Advice

Local Government Advice - Attachment

Yorke Peninsula Council

February 2023

Enquiries concerning this advice should be addressed to:

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Telephone:	(08) 8463 4444
Freecall:	1800 633 592 (SA and mobiles only)
E-mail:	advice@escosa.sa.gov.au
Web:	www.escosa.sa.gov.au

The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, please visit www.escosa.sa.gov.au.

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A The Commission's approach

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

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

- 2022-23 Annual Business Plan (adopted July 2022)
- 2023-2032 Long Term Financial Plan (adopted April 2022)
- 2022-2031 Long Term Financial Plan (adopted April 2021)
- Community Wastewater Management System Asset Management Plan (adopted March 2021)
- Stormwater Infrastructure Asset Management Plan (adopted March 2021)
- Transport Asset Management Plan (adopted March 2021)
- Water Infrastructure Asset Management Plan (adopted March 2021)
- 2021-2025 Strategic Management Plan (adopted October 2020)
- Buildings and Other Structures Asset Management Plan (adopted November 2019)
- Major Plant Asset Management Plan (adopted February 2018)

The Commission notes that most of the Council's asset base is covered by its existing asset management plans (**AMPs**), and asset valuations for those assets have been carried out within the last four years.

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

The Commission has also reviewed the Council's template data which contains its 2022-23 LTFP forecasts for 2022-23 to 2031-32, as well as its 2021-22 LTFP forecasts, and historical financial data

1 Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
2 The indicators are specified in the *Local Government (Financial Management) Regulations 2011.* Since 2011, each council has been required to refer to these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. The councils can adopt their own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).
3 The F&A listed 29 analytical questions that the Commission has answered in assessing the Council's performance against these indicators to determine affordability, cost control and other sustainability risks.
4 *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).
5 As required under s122(1b) of the LG Act.

and number of rateable properties and council staff (Full Time Equivalent (FTE)) numbers from 2011-12 onwards.[6] [7] 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 Yorke Peninsula Council, including its location as a regional council, its income level ($33.7 million) and the size of its rates base (more than 14,100 ratepayers[8]).

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

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

8 Based on the estimated number of property assessments in 2022-23.

B Material plan amendments in 2022-23

The Yorke Peninsula Council has made various amendments to its 2022-23 budget and forward projections, partly for inflation and partly for other revenue and spending initiatives. The material amendments to some of its main financial forecasts are listed in the table below (in nominal terms).[9] To ensure a comparable analysis of estimates between the 2021-22 and 2022-23 LTFPs, the Commission has reviewed the nine overlapping years' statistics: 2022-23 to 2030-31 and identified material amendments accordingly.

Selected Financial Item	Sum of 2022-23 to 2030-31 estimates in 2021-22 LTFP ($ million)	Sum of 2022-23 to 2030-31 estimates in 2022-23 LTFP ($ million)	Change in 2022-23 estimates ($ million)	Change in 2022-23 estimates (percent)
Total operating income	325.8	333.1	+7.4	+2
Total operating expenses	328.8	335.3	+6.5	+2
Operating surplus / (deficit)	(3.0)	(2.1)	+0.9	+30
Capital expenditure on renewal of assets[10]	95.8	101.6	+5.8	+6
Capital expenditure on new and upgraded assets[11]	1.8	2.3	+0.5	+28

B.1 Changes to operating performance

The Yorke Peninsula Council has budgeted (in 2022-23) an improvement in its operating performance, with a deficit of $1.6 million compared to a deficit of $1.8 million in the 2022-23 LTFP. In aggregate, the projections in its current and previous LTFPs (that is, over the nine-year comparative period to 2030-31, as shown in the table above) indicate the Council's cumulative operating performance improved by $0.9 million. While this may not be material in dollar terms, it is notable as it reflects the Council's efforts to achieve an operating breakeven or operating surplus by 2025-26 (compared to 2027-28 in the previous LTFP).

For the 2022-23 budget year, the Council has stated that the improvement in the operating deficit (compared to the LTFP) is a result of a 2.0 percent increase (or a $0.6 million increase) in operating expenses, and a 2.5 percent increase (or a $0.8 million increase) in income.[12] Some of the amendments, compared to the LTFP, include:

- Higher inflation estimates resulting in increased cost pressures for 'materials, contracts and other' expenses, as well as 'employee' expenses, as discussed in section B.2

[9] This table shows only selected financial items to demonstrate the material amendments made by the Council in its 2022-23 estimates. It excludes various financial items and individual items do not sum to totals.
[10] The capital expenditure estimates are based on the 2022-23 LTFP estimates provided by the Council to the Commission (in an Excel template).
[11] Footnote 10 applies.
[12] Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 24, available at https://yorke.sa.gov.au/content/uploads/2022/07/Annual-Business-Plan-Final.pdf.

- A further 1.5 percent increase in rates revenue for primary production ratepayers
- Supplementary local road grant income of $0.4 million not included in the LTFP (due to notification not being available at the time of update).

The Council's historical and projected operating performance is discussed further in section C.1.

