Advice

Local Government Advice - Attachment

District Council of Karoonda East Murray

February 2024

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A The Commission's approach

In providing the Advice for the District Council of Karoonda East Murray (**Council**), the Essential Services Commission (**Commission**) has followed the approach in the Framework and Approach – Final Report (**F&A**).[1]

The Commission has considered the Council's strategic management plan (**SMP**) documents (set out 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]

- 2023-24 Annual Business Plan (adopted June 2023)
- 2022-23 Annual Business Plan (adopted June 2022)
- 2023-2032 Long Term Financial Plan (adopted August 2022)
- 2024-2033 Long Term Financial Plan (adopted August 2023)
- 2023-2032 Infrastructure & asset Management Plan (adopted August 2022)
- Strategic Asset Management Plan (adopted August 2022)
- 2021-22 Annual Report (adopted November 2022)

Most of the Council's small asset base is covered by its existing strategic asset management plan. Assets valuations have been carried out internally or through an external independent review within the last five years for most of the Council's assets.

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 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 2023-24 LTFP forecasts for 2023-24 to 2032-33, 2022-23 LTFP forecasts, historical financial data, the number of rateable properties and staff (Full Time Equivalent (**FTE**)) numbers from 2012-13 onwards.[6] [7] All charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council's audit committee reports and other public information.

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

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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.
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 2022-23 financial year, relied on at the time of preparing this advice, were unaudited.

'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (**CPI**) line shows the cumulative growth in the CPI (Adelaide) series from 2012-13, and then projections of this series from 2023-24 based on the Reserve Bank of Australia (**RBA**) (Australia-wide) inflation forecasts (to the December 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 all discussions and engagement with the Council, including the face-to-face onsite meeting at the Council chambers and the individual circumstances of the Council, consisting of:

- its location as a small rural council,
- its income level ($4.6 million), and
- the size of its rates base (1,120 ratepayers[8]).

Summary of the District Council of Karoonda East Murray's financial sustainability performance and the Commission's risk assessment

<table>
<tr><th>Financial sustainability indicators:</th><th colspan="2">Last 10 years from 2012-13 (Actual performance)</th><th>2022-23 estimate</th><th>Next 10 years from 2023-24 (Council forecasts)</th></tr>
<tr><td>Operating surplus ratio (target 0-10%)</td><td>Surpluses within target -----------------></td><td colspan="2">Ratio not consistently achieved --></td><td>Small operating surpluses ---------------></td></tr>
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<tr><td>Affordability risk</td><td colspan="2">High rates revenue per property average growth of 6% pa to 2021-22 (CPI 2.0%)</td><td>High rates increase</td><td>Projected rate revenue per property average growth 4% to 2032-33 (CPI 2.6%) ----------------------------------></td></tr>
</table>

Ratio outside suggested LGA target range or higher risk

Ratio close to suggested LGA target range or medium risk

Ratio within suggested LGA target range or lower risk

[8] Based on the estimated number of property assessments in 2021-22.

B Material plan amendments in 2023-24

The Council has made various amendments to its 2023-24 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 2022-23 and 2023-24 LTFPs, the Commission has reviewed nine overlapping years' statistics, 2023-24 to 2031-32, and identified material amendments accordingly.

Selected Financial Item	Sum of 2023-24 to 2031-32 estimates in 2022-23 LTFP ($ million)	Sum of 2023-24 to 2031-32 estimates in 2023-24 LTFP ($ million)	Change in 2023-24 estimates ($ million)	Change in 2023-24 estimates (percent)
Grants, subsidies and contributions operating income	22.6	27.9	5.3	23.2
Rates	19.8	22.8	3.0	15.5
Total Income	46.9	55.9	9.0	19.4
Materials, contracts and other expenses	17.7	23.3	5.6	31.4
Total Expenses	46.1	54.8	8.7	18.9
Capital expenditure on new assets and renewal of assets[10]	16.1	18.1	2.0	12.0
Total Liabilities	3.9	5.5	1.6	41.4

B.1 Changes to operating performance

In its 2023-24 LTFP, the Council increased its operating income projections to 2031-32 by $9 million or 19.4 percent in total compared with its 2022-23 LTFP estimates (from 2023-24). Most of this increase is due to grants, subsidies and contributions operating income, which increased by $5.3 million or 23.2 percent on the 2022-23 LTFP estimates (from 2023-24 to 2031-32), and rate increases of $3 million or $15.5 percent.

The Council's operating expense estimates increased by $8.7 million, or 18.9 percent, in its 2023-24 LTFP estimates (compared with its 2022-23 LTFP estimates). More than half of the Council's higher operating expenses are due to higher 'materials, contracts, and other' expenses, with an increase of $5.6 million or 31.4 percent on the 2022-23 LTFP estimates (from 2023-24 to 2031-32). Employee costs increased by $2.5 million or 21.6 percent.

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

B.2 Updates to Strategic Management Plans

The Commission notes that, as the Council's published LTFP is in real terms, its intentions on how it proposes to manage the impact of inflation and the implications this may have for ratepayers are less

9 This table shows only selected financial items to demonstrate the material amendments made by the Council in its 2023-24 estimates. It excludes various financial items and individual items do not sum to totals.

