Advice

Local Government Advice

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

1 The Commission's key advice findings for the Yorke Peninsula Council

The Essential Services Commission (**Commission**) finds the Yorke Peninsula Council's (**Council's**) short-term financial position potentially unsustainable but notes that it has taken steps to achieve a sustainable position in the medium to long-term. The Council's projected improvement to its financial performance is reliant on the renewal of its asset stock and a period of service consolidation, at a minimum, continued cost control, and further rate increases.

Acknowledging the Council's outlook, the Commission considers it would be appropriate for it to undertake the following steps to ensure it budgets prudently and transparently, continues to manage its cost base efficiently, renews its asset base to meet sustainable service levels, plans its asset needs appropriately and constrains the extent of further rate increases:

Budgeting considerations

1. **Continue** to review its inflation forecasts in its budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.
2. **Consider** including its most up to date long-term financial plan projections in its annual business plan and budget to provide more transparency to the community about any changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

Continuing to provide evidence of ongoing cost efficiencies

3. **Continue** to monitor cost growth in its budgeting, where possible, including related to employee expenses.
4. **Continue** its good practice of reporting any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Refinements to asset management planning

5. **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.

Containing rate levels

6. **Review** and **consider** limiting any further average rate increases above inflation, to help reduce any emerging affordability risk in the community.

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 Yorke Peninsula Council (**Council**).

This report provides the Local Government Advice for the Yorke Peninsula Council in 2022-23.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2023-24 Annual Business Plan (including any draft Annual Business Plan) and subsequent plans until the next cycle of the scheme.[8] It does not need to publish the attachment to the advice (these will be available with the advice on the Commission's website[9]), nor is it compelled under the LG Act to follow the advice. The Commission thanks the Yorke Peninsula Council for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

In general, the Commission finds the Yorke Peninsula Council's short-term financial position potentially unsustainable but notes that it has taken steps to achieve a sustainable position in the medium to long-term, following a period of high operating deficits and spending on new capital initiatives. Historically, the Council has demonstrated more effective cost constraint to reduce its deficits over time, but it has also struggled to meet the ongoing renewal needs of its existing infrastructure base.[10] This now presents a backlog of deferred renewal and rehabilitation it needs to address in the future.

1 Amendments to the LG Act (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).
10 As recommended by its AMPs.

The past rate increases above inflation, together with higher user charges income, have been necessary to increase the Council's financial capacity to cover its operating and service sustainability requirements.

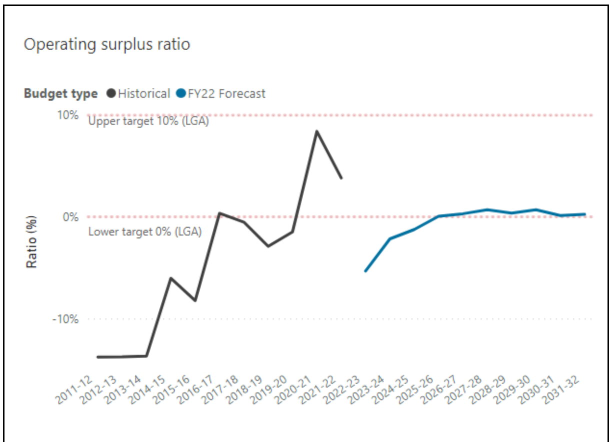
Its forward projections from 2022-23 (in its LTFP) forecast an improving financial sustainability outlook as a result of the forecast rate of operating revenue growth set to outpace expense growth but with:

