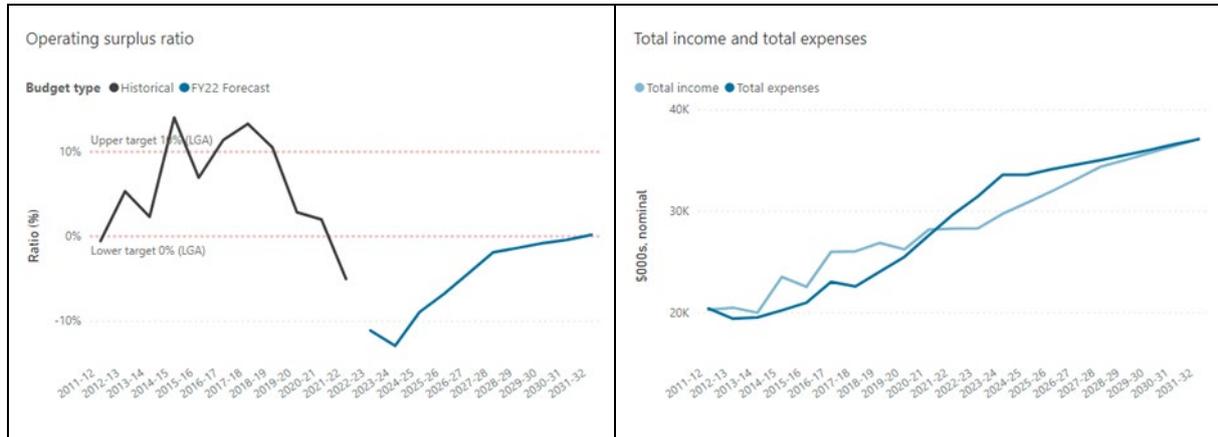
<sup>19</sup> Wattle Range Council, *Long Term Financial Plan 2020-2029*, November 2019, p. 13.

<sup>20</sup> RBA, Forecast Table - February 2023, available at <https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html>. The CPI (Australia-wide). The 'through the year' forecasts in any one quarter are different to the average annual inflation assumptions usually applied to Council's financial estimates.

## C Financial sustainability

### C.1 Operating performance

The Wattle Range Council has run a recurring operating surplus from 2012-13 to 2020-21 with the operating surplus ratio<sup>21</sup> averaging 6.8 percent but its operating surplus ratio is not forecast to be positive again (with a surplus) until 2031-32 (then 0.2 percent) (see the left-hand chart below). This is driven by continued cost increases and slower income growth (see the right-hand chart below).



The operating expenses growth of 3.4 percent per annum<sup>22</sup> (from 2011-12 to 2020-21) was primarily due to an average annual increase of 6.1 percent in employee costs (with FTE numbers increasing by 3.5 percent per annum) and an annual increase of 2.8 percent in ‘materials, contracts and other expenses’ (see the left-hand chart over the page).<sup>23</sup>

Operating income grew at a stronger rate than total expenses from 2011-12 to 2020-21; by an average of 3.7 percent per annum, which was higher than CPI inflation growth (which averaged 1.7 percent). This was largely driven by rates revenue growth (which averaged 3.4 percent per annum when rateable property growth averaged negative 0.1 percent).

Looking forward, the Council is projecting average annual rates revenue growth of 3.4 percent to 2031-32, which is set to outpace RBA-based inflation forecasts (average of 2.8 percent annually).<sup>24</sup> Rate levels are discussed in more detail in section D.

Operating expenses are expected to increase by an average of 1.8 percent per annum over this period, which would represent a cost reduction in real terms (based on current inflation projections) (see the right-hand chart over the page).

<sup>21</sup> 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).

<sup>22</sup> 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).

<sup>23</sup> The Commission notes the impact of the increase in the solid waste levy on councils’ waste management costs over this period.

<sup>24</sup> 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.

The Wattle Range Council 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, in the context of the additional planned expenditure by the Council on the new administration facility for staff.<sup>25</sup> 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 LTFP for this year (\$10.3 million),<sup>26</sup> (although, as noted above, the Council has not reviewed the LTFP projections since November 2019).