10 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).

transparent. Further, the Council did not provide the inflation forecasts it used to convert its LTFP into nominal terms when providing the conversion to the Commission.

To provide some guidance on how the Council's 2024-23 LTFP forecasts for 2023-24 to 2032-33 income and expenditure compare relative to inflation, the Commission notes that the RBA currently forecasts the CPI (Australia-wide) to increase by 3.6 percent in the year to the June 2024 quarter, and by 3.1 percent in the year to June 2025. Thereafter, it is reasonable to anticipate a return to long-run averages (and average growth of 2.6 percent per annum from 2024-25 to 2032-33, based on the RBA's 2 to 3 percent target range).[11] The subsequent sections have regard for this as relevant.

While the Council may wish, for its own purposes, to identify real term changes only in its financial planning, the meaning of this may not be as transparent to all its ratepayers. This is because it may not highlight the Council's estimate of the nominal rates and charges, more indicative of its expectations of the community's contribution toward its income. Given this, and the objective of open and transparent consultation, there is benefit in any published version of the LTFP also being available in nominal terms and clearly identifying all indexation and inflation assumptions used. This will likely provide a more meaningful context to the community regarding the Council's expectations with respect rates and charges, allowing for improved community input regarding their expectations of the Council with respect to cost control and service levels.

In general, and notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission recommends that the Council:

1. **Improve** the transparency around assumptions and state explicitly the basis for preparation of Annual Business Plans, Budgets and the long-term financial plan.
2. **Provide** a version of the long-term financial plan in nominal terms, when developed using real terms, for the benefit of ratepayers.

The Commission notes that the Council could make its macro-economic or operating assumptions more explicit, for example this could include forecasts (as applicable) for CPI, asset indexation, commodity prices, utility prices, and escalations in material contracts (among other things). As there may be uncertainty around various macro-economic variables, this may add further risk to the reliability of its financial plans.

B.3 Increase to capital expenditure estimates

The Council's 2023-24 LTFP indicates an increase in capital expenditure for new and upgraded assets (by $2.4 million), compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). However, the Council's capital expenditure on renewal of assets decreased by $0.5 million, compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). The Commission notes that recent cost saving strategies and efficiencies implemented by the Council could help explain the decrease. The Commission also notes that the average annual capital renewal expenditure for the 10 years to 2032-33 is forecast to reduce to $1,566 each year (average annual capital expenditure on renewals in the 10 years to 2021-22 was $1,756).

The Council's capital expenditure outlook is also discussed further in section C.3.

[11] RBA, Forecast Table - November 2023, available at: https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html.

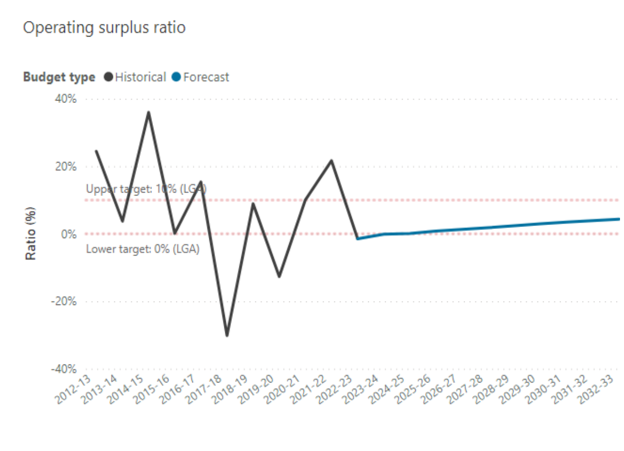
C Financial sustainability

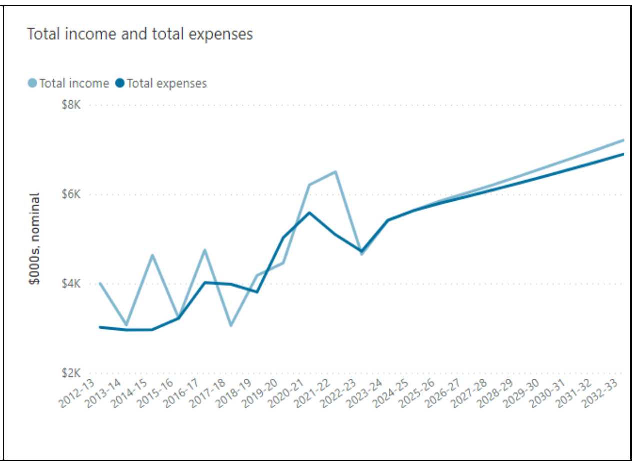
C.1 Operating performance

The Council has recorded eight operating surpluses[12] between 2012-13 and 2021-22, and the operating surplus ratio[13] is forecast to meet the suggested LGA target range in nine out of ten years to 2032-33 (see the left chart below).