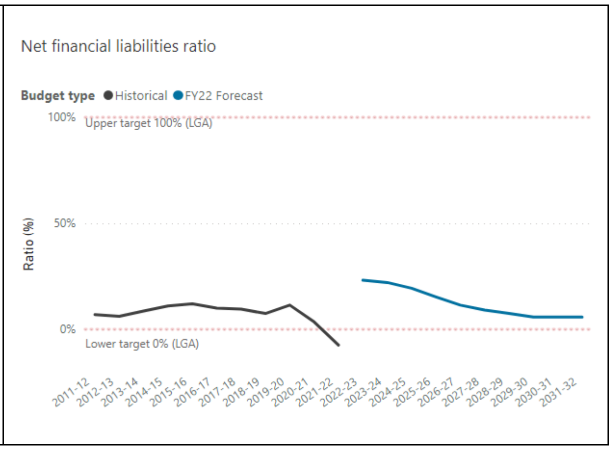
- continued average rate increases below the Reserve Bank of Australia (RBA)-based forecast inflation rate (and generally aligned with the Council's forecast inflation) although it has levied an additional 1 percent per annum increase on primary production ratepayers, to help fund upgrades to unsealed roads intersections due to heavy vehicle access
- continued cost constraint with lower average cost growth than it has experienced over the past 10 years (and half the rate of RBA-based forecast inflation), and
- low spending on new or upgraded capital works with higher asset spending on renewal and rehabilitation capital works, including to partially address the accumulation of deferred renewals over the next 10 years.

The Commission considers that the Council is demonstrating good practice regarding the formulation of its financial projections in its LTFP, and transparency around its assumptions and directions, including the ratepayer impact. It is also reporting genuine savings through operational efficiencies achieved in its annual budget, and the Commission encourages it to continue this approach. However, the Commission has identified an improvement opportunity in aligning the estimates (or explaining the variances) in the LTFP and annual business plan.

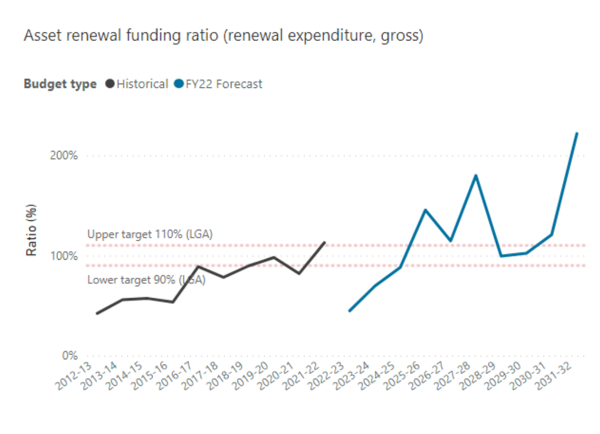
The charts below of the Yorke Peninsula Council's past and projected operating surplus ratio, net financial liabilities ratio, asset renewal funding ratio and average rate revenue per property, together support these findings.

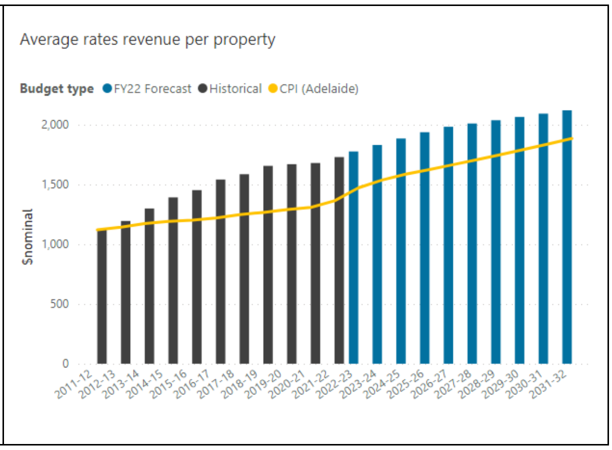
The 'heat map' diagram over the page summarises the Commission's findings with reference to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators[11] and the level of cost control and affordability risk identified for the Council over time.