The Council has also forecast a 6.7 percent (or \$2.1 million) increase in total expenses due to the increase of 'materials, contracts and other' expenses (by 14.7 percent), following a budgeted reduction in those expenses in 2022-23.



'Employee' and 'materials, contracts and other' expenses are now forecast to increase by an average of 2.2 percent<sup>27</sup> and 2.1 percent per annum respectively, from 2022-23 to 2031-32, a more constrained level of growth, at a level below RBA-based forecast inflation.

This appears to be a positive step, noting the Council's gradually improved financial sustainability outlook does rely on more 'cost constraint' than it has demonstrated in the past overall.

However, the Commission notes that the projected figures have not been endorsed or published by the Council, nor have the assumptions underlying the figures (notably, assumptions relating to the inflation).

In general, it would be appropriate for the Council to explore opportunities for additional savings, particularly related to its staffing, that can be directly factored into its future budgets to enhance financial sustainability and reduce pressure on its rates base. 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.

<sup>25</sup> 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](https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0020/1172441/050722-Special-Council-Agenda-and-Papers-Full-Copy.pdf).

<sup>26</sup> The Commission's calculated figures may not equate due to rounding.

<sup>27</sup> The above left-hand chart displays the 'expenses by category' in 2021-22 (rather than 2022-23) and 2031-32, that is why it seems the increase in 'employee costs' is greater than 2.2 percent per annum.

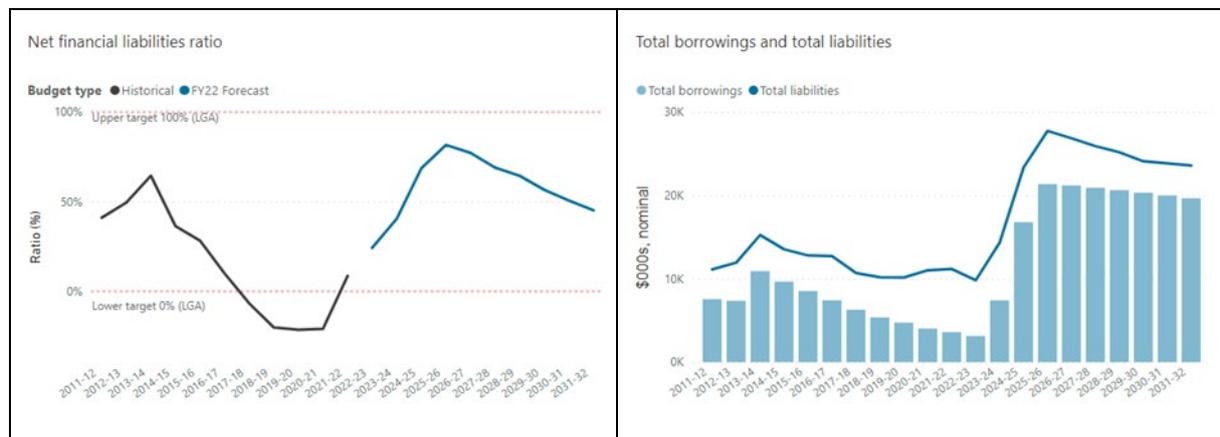
## C.2 Net financial liabilities

With the Wattle Range Council's recurring operating surplus from 2012-13, the level of net financial liabilities averaged \$2.4 million at year-end annually between 2012-13 and 2020-21. The 10-year average net financial liabilities ratio<sup>28</sup> to 2020-21 was 16.0 percent and this is within the suggested LGA target (see the left-hand chart below). This indicates that its income capacity has comfortably met its borrowing costs (see the bottom right-hand chart), however, the four-year average from 2017-18 to 2020-21 was negative 17.3 percent, which is outside the suggested LGA target range. The Commission notes that sustained negative ratio performance can reflect a need 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 are projected to decline from \$14.7 million in 2020-21 to \$1.9 million at the end of 2022-23 and remain on average at \$1.4 million annually until 2031-32 (see the bottom left-hand chart). According to the LTFP 2020-2029, the cash will be drawn down to fund the planned capital expenditure.<sup>29</sup>

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 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 (see the bottom right-hand chart below).