From 2012-13 to 2021-22, operating expenses increased by an average of 6 percent per annum and operating income increased by an average of 5.5 percent per annum, which compares to annual inflation growth of 2.0 percent over this period.[14]

The Council's operating expense growth (from 2012-13 to 2021-22) was primarily due to an average annual increase in employee costs of 7 percent, and a 6.6 percent increase in 'materials, contracts and other' expenses.[15] The right chart below shows the nominal increases by expense type in specific time periods. The estimated rate of growth in those expenses projected over the next 10 years (an average of 2.6 percent per annum for each category previously mentioned), combined with higher rates increases, will help the Council's operating performance remains in surplus.





Rates revenue has increased on average by 6.1 percent per annum from 2012-13 to 2021-22 (when rateable property growth averaged just 0.1 percent and CPI growth averaged 2.0 percent). Over the same period, user charges' (accounting for 5 percent of total operating income) increased by an average of 18.8 percent per annum.

In 2021-22, more than half of the Council's total income came from 'Grants, subsidies and contributions' (56 percent). For the 10 years to 2021-22, 'Grants, subsidies and contributions' also contributed more than half of the Council's total income (the annual average contribution was 59 percent).
The Council receives various grants, subsidies and contributions from the state and federal government. The federal assistance grant (FAG) is typically the largest grant the Council receives each year. In the 5 years to 2021-22, the FAG contributed around 55 percent of total grant revenue. The FAGs are untied grants that help councils provide services to their communities. The FAGs are legislated,

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12 This means that the Council's operating income (including rates and other revenue sources but excluding capital grants, subsidies, and contributions) have exceeded operating expenses (including depreciation).

13 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).

14 CPI (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 2.0 percent), available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.

15 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).

providing some level certainty to councils, although the amount and timing of receipt of the grant is not consistent.

Not all grants provide a stable and predictable level of income for the Council. Given the small size of the Council, if its grants income were reduced or delayed, it risks a greater burden of revenue shifting to existing ratepayers in order to achieve operating surpluses. The Commission notes that the Council has identified its dependence on recurring grant income, in particular FAGs, supplementary local road funding, and roads to recovery funding, as a risk.[16]

The Commission notes that, should the risk eventuate, the Council may not have sufficient assets with a resale value that could be sold. It does, however, have cash reserves that could absorb some of the impact. The Council is forecasting its cash balance to increase year-on-year to reach $2.9 million in 2032-33 (from $114,000 in 2023-24). The cash reserves provide the Council with the flexibility to address unexpected increases in expenses, or decreases in revenue.

However, if the forecast growth in cash reserves does not eventuate and the Council's grant revenue decreases or is delayed, it risks a greater burden of revenue shifting to its ratepayers in order to achieve operating surpluses.

Looking ahead, the Council is projecting total income growth of 3.2 percent to 2032-33, with average annual rates growth of 4 percent for the same period. This forecast is underpinned by a financial strategy that returns Council to an operating surplus in the 2024-25 financial year. The strategy was developed in response to the Council recording two operating deficits in the five years to 2021-22 and forecasting a small deficit in 2022-23. The key plank in this strategy is to levy a 3 percent plus CPI increase in rate revenue for each of the years ending 30 June 2024 and 30 June 2025, 2 percent plus CPI for the year ending 30 June 2026, and 1% above CPI for each year thereafter.[17]

Combined with a more disciplined approach to cost control and its focus on savings and efficiencies, this will help the Council increase its cash and cash equivalent balance that is forecast to increase from $114,000 in 2023-24 to $2.3 million in 2032-33, an annual increase of 40 percent for this time.

Income from Grants, subsidies and contributions' is also forecast to increase at 2.6 percent to 2032-33. Total income growth and average annual rates growth are forecast to increase above forecast long-term inflation.[18]

Lower forecast average expense growth of 2.7 percent per annum is slightly above the RBA-based forecast inflation growth[19] and lower than the Council's past performance (with average annual growth of 6 percent in the 10 years to 2021-22).

The Council's template data shows that employee numbers are assumed constant at current levels (16 FTEs), and its employee expenses are forecast to increase by an average of 2.6 percent per annum from 2023-24 to 2032-33. In addition, 'Materials, contracts and other' expenses and costs for depreciation are forecast to increase by an average of 2.6 percent and 2.9 percent per annum respectively, from 2022-23 to 2031-32.

The estimated rate of growth in the average total operating expense (for the 10 years to 2032-33) is lower than the estimated rate of growth for total income for the same period. The Council is forecasting that it will remain in surplus each year from 2024-25 to 2032-33, with an annual average operating surplus ration of 2.4 percent - below the Council's past performance (with average operating surplus ratio of 7.7 percent in the 10 years to 2021-22).