B.2 Indexation adjustments

The Council applies CPI-based inflation adjustments to its cost and revenue estimates. It assumes 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.[13] This is an upward revision to its assumptions in its 2021-22 LTFP estimates (of average CPI growth of 1.45 percent annually).[14]

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. The Council has adjusted its operating income and expense forecasts by lower amounts than its adjusted inflation forecasts (both with increases of 2 percent on 2021-22 estimates[16]). This suggests lower forecasts in real terms.

The Council has factored several genuine savings into its LTFP projections, discussed in section C.1. However, its current inflation forecasts do still 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).[17]

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 considerable 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.

B.2 Increase to capital expenditure estimates

The Council's 2022-23 LTFP indicates an increase in capital expenditure for asset renewals (by $5.8 million or 6 percent), and for new and upgraded assets (by $0.5 million or 28 percent), compared to the previous year's LTFP (for the period from 2022-23 to 2030-31). Over the 10-year projections in the 2022-23 LTFP, the Council has factored in a total of $114.6 million in capital renewal and replacement

[13] Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 6, available at https://yorke.sa.gov.au/content/uploads/2022/04/Long-Term-Financial-Plan-2023-2032-Adopted-Version-13-04-2022.pdf.

[14] Yorke Peninsula Council, *2022 – 2031 Long Term Financial Plan*, April 2021, p. 17, available at https://yorke.sa.gov.au/content/uploads/2021/04/Long-Term-Financial-Plan-2022-2031-Council-Adopted-Version-April-2021.pdf.

[15] The set of nine years forecast in both the 2021-22 and 2022-23 LTFP projections.

[16] Based on the overlapping forecast period in both LTFPs (2021-22 to 2030-31 and 2022-23 to 2031-32).

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

works and $2.6 million in new and upgraded capital works, accounting for 97.8 percent and 2.2 percent of the total capital expenditure program respectively.

The Council's transport assets (mainly road assets) represent the largest asset class, and is a major focus of its renewal investment, projected to account for 79.5 percent (or $91.1 million) of the total asset renewal budget over the next 10 years.[18] The renewal budget incorporates a portion of deferred renewal expenditure, however, the Council estimates that there will be a $10 million shortfall, referred to by the Council as a 'renewals funding gap',[19] which will not be covered over the 10-year projections in the 2022-23 LTFP.

The Council is also seeking to address the safety related deficiencies and risks identified across its unsealed road intersections (in relation to heavy vehicle or commodity route access). To commence addressing the 'priority 1' risks identified, the Council is imposing an additional 1 percentage point increase per annum on primary production ratepayers over the first five years of the 2022-23 LTFP.[20] For new and upgraded assets, the Council is allowing an additional $55,000 per annum specifically for water and community wastewater management system (CWMS) assets in accordance with the respective AMPs.[21] The Council's capital expenditure outlook is discussed further in section C.3.

B.4 Changes between 2022-23 LTFP and annual business plan

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.[22]

The Commission notes that the Yorke Peninsula Council's LTFP identifies the risks to its estimates after it is adopted (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 it 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 it 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 Yorke Peninsula 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.

The Commission has also observed other material changes to the Council's adopted capital expenditure budget for 2021-22, which had occurred outside of its annual budget process. For example, the Council had shown in its March 2022 budget revision a 40 percent increase to its 2021-22 capital

[18] Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 25.

[19] Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 24.

[20] The Council states high level costing of remedies for the highest risk category (priority 1) issues relating mainly to road intersections on commodity routes are currently being obtained; and that the LTFP makes no financial provision for the cost implications of safety related deficiency rectification associated with maintaining current levels of commodity route access across the Council area. Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 6.

[21] Footnote 18 applies.

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

expenditure budget (an increase of $9.7 million), and in August 2022 (due to an underspend) sought to carry over some of this increase and associated income (such as grants). The Council has advised these ‘carry overs’ were not incorporated into its 2022-23 budgets due primarily to works deferrals or capital budget timing changes across multiple financial years. The Commission would encourage the Council to monitor these matters and, where possible, ensure that the community is consulted on material budget adjustments.