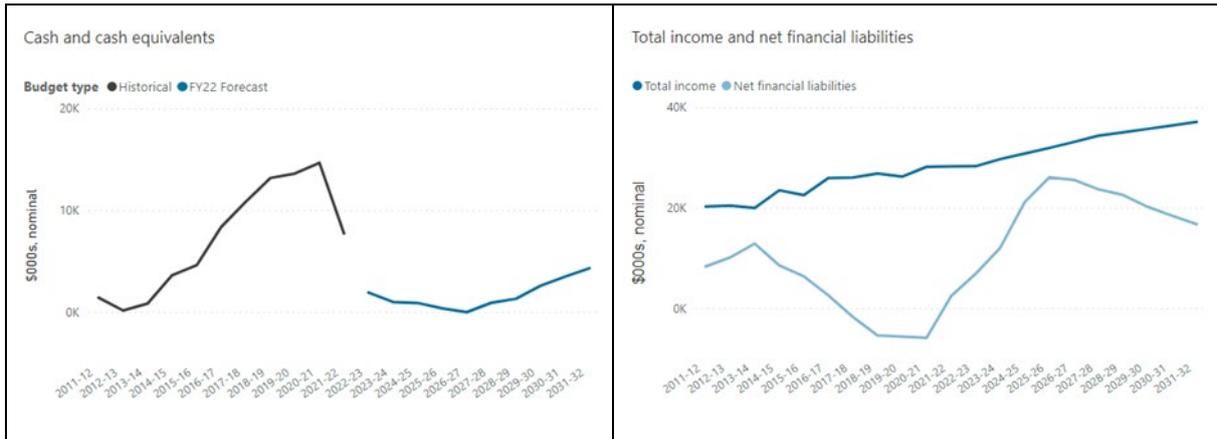
The 2022-23 Annual Business Plan indicated that the Council has not budgeted for any new borrowings in 2022-23, but that it would 'consider borrowing funds if successful in obtaining grant funding for multiple 'Shovel Ready' infrastructure projects.'<sup>30</sup> The Commission encourages the Council 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.



<sup>28</sup> 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).

<sup>29</sup> Wattle Range Council, *Long Term Financial Plan 2020-2029*, November 2019, p. 11.

<sup>30</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 32.

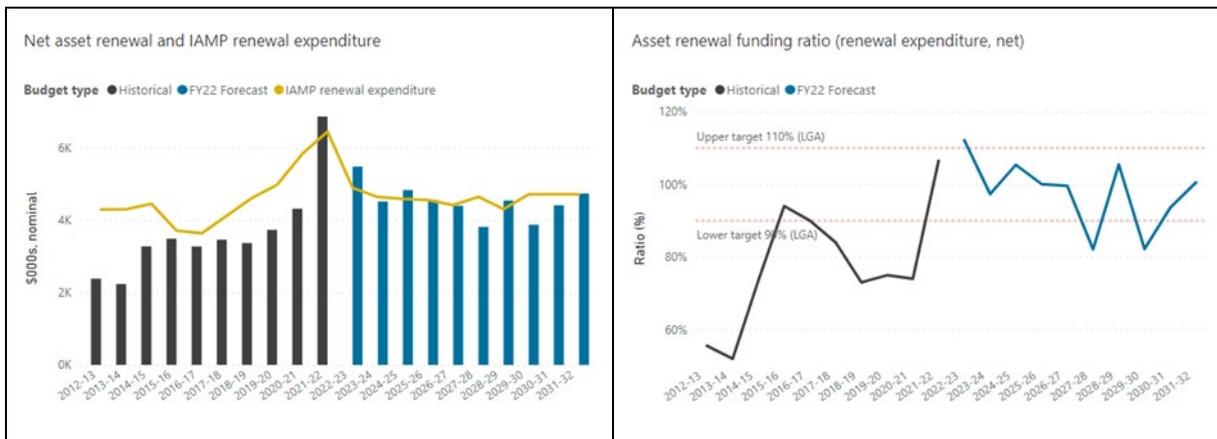


### C.3 Asset renewals expenditure

Between 2012-13 and 2020-21, the asset renewal funding ratio<sup>31</sup> (under the ‘IAMP-based’ approach) averaged 78 percent,<sup>32</sup> suggesting 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 \$3.4 million each year over this period.