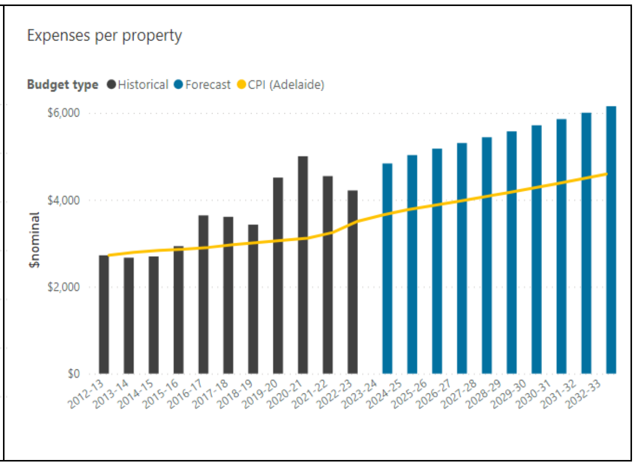
[16] District Council of Karoonda East Murray, *2024-33 Long Term Financial Plan* June 2023, page. 9.

[17] District Council of Karoonda East Murray, 2024-33 *Long Term Financial Plan* June 2023, page. 3.

[18] The forecast average annual growth in the CPI from 2023-24 to 2032-33 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to December 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.

[19] Footnote 23 applies.

Total expenses per property (a metric which accounts for growth) are expected to increase by an average of 2.7 percent per annum over this period, which would represent a slight cost increase in real terms (based on current inflation projections) (see the right chart below). At the same time, average total income per property is forecast to increase by 3.2 percent (nominally), above the forecast inflation.



The Commission notes that historically, the Council area has experienced farm consolidation in its area helping to slow the growth in rateable properties (rateable property growth was 0.1 percent in the 10 years to 2021-22). If this trend were to continue, it risks both metrics previously mentioned increasing and a greater burden of revenue shifting to its remaining ratepayers in order to achieve operating surpluses. The Commission notes that the Council has adopted a conservative approach and is forecasting no growth in rateable properties in the 10 years to 2032-33. The Commission notes the Council's good practice of reviewing its rateable property forecast annually and encourages the Council to:

3. Continue its good practice of reviewing the rateable property growth forecasts in its budget projections each year to ensure that they remain current and do not create a need for additional rate increases to generate the same level of projected revenue.

These projections highlight the importance of the forecast growth in expenses and income. The small increase in expenses per property in real terms is reliant on the Council's disciplined approach to cost control. The Council has implemented (in recent years) efficiencies and cost savings along with a focus of continuous improvement which the Commission considers to be good practice. As an example, the Council has reduced its reliance on sub-contractors by bringing certain functions such as assessing transport permits back in-house. Cross council collaboration has also been an increased focus with equipment, skill and resource sharing a regular occurrence. The Commission notes for example, that the Council is using the neighbouring Berri Barmera Council's equipment to repair local bitumen roads.[20]

The Commission notes that the various cost savings and efficiency strategies implemented have helped the Council reduce its materials, contract other expense by 13 percent from 2020-21 to 2021-22. Employee expenses were also reduced by 11 percent from 2020-21 to 2021-22.

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

20 District Council of Karoonda East Murray, *Council Agenda, Monday 22 January 2024 pp 9 &10 available at* https://www.dckem.sa.gov.au/__data/assets/pdf_file/0028/1531297/23-January-2024-Council-Agenda-Public.pdf

4. **Report** any actual 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.
5. **Include** efficiency goals and projected cost savings in its long-term financial plan, to provide further evidence of projected cost growth constraint and efficiencies across its operations and service deliveries.

It is recognised that the Council may be challenged by factors such as its remoteness, lower rates base, supply constraints and inflationary pressures (among other things) which can materially change its financial performance from year-to-year. However, the Commission considers it would be prudent for the Council to mitigate any risk to its ratepayers through monitoring of its expenses (such as 'materials, contracts and other' expenses), and seeking to find productivity improvements, where possible, to achieve its planning assumptions and to reduce the need to increase rates above CPI. Therefore, the Commission has found that it would be appropriate for Council to:

6. **Continue** to monitor the growth in expenses in its budgeting, especially with regards to 'materials, contracts and other' expenses.

C.2 Net financial liabilities

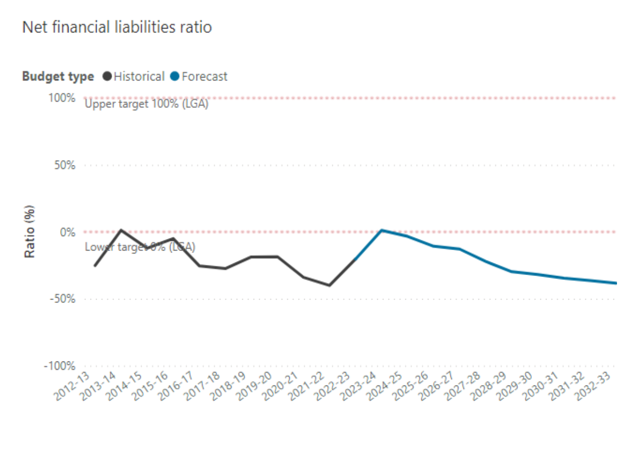
The Council's net financial liabilities ratio[21] result was negative in nine out of the ten years from 2012-13 to 2021-22. The annual average over this period was negative 20 percent which is outside the suggested LGA target range (see left chart over the page). The Council has forecast that its net financial liabilities ratio will remain negative in nine out of the ten years for the forecast period to 2032-33 and remain below the suggested LGA target range. The annual average forecast from 2023-24 to 2032-33 is negative 22 percent.