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





Summary of the Yorke Peninsula 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 below target or cumulative deficits →	Ratio within target	Operating deficits to 2024-25 Operating surpluses forecast within target range →
Net financial liabilities ratio (target 0-100%)	Ratio met historically →	Ratio below 0% →	Ratio projected within the target range
Asset renewal funding ratio (target 90-110%)	Below target range Some years marginally below or above target range →		Progressive trend to achieve a cumulative target by 2029-30 →
Identified Risks:			
Cost control risk	Moderate operating expenses per property average growth of 3.1% p.a. to 2016-17 → Low average growth in operating expense per property (0.9% p.a.)		Operating expenses per property average growth of 1.4% p.a. to 2031-32 (below forecast CPI of 2.8%) →
Affordability risk	High rate revenue per property average growth of 4.4% p.a. to 2021-22 (CPI of 2.0%) →		Rate revenue per property average growth of 2.0% p.a. to 2031-32 (below forecast CPI of 2.8%) →

- Red: Ratio outside suggested LGA target range or higher risk
- Yellow: Ratio close to suggested LGA target range or medium risk
- Green: Ratio within suggested LGA 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 Yorke Peninsula Council's material changes to its 2022-23 plans (compared with the previous year's plans), its financial sustainability (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure) and its current and projected rate levels.

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

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

2.2.1 Advice on material plan amendments in 2022-23

The Yorke Peninsula Council's 2022-23 LTFP includes an improvement to its projected operating performance, and increases to its projected capital expenditure estimates, compared with the 2021-22 forecasts,[13] as follows:

- An improvement in operating performance by $0.9 million or by 28 percent, resulting in the Council bringing forward, by two years, its projected operating surplus to 2025-26. This is mainly driven by a further 1.0 percentage point rates increase (in addition to the general rates increase) applied to primary production ratepayers over the first five years of the 2022-23 LTFP.
- An additional $5.8 million (or 6 percent) for asset renewals, and an additional $0.5 million (or 28 percent) for new and upgrade capital works. Much of the increases are being driven by the partial funding of the accumulation of deferred renewal expenditure, and the allocation of funds for water and community wastewater management system asset upgrades, as identified in the respective asset management plans (**AMP**s).

Targeting an earlier surplus, compared with its 2021-22 estimates, in part addresses the accumulation of deferred renewal expenditure and accounts for the current inflationary environment.

The Council has adjusted its operating income and expense forecasts by lower amounts (both with increases of 2 percent on 2021-22 estimates[14]) compared to its adjusted inflation forecasts. Based on updated inflation assumptions in its 2022-23 LTFP, an increase in its cost and revenue estimates by up to 5 percent over the 2022-23 to 2030-31 forecast period,[15] compared with the same estimates in its 2021-22 LTFP, could account for higher inflation forecasts.

It assumed Consumer Price Index (**CPI**) inflation increases of 2.5 percent in 2022-23 and 2023-24, 2.25 percent for the next two years and 2.0 percent annually from 2026-27. This is an upward revision to its assumptions in its 2021-22 LTFP estimates (of average CPI growth of 1.45 percent annually).

The Council has factored several genuine savings into its LTFP projections, discussed in the operating performance section below. However, its current inflation forecasts do present a risk to its cost and income projections in the current inflationary environment. The RBA currently forecasts the CPI (Australia-wide) to increase by 6.7 percent in the year to the June 2023 quarter and by 3.0 percent in the year to June 2025. Thereafter, it is reasonable to anticipate a return to long-run averages (and growth of 2.5 percent per annum from 2025-26, based on the midpoint of the RBA's 2 to 3 percent target range).[16]

The Commission notes that the Council's stated assumptions for indexation in its 2022-23 LTFP are transparent and based on its annual review of these forecasts, but notes that there is still uncertainty around the assumptions. Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission has found that it would be appropriate for it to:

1. **Continue** to review its inflation forecasts in its budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

[13] The overlapping forecast period in both LTFPs (2021-22 to 2030-31 and 2022-23 to 2031-32).
[14] See footnote 13.
[15] The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.
[16] RBA, Forecast Table - February 2023, available at https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html.