From 2022-23 to 2031-32, the ratio is forecast to average 102 percent and remain broadly within the suggested LGA target range of between 90 to 110 percent in each year. Average annual spending on renewal or rehabilitation of assets is projected to increase to \$4.7 million (in nominal terms).

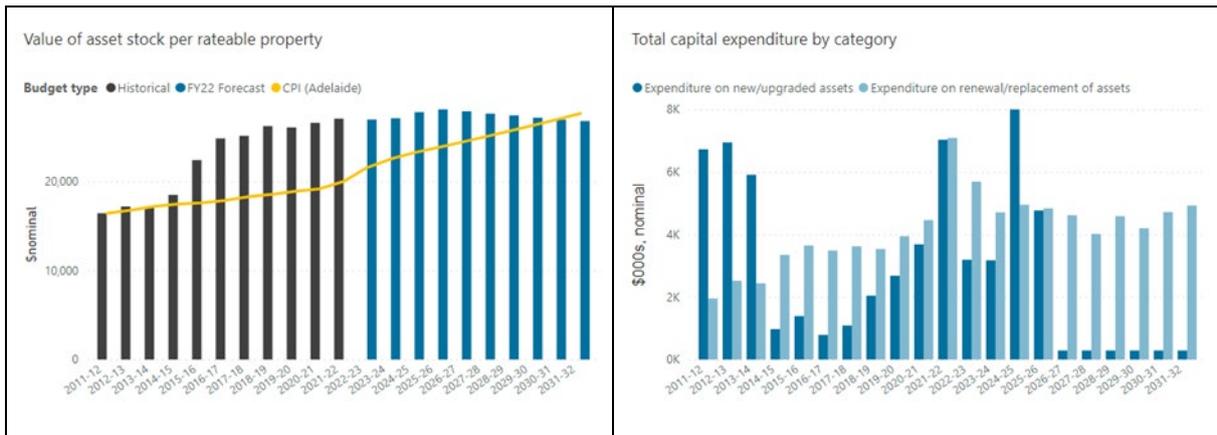
The Wattle Range Council has grown its asset base over the past 10 years with expenditure on new or upgraded assets averaging \$3.2 million per annum between 2011-12 and 2020-21 (see the bottom right-hand chart over the page)<sup>33</sup>. This has led to average growth in the value of the asset stock per property of \$1,063 or 5.7 percent per annum in the 10 years to 2020-21 (see the bottom left-hand chart over the page).



<sup>31</sup> 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).

<sup>32</sup> 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’.

<sup>33</sup> As advised by the Council, the value of assets is not only driven by new assets but also upon revaluation of the assets.



From 2022-23, the depreciation-based asset renewal funding ratio<sup>34</sup>, 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 indicates depreciation expenses are generally higher than the required expenditure on capital renewals under its various AMPs (see charts over the page).

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).