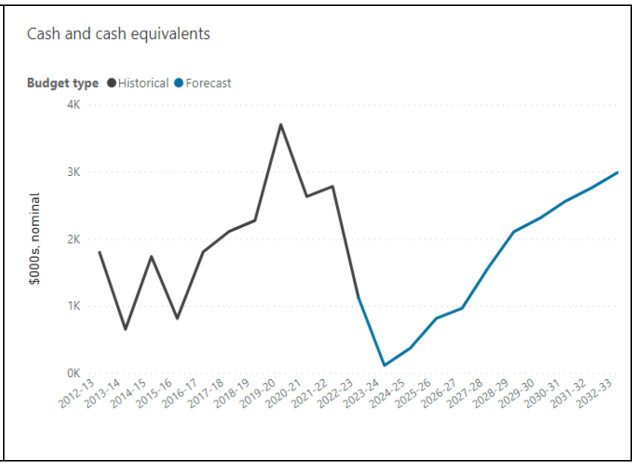
The Council uses a conservative funding strategy that does not involve utilising debt. From 2012-13 to 2021-22, the Council had no borrowings, and is forecasting no borrowings each year to 2032-33. The cash and cash equivalent balance is forecast to increase from $114,000 in 2023-24 to $2.3 million in 2032-33, an annual increase of 40 percent for this time (see right chart over the page).

The Council's negative net financial liabilities is forecast to increase from positive $61,000 in 2023-24 to negative $2.7 million in 2032-33. Furthermore, the net financial liabilities ratio is forecast to reduce from 1 percent in 2023-24 to negative 38 percent in 2032-33 (see left chart over the page). This is below the suggested LGA target range for this indicator of between zero and 100 percent.[22]

[21] 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).

[22] 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).





When viewed in isolation, the ratio is at a level which demonstrates the Council has the financial capacity where its operating income can cover its net financial liabilities. The ratio is mainly driven by its cash reserves and a conservative view of borrowings. Given the Council's reliance on grant funding sources (which can fluctuate from year-to-year) and to a lesser extent on its ratepayer base (of approximately 1,120 rateable properties in 2023-24) where there is limited capacity or scale in the region to raise further income, the Council's cash position could be viewed as prudent. The cash balance provides the Council with the flexibility to address unexpected increases in expenses or decreases in revenue. Therefore, the Commission considers that it would be appropriate for the Council to:

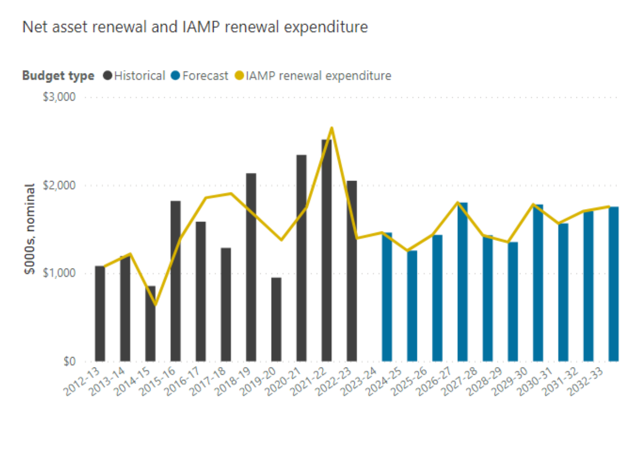
7. Continue to review the extent of cash reserves forecast in the context of its financial sustainability outlook.

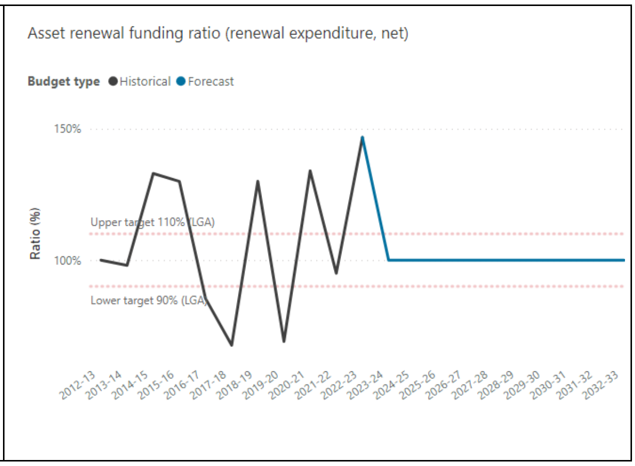
C.3 Asset renewals expenditure

Between 2012-13 and 2021-22, the Council averaged 104 percent on its asset renewal funding ratio[23] (under the 'IAMP-based' approach),[24] signifying an appropriate level of spending on the renewal and rehabilitation needs of its asset stock over this period (see left chart over the page). The Council's spending on renewal and rehabilitation of assets averaged $1.7 million each year (over this period). From 2023-24 to 2032-33, the ratio is forecast to be within the appropriate range, at an average of 100 percent (see right chart over the page). Average annual spending on renewal or rehabilitation of assets is also projected to decrease to $1.5 million (in nominal terms) from 2023-24 to 2032-33.