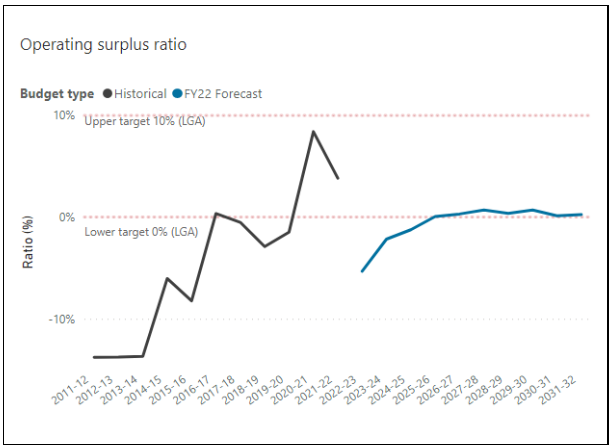
C Financial sustainability

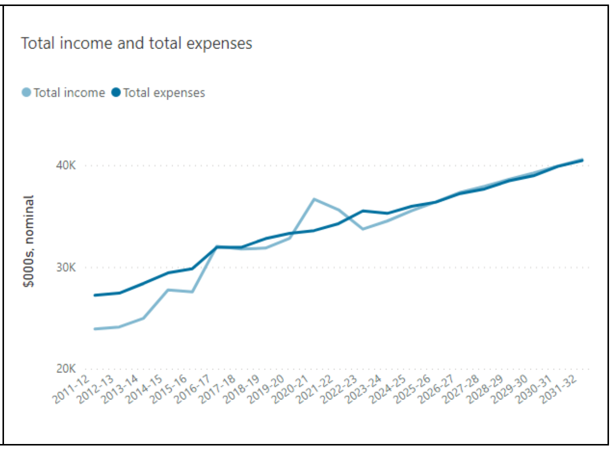
C.1 Operating performance

The Yorke Peninsula Council has predominantly run operating deficits from 2011-12 to 2019-20, and in 2020-21 it achieved an operating surplus of $3.1 million. Its operating surplus ratio[23] is not forecast to be positive again (with a surplus) until 2025-26 (then 0.1 percent) (see the left chart below).

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. It 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 (averaging 2.4 percent per annum). However, it has taken the Council until 2020-21 to generate a sustained operating surplus (based on an average operating balance over three years).

The short-term improvement to its projected operating performance is attributed to budgeting for continued rate revenue increases and slower expense growth (see the right chart below).





Rates revenue has increased on average by 4.8 percent per annum from 2011-12 to 2020-21[24] (when rateable property growth averaged 0.2 percent and CPI growth averaged 1.7 percent). Over the same period 'user charges' (accounting for 15 percent of total operating income) increased by an average of 7.9 percent per annum, and 'grants, subsidies and contributions' (accounting for 18 percent of total operating income) increased by an average of 5.5 percent per annum. Grants income has been 'lumpy' from year to year,[25] and the three-year average of $376 per ratepayer in 2021-22 compares with the three-year average of $248 in 2013-14, which reflects an increase in value in real terms.

The Council's operating expense growth (from 2011-12 to 2020-21) was primarily due to an average annual increase of 3.9 percent in 'employee' expenses and 2.2 percent in 'materials, contracts and other' expenses[26] (see the changes by expense type in specific time periods in the left chart below).

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23 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).

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

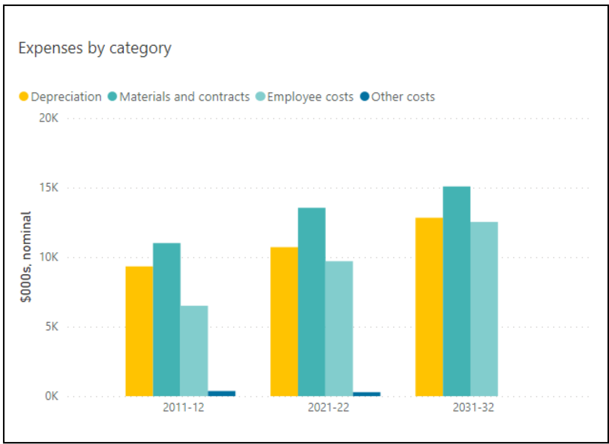
25 Due to the timing of different grants and sometimes advance grant payments (as for the 2022-23 grant allocation, which was received and accounted for in 2021-22).

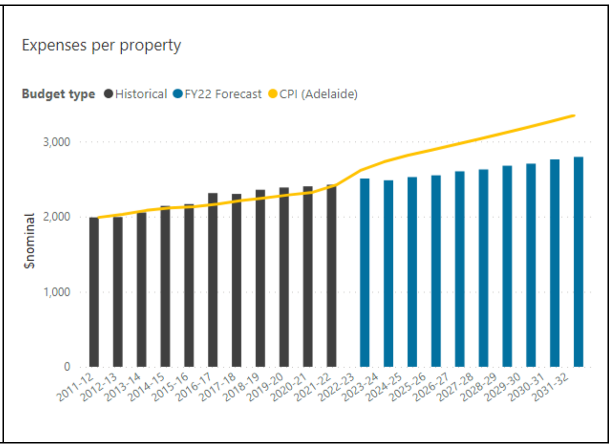
26 This is despite the increase in the solid waste levy over the past 10 years which has impacted councils' waste management costs.

Looking forward, the Council is projecting average annual rates revenue growth of 2.2 percent to 2031-32 (or 3.2 percent to 2025-26), which is below the forecast long-term inflation,[27] and represents a real terms reduction in rates (mainly from the period 2026-27 to 2031-32). This average growth in annual rates revenue is also higher than expected expense growth (rates are discussed in more detail in section D).

Lower forecast average expense growth of 1.5 percent per annum is approximately half the RBA-based forecast inflation growth[28] and represents a change from the Council's past performance (with average annual growth of 2.4 percent in the 10 years to 2020-21).