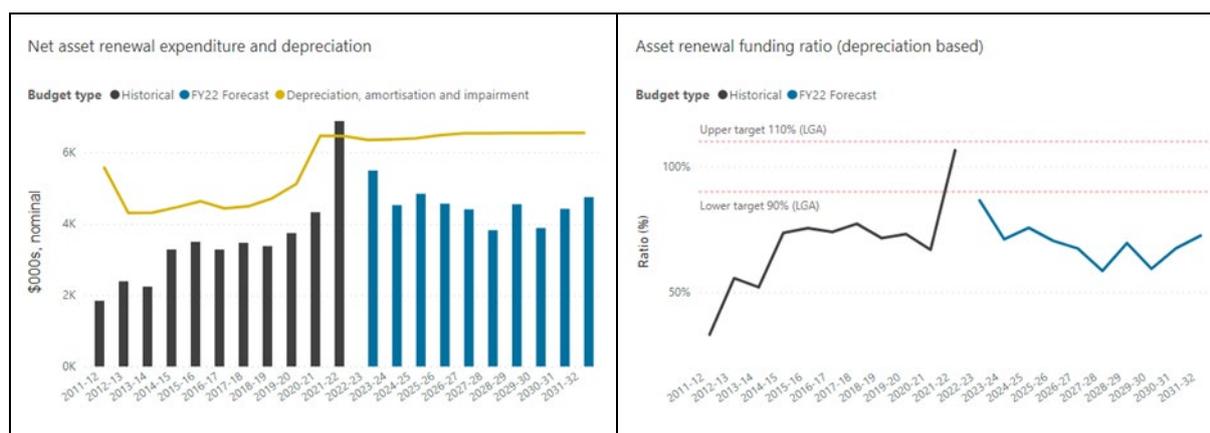
Since 2014-15, the Council has tended to prioritise expenditure on renewal and replacement of assets, as opposed to new or upgraded assets (except for 2024-25<sup>35</sup>). The Council has projected spending on renewal/replacement assets from 2022-23, averaging \$4.7 million per annum to 2031-32, in contrast to \$2.1 million forecast spending on new/upgraded assets per annum, highlighting its continued focus on renewing rather than upgrading or constructing new assets. As a result, the Council's asset stock value per rateable property is projected to be relatively steady, albeit declining from around \$26,963 per rateable property from 2022-23 to 2031-32.

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:

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.

<sup>34</sup> 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.

<sup>35</sup> The significant capital expenditure towards new/upgraded assets in 2024-25 was not planned in LTFP 2020-2029.



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

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 plan.

The Council owns and operates four CWMS in the townships of Penola, Kalangadoo, Southend and Beachport. Kalangadoo, Penola and Southend are septic tank effluent disposal (STED) schemes while Beachport is a full sewer scheme.<sup>36</sup> The Council adopted an AMP in September 2022, which covers the collection network, treatment infrastructure and irrigation infrastructure of the four townships.<sup>37</sup>

However, most of the Council's AMPs have not been updated for at least three years, with the roads AMP not having been updated since 2015. While the kerb, footways and roads AMPs cover a 20-year planning period (up to around 2036), the information may include out-dated assessments of the Council's asset conditions, service levels and community expectations. For example, community members have expressed some safety concerns over the footpaths in Penola in the written submissions to annual business plan 2022-23.<sup>38</sup>

As outlined in the strategic plan achievements, the Council is in the process of updating the AMPs for the below assets, which are to be published in 2022-23. The Council's Annual Report 2021-22 indicates the Council has taken the following relevant steps:

- ▶ For the kerb AMP, the Council has completed the asset condition revaluation.
- ▶ For the footpaths AMP, the Council has commenced the asset valuation reviews which 'takes into consideration footpath expansion plans for each of the district towns that is compliant with Disability & Discrimination Act requirements'.
- ▶ For the roads AMP, the Council has completed the review of the asset valuations.<sup>39</sup>

According to the Council's Annual Report 2021-22, the Council has adopted a separate stormwater AMP in 2019-20.<sup>40</sup> The Asset Policy also states an AMP is developed for the asset category of

<sup>36</sup> Wattle Range Council, *Asset Management Plan Community Wastewater Management Systems*, September 2022, p. 11, available at [https://www.wattlerange.sa.gov.au/\\_data/assets/pdf\\_file/0010/1213003/CWMS-AMP-Version-2.0.pdf](https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0010/1213003/CWMS-AMP-Version-2.0.pdf).

<sup>37</sup> Wattle Range Council, *Asset Management Plan Community Wastewater Management Systems*, September 2022, p. 7.

<sup>38</sup> Wattle Range Council, *Special Council Meeting Agenda – 5 July 2022*, pp. 9 and 101.