23 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).

24 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'.

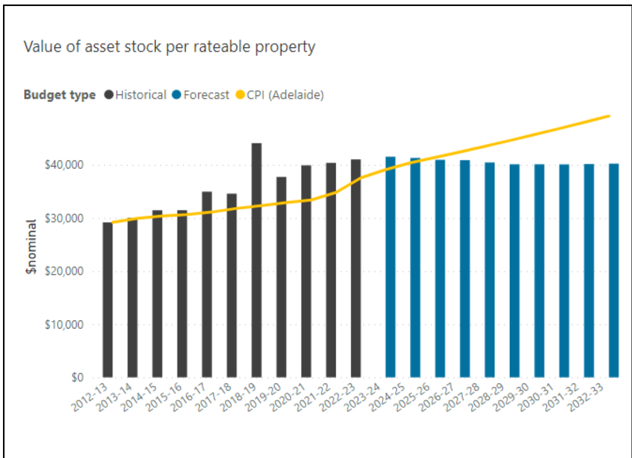


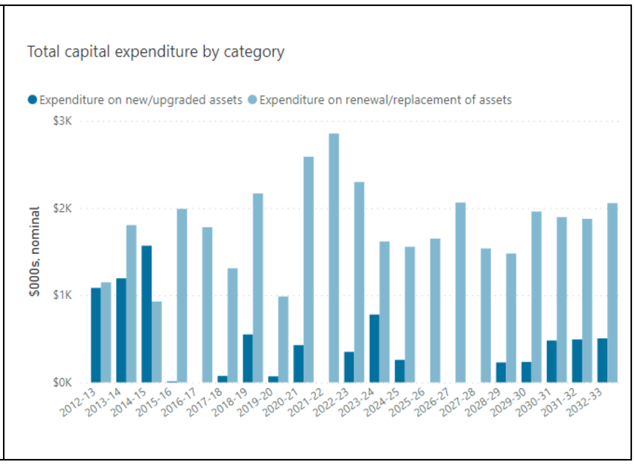


The Council has a low rate base (1,120 rateable properties in 2021-22) that it can draw rate income from, with no growth in rateable properties forecast in the 10 years to 2032-33. From 2012-13 to 2021-22, the Council spent more on the renewal and rehabilitation of its existing assets stock $1.7 million per year) than on new and upgraded assets ($0.5 million per year) (see right chart below).

The expenditure on new and upgraded assets includes a portion of grant funding for certain projects. The growth in its asset base reflects a combination of capital expenditure and asset accumulation by the Council, as well as asset revaluations over this period. This has led to an average annual increase in the value of the asset stock per property of 3.7 percent over the 10 years to 2021-22 (see left chart below). By implication, this indicates that the Council's asset stock has increased in real terms (or the increase is higher than historical inflation).

The Council's forward projections indicate that the value of the assets per property will decrease in the 10 years to 2032-33, by an average of 0.3 percent per annum: lower than the RBA-based forecast rate of inflation (2.6 percent per annum). The fall in the value of assets per property is likely due to the reduction in forecast expenditure in new and upgraded capital items and the infrequent revaluation of the council's asset base.

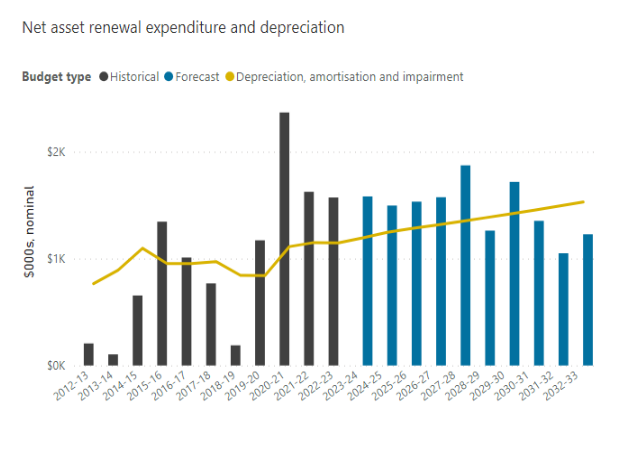


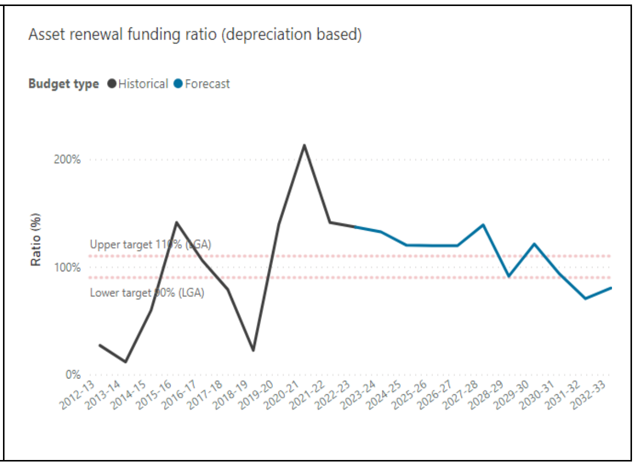


Asset renewals can also be viewed in the context of the depreciation-based asset renewal funding ratio,[25] which has generally tracked (on average) above the recommended minimum level (for the IAMP-based ratio) of 90 percent, over the period from 2012-13 to 2022-23, albeit the ratio showed significant

25 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. Prior to 2013, the calculation of the ratio in the sector was based on the 'depreciation method' and was known as the asset sustainability ratio until 2018.

volatility, historically.