The Yorke Peninsula Council adopted its annual business plan and budget in June 2022, two months after it adopted its LTFP 2022-23 in April 2022. The Council proposed further material amendments to its 2022-23 estimates for the financial year from those proposed in its LTFP, although the net changes to estimates were relatively minor and its proposed rate increases did not change.[17]

The Commission observes that the Council's LTFP identifies the risks to the financial estimates (due to economic factors, for example) and that the annual business plan also includes its 2022-23 estimates (from the LTFP) to show any further budget amendments to those estimates. In addition, there is no current regulatory requirement for a council to publish its LTFP projections with its annual business plan and budget.

However, many councils do coordinate their long-term financial projections with their annual budget process, and it might be useful for the Yorke Peninsula Council to republish the 10-year financial estimates with the adjusted annual budget estimate for 2022-23, particularly if the extent of revisions to estimates in its annual business plan and budget are substantial. To this end, the Commission considers that it would be appropriate for the Council to:

2. Consider including its most up to date long-term financial plan projections in its annual business plan and budget to provide more transparency to the community about any changes to forward projections, including rate projections, and the longer-term impacts of its short-term decisions.

Additionally, the Council advised the Commission of material increases to its capital expenditure budget and subsequent 'carry overs' occurring outside of the Council's annual planning cycle. The Council further advised that these 'carry overs' were not incorporated into its 2022-23 budget initially because the extent of grant funding and works deferrals was not known at that time. The Commission encourages the Council to monitor these matters, and where required, ensure that the community is consulted on material budget adjustments.

2.2.2 Advice on financial sustainability

Operating performance

The Yorke Peninsula Council has predominantly run operating deficits from 2011-12 to 2019-20, with the operating surplus ratio[18] averaging negative 5.2 percent over this period; however, in 2020-21, it achieved an operating surplus of $3.1 million. In its forward projections, the operating surplus ratio is not forecast to meet the suggested LGA target range (with a surplus) until 2025-26 (when it will be 0.1 percent).

One of the reasons for the persistent deficits is that the Council had a high deficit in 2011-12 (of $3.3 million) and difficulty in meeting its operating capacity requirements at that time. This has taken some time for it to rectify. Operating income growth averaged 4.9 percent per annum from 2011-12 to 2020-21, almost double the rate of operating expense growth (which was relatively conservative, averaging 2.4 percent per annum).[19] It has taken the Council until 2020-21 to generate a sustained operating surplus (based on an average operating balance over three years).

[17] Applies to 'general rates and other' revenue as per the annual business plan.

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

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

The Council received a combination of additional rates, statutory charges, user charges and 'grants, subsidies and contributions' income over this period to generate its relatively strong operating income growth.

On the cost side, its 'materials, contracts and other' and 'depreciation' expenses both increased at conservative levels (averaging 2.2 and 1.5 percent per annum respectively) from 2011-12 to 2020-21, given average annual CPI growth of 1.7 percent.[20] On the other hand, its 'employee' expenses increased by an average of 3.9 percent per annum (or approximately 0.8 full-time equivalent (FTE) staff per year).

The estimated reduction in the rate of growth in operating expenses projected over the next 10 years (to an average of 1.5 percent per annum, which is approximately half RBA-based forecast inflation[21]), combined with rates and user charges revenue growth (also below the RBA-based forecast inflation), is expected to slowly improve the Council's operating performance. The associated impact on ratepayers is discussed further below.

The Commission has observed the current good practice of the Yorke Peninsula Council in conducting regular service level reviews of its operations, focused on achieving increased productivity, efficiency and effectiveness, and ultimately, real savings.[22] As an example, it has factored in savings of approximately $0.4 million to its expense estimates in 2022-23, compared to these items in 2021-22, as a direct result of its service level reviews.[23]

To ensure the Council is positioned to achieve the real terms reduction in its cost base that it has forecast and improve its operating performance (without the need for further rate increases above inflation), the Commission encourages it to:

3. Continue to monitor cost growth in its budgeting, where possible, including related to employee expenses.
4. Continue its good practice of reporting any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

Net financial liabilities

Despite the Council's frequent operating deficits from 2011-12 (including depreciation expenses), its net cash flows after operating and investing (that is, capital-related) activities has averaged $0.2 million per annum between 2011-12 and 2020-21. The Council has relied primarily on rates revenue and supplementary grant funding to fund its capital expenditure program over this period.