<sup>39</sup> Wattle Range Council, *2021-22 Annual Report*, p. 70, available at <https://www.wattlerange.sa.gov.au/our-council/council-documents/annual-reports>.

<sup>40</sup> Wattle Range Council, *2021-22 Annual Report*, p. 70.

stormwater.<sup>41</sup> However, the Commission could not find the plan on the Council's website, and it was not provided by the Council.

To this end, 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.

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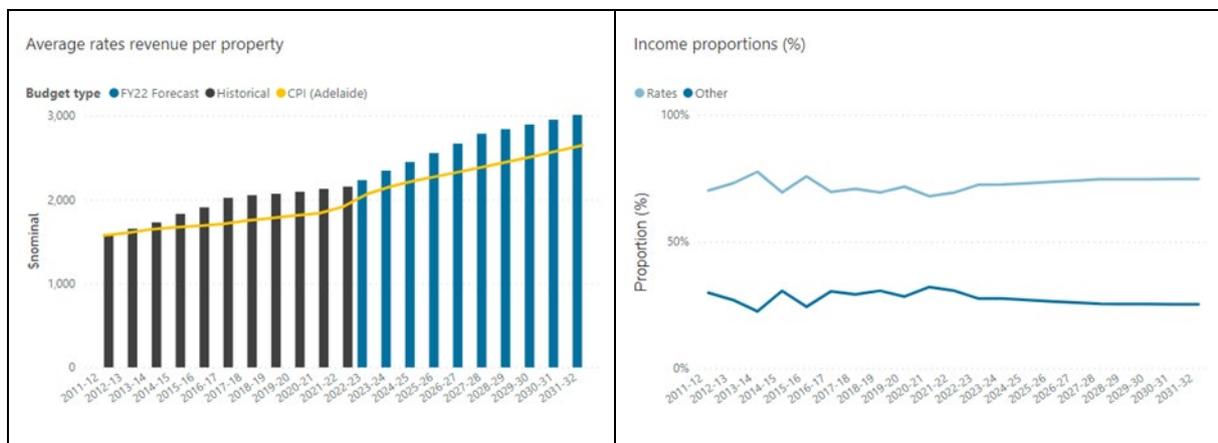
<sup>41</sup> Wattle Range Council, *Asset Policy 95*, p. 3, available at [https://www.wattlerange.sa.gov.au/\\_data/assets/pdf\\_file/0025/296530/Policy-95-Asset.pdf](https://www.wattlerange.sa.gov.au/_data/assets/pdf_file/0025/296530/Policy-95-Asset.pdf).

## D Current and projected rate levels

### D.1 Historical rates growth

The Wattle Range Council's rate revenue growth has averaged 3.4 percent or \$56 per annum for each property over the past 10 years,<sup>42</sup> to reach an estimated \$2,128 per property in 2020-21 (see the left-hand chart below). This is double the rate of CPI growth which averaged 1.7 percent per annum over this period.<sup>43</sup> The Commission notes that the Council has relatively high average rates, reflecting its relatively high rural rate levels but low residential rates.<sup>44</sup> Current rate levels partially reflect its recent history of spending growth, predominantly on higher employee and materials-related expenses.

As a large rural council, the Wattle Range Council is also partly reliant on grants income for its sustainability, with this income source accounting for 19.3 percent of its total operating income in 2020-21. The Council's three-year average for 'grants, subsidies and contributions' income increased from \$2.9 million to \$4.7 million from 2013-14 to 2020-21.



### D.2 Proposed 2022-23 rate increases

The Wattle Range Council has budgeted for an average general rate increase of 5.5 percent in 2022-23. The rates increase reflects higher short-term inflation (anticipated by the Council to be 5.1 percent in 2022-23), and an allowance of 0.4 percent in rateable property numbers.<sup>45</sup>

Different rate categories are subject to varying changes, in terms of the average dollar changes per rateable assessment. Residential ratepayers will pay a small increase, \$3 per property on 2021-22 average rate levels. Commercial, industrial and 'other' ratepayers will pay lower average rates (with reductions of \$23, \$211 and \$24 respectively). Primary production ratepayers will pay the largest

<sup>42</sup> From 2011-12 to 2020-21.