According to the Council's 2021-22 annual report, infrastructure, property, plant and equipment had a carrying amount value of $45.2 million.[26] The Council's three largest asset classes contribute 84 percent of the Council's infrastructure, property, plant and equipment assets. Two of those asset classes (buildings and the CWMS) have had an external valuation in June 2021. As of 30 June 2022, the carrying amount for buildings was valued at $5 million or 11 percent of the total for infrastructure, property, plant and equipment assets. The CWMS had a carrying amount of $3m or 7 percent as of 30 June 2022.

The Commission notes that sealed and unsealed roads is the Council's largest asset comprising $30.2 million or 66 percent of its infrastructure, property, plant and equipment assets. According to its 2021-22 annual report, the last revaluation for roads occurred in July 2019. The Commission notes that the Council's depreciation expense in 2021-22 was $1.5 million, of which $0.9 million was for roads (around 61 percent of the Council's total depreciation expense). An increase in the revaluation of roads could result in a higher depreciation charge which may require higher operating income (and potentially higher rates revenue) in order to generate an operating surplus for the Council. Therefore, in accordance with the Council's planned reviews, it would be appropriate for it to:

8. Review the estimates of asset lives and valuations (including roads) informing its forecast rate of asset consumption (and depreciation expenses) in its long-term financial plan and infrastructure asset management plans.

The Council aims to stage external asset condition assessments generally over a four-year cycle and uses internal assessments on a regular basis (monthly for high use assets) to assess asset conditions. These projections, as they stand, would contribute to the Council's sustainability into the future and reflect a period of asset and service consolidation. However, the Commission notes that the Council's annual review of its LTFP will also need to incorporate further revisions to the asset value estimates.

According to its Strategic Asset Management Plan (SAMP) the Council has an infrastructure and asset management plan (IAMP) for the following asset classes: sealed roads, unsealed roads, plant & equipment, community wastewater management system, buildings, structures & other.

The Council's IAMP was adopted in August 2023 and contains a breakdown of the assets within each respective asset class. The IAMP also includes 10 years of asset renewal projections, in alignment with Council's long-term financial plan.
The Commission's review of the SAMP and IAMP has found that, on balance, the Council's strategic planning processes aligns with good practice for a Council of its size and complexity.

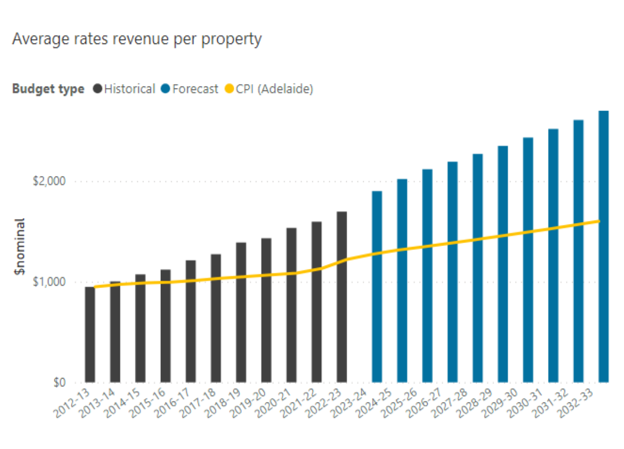
[26] District Council of Karoonda East Murray, *2021-22 Annual Report* June 2022, page. 21.

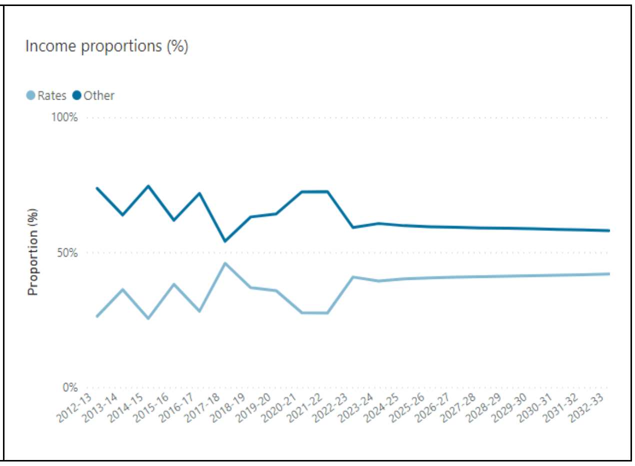
D Current and projected rate levels

D.1 Historical rates growth

The Council's rate revenue per property growth has averaged 6 percent, or $71, per annum for each property over the past 10 years,[27] reaching an estimated $1,596 per property in 2021-22 (see the left chart below). This has exceeded CPI growth of an average of 2.0 percent per annum over this period, resulting in rates increasing in real terms (but also encompassing 0.1 percent average annual growth in rateable property numbers).[28] Current rate levels partially reflect the Council's history of spending growth, predominantly on capital expenditure (on renewals, and new and upgraded assets), higher employee-related costs, and 'materials, contracts and other' expenses.