Expenses per property (a metric which also accounts for growth) are expected to increase by an average of 1.2 percent per annum over this period, which would represent a significant cost reduction in real terms (based on current inflation projections) (see the right chart below).





The Council's template data (provided to the Commission) shows that employee numbers are assumed constant at current levels (of 120 FTEs), and some of its operating income and expense lines indicate negligible change in real terms or growth below current inflation forecasts. For example, grants income represents a forecast of $3.0 million per annum (on average in nominal terms), compared to a historical average of $4.3 million per annum.[29] In addition, 'employee' expenses and 'materials, contracts and other' expenses are forecast to increase by an average of 2.3 percent and 0.9 percent per annum respectively, from 2022-23 to 2031-32. Overall, this would reflect much more contained growth, below forecast inflation. This is a positive trend, noting that the Council's improved financial sustainability outlook does rely on continued 'cost constraint'.

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.[30] 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.[31]

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27 The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.8 percent based on the RBA forecasts for the CPI (Australia-wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.5 percent) from 2025-26.

28 Footnote 27 applies.

29 Based on the Council's Excel template provided to the Commission. Historical average is based on the 11-year period from 2011-12 to 2021-22; and forecast average is based on the 10-year period from 2022-23 to 2031-32.

30 Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, pp. 7 and 14.

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

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.

C.2 Net financial liabilities

With the Council's frequent operating deficits from 2011-12, its net cash flows after operating and investing (that is, capital-related) activities has averaged $0.2 million annually between 2011-12 and 2020-21. (This is different to the chart over the page which shows cash held by the Council at the end of each year, including financing activities, which has averaged $6.0 million).

The Yorke Peninsula Council has used loan borrowings with the Local Government Finance Authority of South Australia (LGFA) to predominantly fund its renewal of existing assets and acquisition of new and upgraded assets.[32] For example, in the 2021-22 LTFP the Council included three new loans totalling $3.1 million to fund its 50 percent contribution towards three major one-off projects.[33] The Council is budgeting in 2022-23 a 'principal' repayment of loans totalling $1.3 million.[34]

The Council's net financial liabilities ratio has trended between 3.5 and negative 7.4 percent between 2011-12 and 2021-22 (see the bottom left chart over the page). This is within (or below) the suggested LGA target range for the indicator of between zero and 100 percent (averaging 7.2 percent over this period) and is at a level which demonstrates that the Council is only accumulating liabilities that its operating income can reasonably service (see the top right chart over the page).[35]

The Council has estimated that the ratio will peak at 23 percent in 2022-23, with additional borrowings projected of $0.8 million to help fund 50 percent of the 'Price Roads Upgrade Project' for $1.3 million (originally intended to commence in 2021-22). The additional borrowings represent a 9 percent increase on the audited 2021-22 borrowings of $8.3 million (see the bottom right chart over the page).

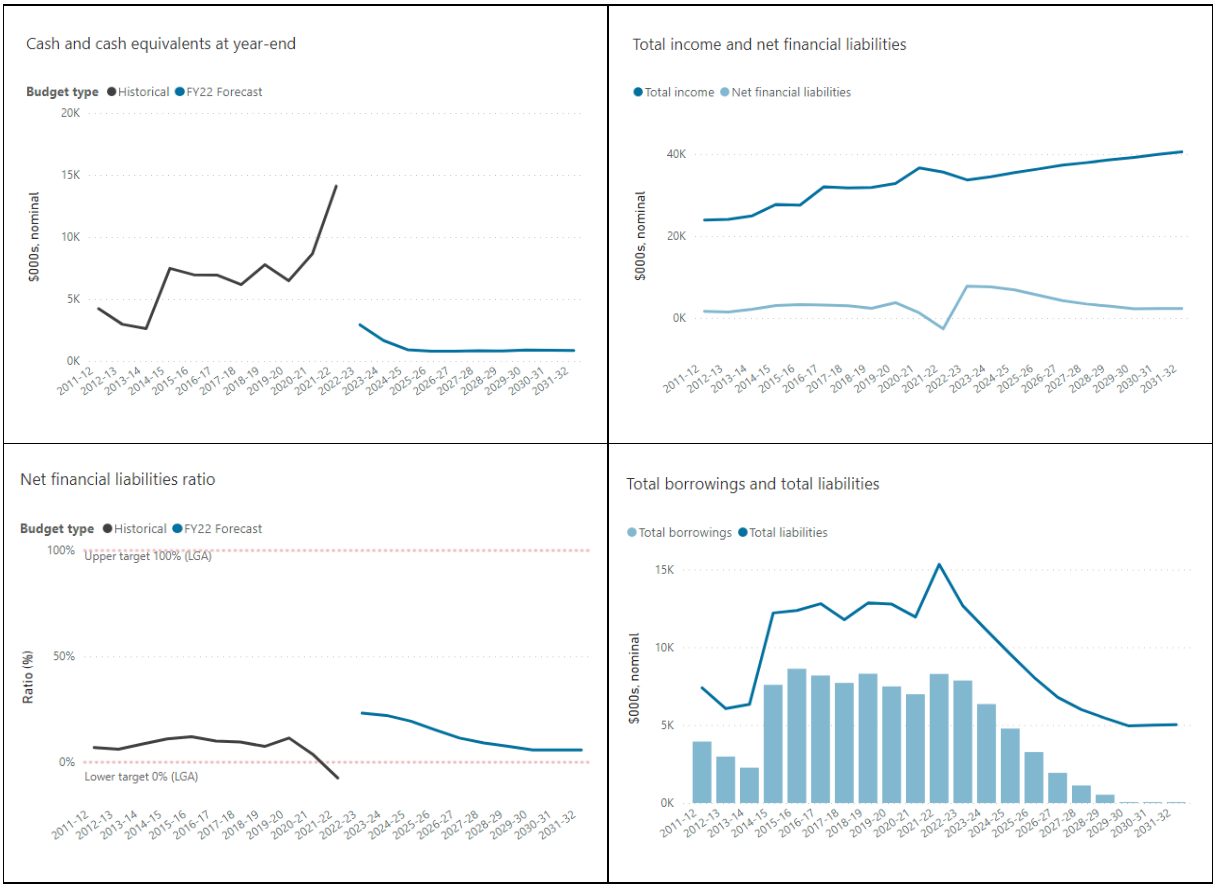
The ratio will then decline to an average of 6.8 percent in the five years to 2031-32, which reflects both the marginally lower trend in borrowings and other liabilities, and the projected operating income growth (an average of 2.1 percent per annum). As previously stated, the Council is relying predominantly on further rates revenue growth and lower growth in operating expenses to improve its overall financial sustainability.