<sup>43</sup> CPI (All groups). Average annual growth in the Local Government Price Index published by the South Australian Centre for Economic Studies was similar (at 1.9 percent). Available at <https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index>.

<sup>44</sup> Refer to Councils in Focus rates data for 2019-20 available at [https://councilsinfocus.sa.gov.au/councils/wattle\\_range\\_council](https://councilsinfocus.sa.gov.au/councils/wattle_range_council). The history of rate increases by the Council has already guided the Commission in its advice (the Councils in Focus data provides more detail about average rate levels by rates category).

<sup>45</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 34.

increase - an average increase of \$258.<sup>46</sup> The minimum rate for ratepayers has remained unchanged from 2021-22 at \$610 per year and will apply to 23 percent of rateable properties in 2022-23.<sup>47</sup>

Other than 'general rates' income, the Council's waste collection charge for both the 3-bin service and 2-bin service will decrease by 3 percent due to waste collection cost savings.<sup>48</sup>

The Council also levies CWMS charges at the townships of Beachport, Penola, Southend and Kalangadoo to provide for the removal, treatment and environmentally appropriate disposal of domestic wastewater. The annual CWMS charges are proposed to increase at 5.1 percent, in line with the Council's inflation forecast.<sup>49</sup>

The revenue it requires for the Regional Landscape Levy, which it collects on behalf of the Limestone Coast Landscapes Board, will increase by 2.5 percent.<sup>50</sup>

### D.3 Projected further rate increases

The Wattle Range Council is projecting average annual rates increase for its existing ratepayers of 3.2 percent from 2023-24 to 2031-32. This is higher than the RBA-based forecast inflation over this period (2.5 percent). In total, the Council projects a cumulative increase of \$664 per existing ratepayer (to \$3,009) by 2031-32.

### D.4 Affordability risk

The Commission notes that the Wattle Range Council currently has relatively low residential rates and that it has limited rate increases on residential ratepayers and minimum rate ratepayers in its most recent budget. The minimum rate ratepayers can be considered to have less capacity to pay for higher rates compared with other ratepayers. The Council also reduced average rates for commercial and industrial ratepayers in 2022-23, given the economic impacts associated with COVID.<sup>51</sup>

Further, the Council justified the increase to 'primary production' rates (in 2022-23) as being due to the substantial increase in forestry assessment valuations (given these form part of the overall primary production rating category) and the Council's policy position to '*close the disparity of valuations between farming land and neighbouring forestry lands.*'<sup>52</sup>

However, when considering the projected rate contributions for the Wattle Range Council and the associated affordability risk among the community, the Commission has considered:

- ▶ the relatively low Socio-Economic Indexes for Areas (SEIFA) economic resources ranking for the Wattle Range Council area<sup>53</sup>
- ▶ the relatively high average rural rates levels, and

<sup>46</sup> Rate in the dollar applied to the capital value of the property in the Council area.

<sup>47</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, pp. 36-7.

<sup>48</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 38.

<sup>49</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 39.

<sup>50</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 39.

<sup>51</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 36.

<sup>52</sup> Wattle Range Council, *2022/2023 Annual Business Plan*, July 2022, p. 37.

<sup>53</sup> 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 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>.

- ▶ the quantum of future proposed rate increases in the context of cost-control risk to the financial projections.

The Commission further notes the consultation feedback from submissions on the Council's draft 2022-23 annual business plan identified cost concerns and opposed the proposed rate increases.<sup>54</sup>

The current economic environment is also putting more pressure on most communities' capacity to pay for further rate increases. Therefore, the Commission considers that 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') 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**).

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<sup>54</sup> Wattle Range Council, *Special Council Meeting Agenda – 5 July 2022*, p. 95.



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](mailto:escosa@escosa.sa.gov.au) | W [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)