Advice

# Local Government Advice

## District Council of Grant

February 2024

**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 |

# District Council of Grant

## AT A GLANCE

### OVERVIEW

The Essential Services Commission finds the District Council of Grant's current and projected financial performance **sustainable,** taking into account the Council's future performance outcomes are reliant on the moderate forecast in expense growth, and the planned increases in average rates income per property of 3.4% p.a. over the next 10 years

### RISKS IMPACTING SUSTAINABILITY

- Out of date asset management plans
- Revaluation of assets are old or out of date
- If cost growth levels exceed forecast and CPI levels

### CONTINUE

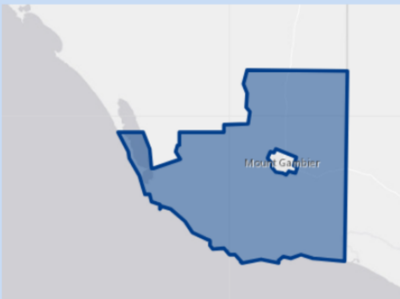
- Reviewing the inflation forecasts and other relevant macroeconomic assumptions in the budget and forward projections each year
- Improving the transparency of changes to the key planning assumptions in the long-term financial plan and annual business plans
- Consulting with the community on the annual business plan, with a focus on understanding the community's preferences on service levels
- Reviewing the extent of cash reserves in the context of rates
- Providing more funding to the renewal of assets, rather than prioritising initiatives which involve new or upgraded infrastructure

### COMMISSION'S RECOMMENDATIONS

- Report any actual cost savings in the annual budget and long-term financial plan
- Consider the intended uses of the accumulated funds
- Consider a more consistent approach to asset revaluations to ensure the forecast rate of asset consumption (and depreciation expense) in the long-term financial plan reflects recent macroeconomic conditions
- Consider adopting a more robust and regular asset management planning process

### KEY FACTS

- Population in 2021 was **8,636**
- Council covers **1,904 square kilometres**
- **5,528** rateable properties in 2022-23
- **$11.7 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$163.8 million**



# Table of contents

# 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 | District Council of Grant |
| 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 |

Legend: ✅ Low-risk ⚠ Moderate-risk 🛑 High-risk

# 1 The Commission's key advice findings for the District Council of Grant

The Essential Services Commission (**Commission**) finds the District Council of Grant (**Council**) to be in a sustainable financial position, with operating surpluses having been achieved in most of the last six years and increasing contributions from ratepayers and government grants. At the same time, the Council demonstrated prudent cost control by achieving operating cost growth below CPI.

The Council's continual improvement to its financial performance is reliant on continued cost growth that is slightly below CPI and income growth that is in line with CPI. The Council also has a low level of borrowings and is prioritising the renewal of its asset base to resolve its infrastructure renewal backlog. In addition, the Council also demonstrates a commitment to reviewing desired service levels through appropriate consultation with the community.

## Current financial performance:

| | | | |
|---|---|---|---|
| Unsustainable | Potentially Unsustainable | Mostly Sustainable | **Sustainable** |

## Projected financial performance (future):

| | | | |
|---|---|---|---|
| Unsustainable | Potentially Unsustainable | Mostly Sustainable | **Sustainable** |

## Previous financial performance (past ten years):

| | | | |
|---|---|---|---|
| Unsustainable | Potentially Unsustainable | **Mostly Sustainable** | Sustainable |

Looking ahead, the Commission suggests the following steps to help ensure that the Council continues to budget appropriately, report its actual cost savings and efficiencies, review the extent of its cash reserves, and adopt a more robust strategic asset management planning process.

Budgeting considerations

1. **Continue** to review its inflation forecasts and other relevant macroeconomic assumptions in its budgets and forward projections each year.
2. **Continue** to improve the transparency of changes to its key planning assumptions in its long-term financial plan and annual business plans each year.

### Continuing to provide evidence of ongoing cost efficiencies

3. **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.

4. **Continue** the good practice of consulting with the community on its annual business plan, with a focus on understanding the community's preferences on service levels.

### Level of cash reserves

5. **Continue** to review the extent of cash reserves in the context of its rates; and **consider** the intended uses of the accumulated funds.

### Refinements to asset management planning

6. **Adhere** to the principles underpinning its long-term financial plan projections to provide more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.

7. **Consider** a more consistent approach to asset revaluations to ensure the forecast rate of asset consumption (and depreciation expense) in the long-term financial plan reflects recent macro-economic conditions.

8. **Consider** adopting a more robust and regular asset management planning process (including transport).

# 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 Parliament 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 17 councils for advice in the second scheme year (2023-24), including the District Council of Grant (**Council**).

This report provides the Local Government Advice for the Council in 2023-24.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2024-25 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 Council for providing relevant information, as well as meeting and engaging with Commission staff to assist the Commission in preparing this advice.

## 2.1 Summary of advice

The Commission finds the Council to be in a **sustainable** financial position with operating surpluses having been achieved in most of the last six years and increasing contributions from ratepayers and government grants. At the same time, the Council demonstrated prudent cost control by achieving operating cost growth below CPI.

The Council will continue to rely on rates income (its largest source of income) and grants income to achieve its forecast surpluses, however the Commission notes that historically the Council's rate levels were relatively low.[10]

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 Refer to council rates data for 2021-22 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_grant.