[32] Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, pp. 9-10.

[33] Yorke Peninsula Council, *2022 – 2031 Long Term Financial Plan*, April 2021, pp. 15-16. The three major projects comprise: the Gardner Street and Fowler Terrace, and Price Road upgrade ($1.5 million); Road shoulder widening, strengthening and sealing (approximately 39 km) ($3 million); and the Minlaton airstrip sealing ($1.7 million).

[34] Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 36.

[35] 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).



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.

C.3 Asset renewals expenditure

The Council has underperformed on its asset renewal funding ratio[36] between 2011-12 and 2020-21; however, the 2021-22 unaudited estimates[37] indicate an improvement in asset renewal spending priorities (see the top charts over the page).

Between 2011-12 and 2020-21, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 76 percent,[38] signifying a substantial underspend on the renewal and rehabilitation needs of its asset stock over this period. The Council's spending on renewal and rehabilitation of assets averaged $6.8 million each year (over this period).

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36 The IAMP-based method is the current industry standard whereby asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). Ideally, this will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan. The suggested LGA target range for the ratio is 90 to 110 percent (LGA SA Financial Indicators Paper, p. 9).

37 Also as reported in the Yorke Peninsula Council, *Annual Report 2021/2022*, p. 52, available at https://yorke.sa.gov.au/content/uploads/2022/11/Publication-2021-2022-Annual-Report-Final.pdf.

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

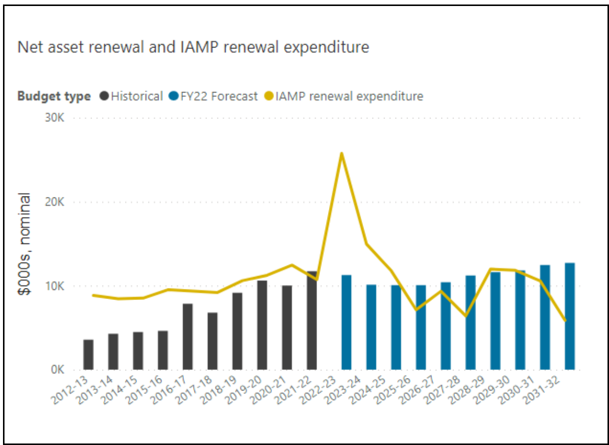
From 2022-23 to 2031-32, the ratio is forecast to average 119 percent, reflecting the additional expenditure to address previous years' deferred renewal expenditure. Average annual spending on renewal or rehabilitation of assets is projected to increase to $11.5 million (in nominal terms).

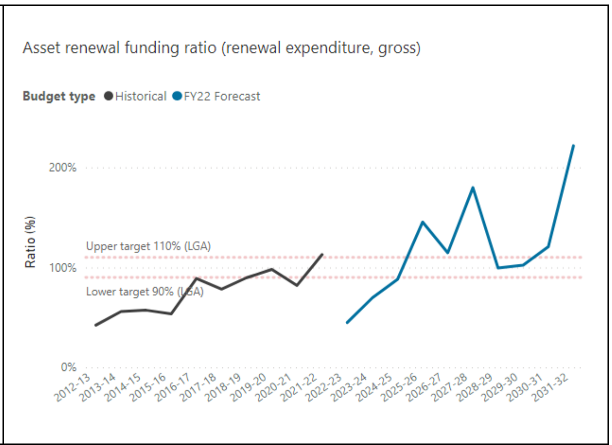
The Yorke Peninsula Council has marginally grown its asset base over the past 10 years notwithstanding total capital expenditure averaging $9.6 million per annum (including $2.8 million per annum on new or upgraded assets) between 2011-12 and 2020-21 (see the bottom right chart below). This has led to a small average increase in the value of the asset stock per property of $123 or 0.6 percent for each year over the 10 years to 2020-21 (see the bottom left chart below). By implication this indicates the Council's asset stock has declined in real terms (or the increase is lower than historical inflation).