The Council has also consistently used borrowings to finance (in part) its renewal of existing assets and acquisition of new and upgraded assets, and over time, this has been within the suggested LGA target range for the net financial liabilities ratio (averaging 8.6 percent from 2011-12 to 2020-21).[24] The

20 CPI (All groups). Average annual growth in the LGPI 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.

21 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.

22 Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, pp. 7 and 14, available at https://yorke.sa.gov.au/content/uploads/2022/04/Long-Term-Financial-Plan-2023-2032-Adopted-Version-13-04-2022.pdf.

23 Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 21.

24 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.

Council continues to meet the suggested LGA target range under its 2022-23 forecasts and projects a reduction in the ratio from a peak of 23 percent in 2022-23 to an average of 7 percent in the five years to 2031-32. The reduction in the ratio from 2022-23 to 2031-32, comes from progressive repayment of total borrowings (of $7.3 million over the next five years to 2026-27), via operating income growth.

Based on the Council's projected repayment of borrowings, and relatively low forecast net financial liabilities ratio in the longer-term, the Commission notes that it might have the opportunity to utilise more debt to further address its asset renewal expenditure requirements. However, its forecast annual end of year cash position is below $1 million from 2024-25, and it would need to consider its operating capacity for further borrowing repayments, given its forecast continuation of operating deficits in the short-term.

Asset renewals expenditure

Between 2011-12 and 2020-21 the Council's total capital expenditure averaged $9.6 million per annum (including $6.8 million on asset renewals and $2.8 million on new and upgraded assets) but this was not sufficient to cover the asset renewal and rehabilitation requirements specified in its AMPs. The Council's asset renewal funding ratio (IAMP-based) was below the suggested LGA target range of 90 to 110 percent over these years,[25] and averaged 76 percent between 2011-12 and 2020-21. This indicates that the Council underperformed in meeting its asset service sustainability requirements over this period, as it utilised grant funding for service expansion while it also sought to address its recurring operating deficits.

From 2022-23, the Council is adjusting its asset renewals spending profile (with higher projected annual renewal expenditure averaging $11.5 million to 2031-32, in nominal terms). As a result, its asset renewal funding ratio (IAMP-based) is expected to trend above the suggested LGA target range (averaging 141 percent from 2025-26 to 2031-32), reflecting the Council's intention to address the accumulation of deferred renewals. This coincides with much lower forecast spending by the Council on new or upgraded assets (estimated to average $0.3 million per annum to 2031-32), and an accompanying period of service consolidation as the value of its asset base per property is forecast to decline in real terms. The Council has identified that there will remain a $10 million shortfall in asset renewal expenditure (or approximately 9 percent of the total renewal budget), which will not be covered over the 10-year projections in the 2022-23 LTFP.

Acknowledging this significant shift in proposed asset spending priorities by the Council, which is reflected in its LTFP projections and to reduce any further accumulation of asset renewal backlogs, the Commission considers that it would be appropriate for it to:

5. 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.

With the Council's projected spending on asset renewals, the depreciation expenses (which represent the rate of asset consumption) are projected to broadly track in line with renewal spending. Renewal spending is forecast to account for 93 percent of depreciation expenses on average to 2031-32.[26]

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).

[25] 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).

[26] The Council's asset renewal funding ratio by the depreciation-based method (where asset renewal/replacement expenditure is divided by depreciation expenses) is forecast to average 93 percent to 2031-32. This ratio shows

This demonstrates a sound alignment between the average rate of consumption of its assets, as indicated by its depreciation expenses, and the annual spending on the renewal of its asset base, over time.