The Council remains only partially reliant on its rate base for its operating sustainability ('grants, subsidies and contributions' have accounted for over 50 percent of total revenue each year in the 10 years to 2021-22). As the chart below indicates (to the right), rates revenue is forecast to account for 41 percent of budgeted operating income in 2022-23, compared with 26 percent of income in 2012-13.





The Council's general rate revenue consists of single general rate (with a minimum rate) to capital valuations on all rateable properties within the Council area. The Council applies a minimum rate, as it considers it appropriate that all rateable properties make a base level contribution to the cost of administering the Council's activities and to the cost of creating and maintaining the physical infrastructure that supports each property. The Council has increased the minimum rate for 2023-24 to $425 from $375 in 2022-23 or 13.3 percent.

D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase (for general ratepayers) of 12 percent, or $179, per property for its existing ratepayers in 2023-24.[29] The increase reflects higher short-term inflation along with the Council's financial strategy to meet a 3 percent plus CPI increase in rate revenue for the financial years ended 30 June 2024 and 2025, 2 percent plus CPI for the year ended 30 June 2026, and 1 percent above CPI for each year thereafter.[30]

27 From 2012-13 to 2021-22.

28 CPI Adelaide (All groups). Average annual growth in the LGPI published by the South Australian Centre for Economic Studies was similar (at 2.0 percent). Available at https://www.adelaide.edu.au/saces/economic-and-social-indicators/local-government-price-index.

29 Based on the Council's 2023-24 Annual Business Plan and its Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $2.128 million (in 2023-24 budgeted rates revenue) compared to unaudited 2022-23 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.

30 District Council of Karoonda East Murray, *2024-33 Long Term Financial Plan*, page. 3.

Other than 'general rates' income, the Council also collects the Regional Landscape Levy, on behalf of Murrayland and Riverland regional landscape board, and is expected to collect $80,718 (net of rebates) in 2023-24.[31] In addition, the Council charges a service rate for Community Wastewater Management Systems and kerbside bin collection services. The CWMS charge has increased to $530 in 2023-24 per unit of occupied land from $515 in 2022-23. The annual service charge for kerbside waste management has increased to $175 in 2023-24[32] from $165 in 2022-23. The rate is set at a level that will recover the whole of life costs of these services.[33]

D.3 Projected further rate increases

Between 2023-24 and 2032-33, the average rate is forecast to increase from $1,900 to $2,699,[34] a cumulative increase of $799 per property. This equates to a 4 percent average annual increase (between 2023-24 and 2032-33), above the RBA-based forecast average inflation of 2.6 percent per annum.[35]

As previously stated, the Council has developed its LTFP in real (2023-24) dollar values for all future years (which reflects the Council's preferred approach). The forecast rate revenue increases in nominal terms have not been disclosed. The Commission considers that nominal forecasts may assist the Council and its community in comparing past and projected financial performance (and enable comparisons across different planning periods). Therefore, the Commission considers that it would be appropriate for the Council to:

9. Improve the transparency of its rate income projections and associated indexation assumptions in its long-term financial plan, to enable comparisons across different planning periods.

D.4 Affordability risk

The rate type declared by the Council will have an increase on 2022-23 levels. Ratepayers are to pay an increase of $203 per property (12 percent).[36] While the current economic environment is putting more pressure on many communities' capacity to pay for further rate increases, including those of the Council, on balance, the affordability risk for the community in respect of these further increases appears to be moderate. The Commission notes that the Council has a mid-range socio-economic index (SEIFA) economic resource ranking[37] and has relatively low average rates (across most ratepayers). In the 2023-24 budget process, the Council's public consultation report received no submissions (out of a total of 19) that expressed concerns about further rate increases.[38]

31 District Council of Karoonda East Murray, *2023-24 Annual Business Plan*, June 2023, p. 25.
32 District Council of Karoonda East Murray, *2023-24 Annual Business Plan*, June 2023, p. 26.
33 District Council of Karoonda East Murray, *2024-33 Long Term Financial Plan*, page. 23.
34 There is no rates growth forecast by the Council each year.
35 The forecast average annual growth in the CPI from 2023-24 to 2032-33 is estimated to be 2.6 percent based on Reserve Bank of Australia (RBA) forecasts for the CPI (Australia wide) to December 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.
36 This includes general and other rates (CWMS charge and kerb side bin collection) per property.
37 District Council of Karoonda East Murray area is ranked 37 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/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.
38 District Council of Karoonda East Murray, *Ordinary Council Meeting Agenda -29 August 2023 – Public Consultation,* available at https://www.dckem.sa.gov.au/__data/assets/pdf_file/0030/1458066/29-August-2023-Special-Council-Meeting-Agenda_Redacted.pdf

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