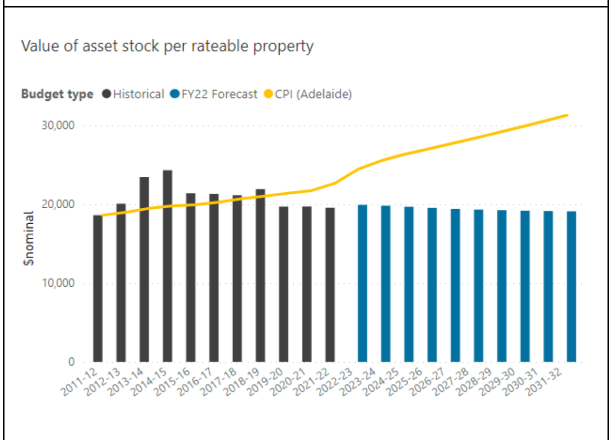
The Council has recognised that its historical capital spending profile has given rise to an accumulation of deferred asset renewals (indicated by actual asset renewal expenditure being lower than required under the AMPs). However, over the term of its LTFP, the Council is forecasting to partly address this by targeting a higher asset renewal funding ratio in the later periods of the LTFP projections (see the right chart below).

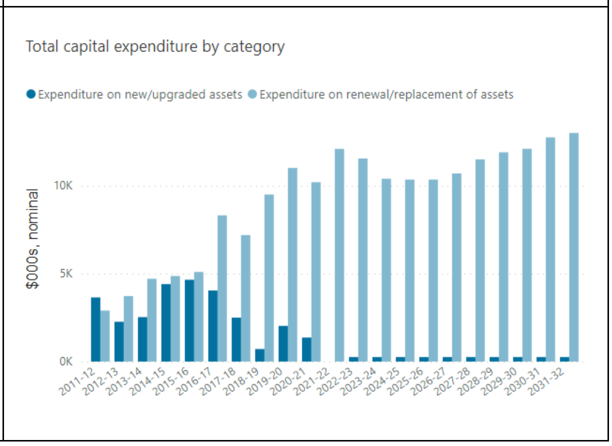
For these reasons, the Commission considers that it would be appropriate for it to:

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.

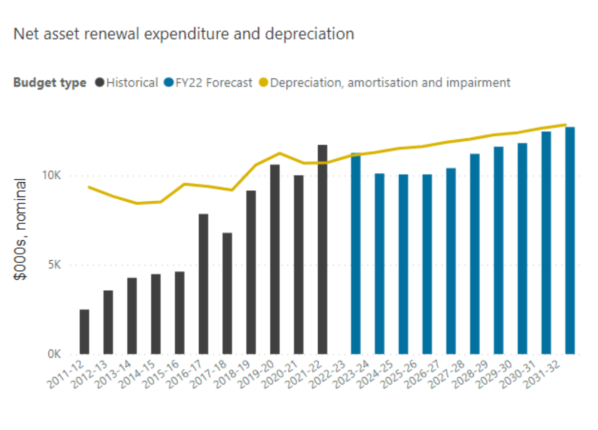


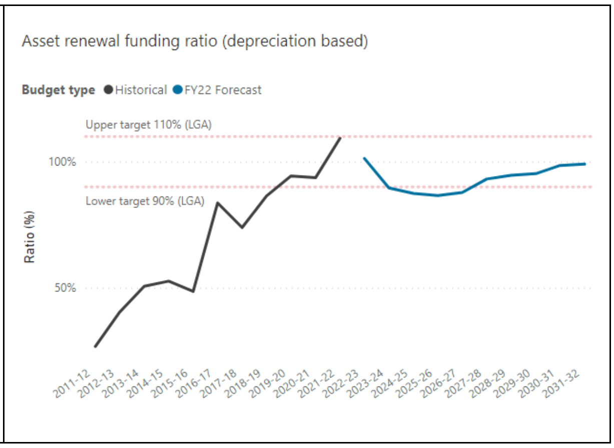






Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,[39] which is projected to broadly track in line with the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 93 percent per annum to 2031-32 (see charts below). In part this reflects a significant shift in the Council's asset spending priorities towards asset renewals rather than new and upgrade asset expenditures. Historically (between 2011-12 to 2015-16) depreciation expenses have outpaced renewal capital expenditure by a significant margin (totalling $23 million over five years). This earlier period may indicate an intergenerational equity[40] risk, as the Council had partly funded capital expenditure (through depreciation) but had deferred or under invested on its asset renewal needs.[41]





The Council currently has individual AMPs for transport, buildings and other structures, major plant, CWMS, stormwater and water infrastructure assets. These cover most of the Council's asset base and reflect asset valuations that have been carried out within the last four years. In formulating its AMPs, the Council has considered a number of matters such as customer levels of service, utilisation and demand of its assets, life cycle management, and risk management planning. These matters (among others) have informed the Council's planned operating and maintenance budgets, and asset renewal needs over the period to 2040. The Council has also showed the extent to which its asset renewal funding forecasts (in its 2022-23 LTFP) aligns with its AMP renewal targets. The Commission's review of the AMPs has found that, on balance, the Yorke Peninsula Council's strategic planning processes aligns with good practice for a council of its size and complexity.