2.2.3 Advice on current and projected rate levels

The Yorke Peninsula Council's rate revenue per property growth has averaged 4.6 percent or $62 per annum for each property in the period between 2011-12 and 2020-21, which has exceeded CPI growth of an average of 1.7 percent per annum over this period. However, the Council still has relatively low-rate levels for non-residential categories, compared to average rates for residential ratepayers.[27]

In 2022-23 the Council's rate increases are estimated to result in a 4.8 percent increase to its rates revenues, which is consistent with its forecast in the 2022-23 LTFP. The increase is due to the Council's estimate of higher inflation and to improve financial sustainability.[28] On average the Council has implemented a 2.5 percent rate increase for residential ratepayers, and a 5.0 percent rate increase for primary producers (with 1 percent of this increase allocated specifically for upgrading unsealed roads intersections due to heavy vehicle access).[29]

Its 2022-23 LTFP forecasts an average increase of $344 to existing rates in total to 2031-32 (to $2,121 per annum), which is consistent with the Council's assumed inflation growth over this period,[30] but is also below the RBA-based forecast of average inflation (2.8 percent).[31] In the last five years of its LTFP (from 2027-28 to 2031-32) the Council is projecting rate increases below its own CPI forecasts by approximately 0.5 percentage points per annum.[32]

Primary production ratepayers are forecast to experience a 1.0 percentage point per annum higher increase than other general ratepayers over the first five years of the 2022-23 LTFP (higher than the Council's CPI forecast). However, affordability risk among the community for the further rate increases appears to be low based on a range of factors including the existing relatively low rate levels (for rural rates),[33] and an assessment of the economic resources available to the community.[34] The Council has

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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.

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

28 Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 5, available at https://yorke.sa.gov.au/content/uploads/2022/07/Annual-Business-Plan-Final.pdf.

29 Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 18.

30 The Council's projected CPI inflation in 2023-24 is 2.50 percent and then 2.25 percent between 2024-25 to 2025-26, and then 2.00 percent per annum thereafter (Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan, April 2022,* p. 6). This is different to the CPI line in charts throughout this Advice which are based on RBA forecasts and then, a return to long run averages from 2025-26 (with growth of 2.5 percent per annum).

31 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.

32 Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 6.

33 See footnote 27.

34 The Yorke Peninsula Council area is ranked 34 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 income and other economic resources, 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.

also received a written submission on the additional increase for primary production ratepayers,[35] however is allocating 1 percent of the increase to works which will directly benefit primary producers (these ratepayers also have a relativity lower rate revenue contribution compared to residential ratepayers[36]).

Nonetheless, given historical rate increases and the current economic conditions affecting many communities' capacity to pay, it would be appropriate for the Yorke Peninsula Council to:

6. Review and consider limiting any further average rate increases above inflation, to help reduce any emerging affordability risk in the community.

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 Yorke Peninsula Council's:

- potential integration of its annual updates to its LTFP projections with its annual business plan process
- ongoing performance against its LTFP estimates
- achievement of cost savings and efficiencies and its continued reporting of these in its plans
- reprioritisation of its capital spending towards asset renewal and rehabilitation works and how it has addressed the backlog of asset renewal expenditure, and
- how it has sought to minimise any emerging affordability risks.

[35] Yorke Peninsula Council, *Ordinary Council Meeting Agenda -29 June 2022, Item 7.1 Draft 2022/2023 Annual Business Plan, Budget and Fees and Charges – Public Consultation,* available at https://yorke.sa.gov.au/content/uploads/2022/06/Agenda-Special-Council-Meeting-29-June-2022.pdf.

[36] On a capital valuation basis (in 2022-23), primary production land use represents 66 percent of the aggregate capital value in the Council area, while on a revenue basis, primary production ratepayers accounts for 37 percent of total rates revenue.

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