The Council's planned renewal expenditure is mainly attributed to transport assets (covering sealed roads, sheeted roads, kerbs, and footpaths), and accounts for approximately 80 percent of total renewals from 2022-23 to 2031-32.[42] Aside from transport works, the Council has planned renewals for buildings and structures, and major plant/fleet assets (together approximately 15 percent of total renewals).

As previously noted, the Council has identified an accumulation of deferred renewals and a corresponding funding shortfall, referred to as a 'renewal funding gap', across all asset classes in its AMPs. This gap is estimated to be $10 million, which is not currently covered in the 2022-23 LTFP

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39 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.

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

41 The Commission recognises this situation was ameliorated somewhat as during 2011-12 to 2015-16, the Council had incurred operating deficits totalling $14.0 million, as well as incurred $17.5 million in capital expenditure on new and upgraded assets, which would have contributed to higher depreciation charges.

42 Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 25.

projections. This accumulation of deferred works is predominantly associated with transport assets, totalling $6.1 million.[43] 'The Council indicated to the Commission that it is proposing several amendments to its AMPs, as follows:[44]

- New asset revaluations for buildings and other structures (in 2022-23), transport (in 2023-24), and for CWMS, stormwater infrastructure and water infrastructure (in 2024-25)
- Review and update of AMPs for Buildings and Other Structures, and Transport (in 2023-24), and for CWMS, Stormwater Infrastructure and Water Infrastructure (in 2024-25)
- Review of useful lives, asset condition and unit rates (as applicable)
- Further development of community levels of service and technical levels of service
- Review of demand drivers and demand management plans
- Update of renewal expenditure forecast and new acquisitions forecasts (as applicable)
- Improvement to its risk management plans (as applicable).

[43] Yorke Peninsula Council, *2023 – 2032 Long Term Financial Plan*, April 2022, p. 24.
[44] Provided in an email to the Commission on 15 September 2022.

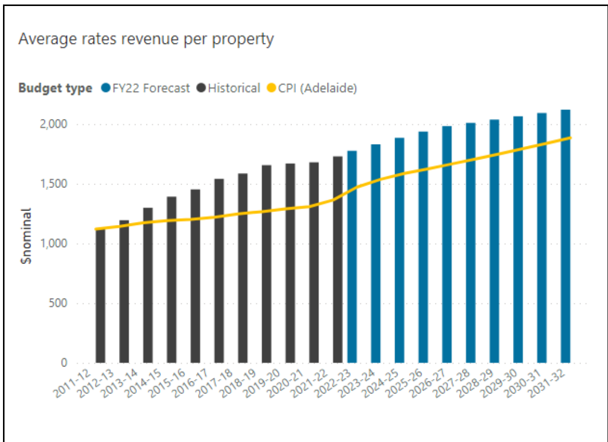
D Current and projected rate levels

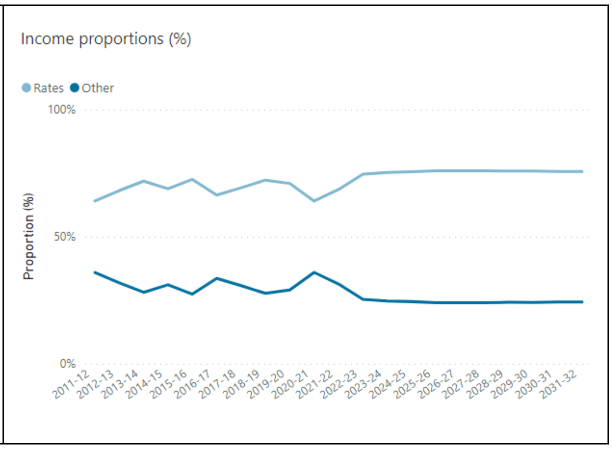
D.1 Historical rates growth

The Yorke Peninsula Council's rate revenue per property growth has averaged 4.6 percent or $62 per annum for each property over the past 10 years,[45] to reach an estimated $1,680 per property in 2020-21 (see the left chart below). This has exceeded CPI growth of an average of 1.7 percent per annum over this period, but also encompasses 0.2 percent average annual growth in rateable property numbers.[46] Current rate levels partially reflect its recent history of spending growth, predominantly on capital expenditure (on renewals, and new and upgraded assets), higher employee-related costs, and the Council's focus to improve its operating performance.

The Council remains reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 75 percent of budgeted operating income in 2022-23 (and thereafter), compared with 64 percent of income in 2011-12.

The Commission notes that the Yorke Peninsula Council has relatively low average rates, reflecting its relatively low-rate levels for non-residential categories, and average rates for residential ratepayers.[47]





D.2 Proposed 2022-23 rate increases

The Yorke Peninsula Council has budgeted for an average rate increase of 4.5 percent or $78 per property for its existing ratepayers in 2022-23,[48] which was higher than it had anticipated charging for this year in its 2021-22 and 2022-23 LTFP projections (that is, 2.5 percent general rates increase, and 3.5 percent increase for primary production ratepayers in the 2022-23 LTFP). The rates increase reflects higher short-term inflation (estimated by the Council to be 5.1 percent), an additional 1 percent for primary producers to specifically upgrade unsealed road intersections due to heavy vehicle access

45 From 2011-12 to 2020-21.

46 CPI Adelaide (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.

47 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 one indicator, among many, which has informed its advice on the appropriateness of the rate levels.

48 Based on the Council's 2022-23 Annual Business Plan and its Excel template (with the 2022-23 forecasts) provided to the Commission. The Commission has used $25.597 million (in 2022-23 budgeted rates revenue) compared to unaudited 2021-22 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.

and, in its own terms, an 'emphasis on achieving financial sustainability in accordance with Council's recently revised LTFP'.[49] The Council has also assumed growth in the area will be minimal[50] (continuing at 0.2 percent per annum) and is not an important determinant in 2022-23 rates revenue.

Different rate categories are subject to varying changes, with residential ratepayers to pay a lower increase of 2.5 percent or $30 per property on 2021-22 levels. Primary production (mostly farmland) ratepayers are budgeted to pay the largest increase of 5.0 percent or $230 per property, which reflects the additional increase for the roadwork which benefits these ratepayers. The Commission notes that these ratepayers are otherwise on relatively lower differential rates.[51]

On a proportional revenue basis, residential ratepayers account for around 53 percent of 2022-23 budgeted rates revenue, followed by primary production ratepayers (37 percent), and vacant land ratepayers (5 percent). On a capital valuation basis (in 2022-23), primary production land use represents 66 percent of the aggregate capital value in the Council area,[52] despite the relatively lower rate contributions (as a group) than residential ratepayers.

Other than 'general rates' revenue (which represents around 79 percent of total rates revenue in 2021-22),[53] the Council collects income from waste collection,[54] the CWMS charge, and the Regional Landscape Levy (around 9, 7 and 5 percent of total rates revenue respectively).

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average rates increases for its existing ratepayers of approximately 2.0 percent per annum from 2023-24 to 2031-32 (or 2.8 percent per annum over the first 4 years to 2026-27), which include an additional 1 percent increase per annum for primary production ratepayers (to 2026-27) related to upgrading unsealed roads intersections.[55]

In total, the LTFP effectively projects a cumulative increase of $344 per existing ratepayer (to $2,121 per annum) by 2031-32, which is consistent with the Council's assumed inflation growth over this period, but is also below the RBA-based inflation forecast of an average of 2.8 percent per annum[56] (refer back to the previous page chart on the left side).[57] This long-term average trend is impacted by the Council's projected rates increases in the last five years of its LTFP (from 2027-28 to 2031-32) being below the Council's forecast CPI by 0.5 percentage points per annum.[58]

As a result of further rates increases, the percentage of the Council's total income contributions from ratepayers is projected to average around 76 percent, compared to a historical average of around 69 percent.

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49 Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 5.

50 Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 16.

51 Rate in the dollar applied to the capital value of the property in the Council area. Yorke Peninsula Council, *2022-23 Annual Business Plan,* p. 19.

52 Yorke Peninsula Council, *2022-23 Annual Business Plan*, July 2022, p. 20.

53 Before discretionary rebates.

54 The Commission notes the increase in the solid waste levy over the last 10 years, which has impacted waste management costs in the local government sector.

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

56 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.

57 The CPI forecasts in the chart are based on RBA forecasts and then a return to long term averages (2.5 percent per annum), which are different to Council's inflation forecasts (as was discussed in section B.1).

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

D.4 Affordability risk

Affordability risk among the community for these further rate increases appears to be low, on balance, when considering:

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Yorke Peninsula Council area[59]
- the current relatively low average rates (across most ratepayers) without further forecast increases above inflation for ratepayers, apart from rural ratepayers
- minimal community concerns, with one of three written submissions received, expressing concern about further rate rises in the 2022-23 budget process, specifically on the additional cost burden to farming businesses[60]
- the effect of cumulative increases in rates per existing ratepayer of approximately 2.0 percent per annum to the period 2031-32, below the forecast rate of inflation, and
- the overall financial sustainability risks of the Council and its LTFP trend towards an operating surplus by 2025-26.

However, as the current economic environment is putting more pressure on most communities' capacity to pay for further rate increases, including those of the Yorke Peninsula Council, the Commission considers it would be appropriate for the Council to:

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

[59] 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 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.

[60] 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.

The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444
E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au