The Council's forward projections from 2023-24 forecast a continual improvement to its financial sustainability outlook with the rate of operating revenue growth set to outpace expense growth, through:

- continued rate increases on the community, above the rate of the Reserve Bank of Australia (RBA)-based forecast inflation,
- continued cost constraint that is generally in line with RBA-based forecast inflation, and
- the continued prioritisation of its asset spending away from new and upgraded assets, moving more towards renewal and rehabilitation capital works projects.

In recent years, the Council has run small operating surpluses, indicating that the operating income it collects is generally exceeding its operating expenses by a small margin. The Commission notes that the Council is continuing to forecast small operating surpluses in the short term. If its total operating expenses (including deprecation) do not reflect current macro-economic conditions, the Council risks understating its total operating expenses and overstating its operating surplus ratio.

The Council has also forecast that its net financial liabilities ratio will remain below zero and that the Council will hold negligible borrowings by 2028-29. It is also projecting that it will not acquire new borrowings from 2028-29 onwards, and that its cash reserves will reach $5.6 million by 2032-33. The Council's long-term forecasts suggests that it will utilise cash reserves prior to borrowing for new capital works or major long-term infrastructure.[11] The Commission recommends that the Council should review the extent of those cash reserves to determine whether some should be returned to ratepayers (through an adjustment in rates).

The Council area is predominantly rural with agriculture being a critical economic industry within the region. Having confidence in its transport infrastructure, to help agricultural products reach their intended destination, is an important factor for the Council. The Commission notes that community feedback does not appear to relate to affordability, but to wanting a greater understanding of the council's infrastructure condition. As a result, the Commission recommends that the Council could benefit from a more robust planning process for its strategic asset management planning.

## 2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the Council's material changes to its 2023-24 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]

### 2.2.1 Advice on material plan amendments in 2023-24

Key Points:

- ✔ An improvement in operating performance of $2.1 million or by 162 percent, resulting in the Council bringing forward, by three years, its projected operating surplus to 2027-28.
- ✔ An additional $15.0 million (or 37 percent) for asset renewals, and an additional $5.1 million (or 39 percent) for new and upgraded capital works.

[11] District Council of Grant, *2023-2024 to 2032-2033 Long Term Financial Plan*, August 2023, p. 10.
[12] The attachment will be available on the Commission's website with the Advice.

The Commission has compared the Council's projections in its 2023-24 LTFP with those from its 2022-23 LTFP and focused on the aggregate of the nine overlapping years: 2023-24 to 2031-32 to ensure a comparable analysis of material amendments.

The Council's 2023-24 LTFP includes an improvement to its projected operating performance, and increases to its projected capital expenditure estimates, compared with the 2022-23 forecasts, as follows:

- An improvement in operating performance of $2.1 million or by 162 percent, resulting in the Council bringing forward, by three years, its projected operating surplus to 2027-28. This is mainly driven by a 5.5 percent increase in rates revenue as well as a 3.4 percent decrease in employee costs.
- An additional $15.0 million (or 37 percent) for asset renewals, and an additional $5.1 million (or 39 percent) for new and upgraded capital works. Much of the increases are being driven by the partial funding of the accumulation of deferred renewal expenditure, a more accurate costing for the Saleyards project, and the introduction of the Donovans Community Wastewater Management System (CWMS) expansion.

The Council applies a CPI-based inflation adjustment to its cost and revenue estimates. Based on updated inflation assumptions in its 2023-24 LTFP, an increase in its cost and revenue estimates over the 2023-24 to 2031-32 forecast period,[13] compared with the same estimates in its 2022-23 LTFP, could account for higher inflation forecasts.

The Commission notes that the Council's stated assumptions for indexation in its 2023-24 LTFP, which contain CPI forecasts for each year, are more transparent compared with its 2022-23 LTFP, but notes that there is still considerable uncertainty around those assumptions.

Notwithstanding the need for the Council to endeavour to find improvements of productivity 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 and other relevant macroeconomic assumptions in its budget and forward projections each year.
2. Continue to improve the transparency of changes to its key planning assumptions in its long-term financial plan and annual business plans each year.

### 2.2.2 Advice on financial sustainability

**Operating performance**

Key Points:

- Operating deficits were recorded in 2012-13 to 2015-16, with a turnaround in operating performance with surpluses achieved in four of the last five years.
- The operating surplus ratio is forecast to average 0.5 percent per annum between 2023-24 and 2032-33.
- Total expenses are forecast to grow from 2023-24 to 2032-33, by an annual average of 2.4 percent which is 0.2 percent less than the RBA forecast for CPI growth over this period.

The Council historically experienced operating deficits from 2012-13 to 2015-16 followed by operating surpluses between 2016-17 and 2019-20, and in 2020-21, a further operating deficit was followed by a

[13] The set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections.

surplus in 2021-22. In the forecast period 2023-24 to 2032-33, the Council anticipates an average operating surplus of $0.1 million with an operating surplus ratio[14] of approximately 0.5 percent.

The persistent deficits from 2012-13 to 2015-16 occurred in a period when the Council's operating expenses outpaced operating income by approximately $1 million per annum. The Council redressed the issue through increased rates commencing 2016-17, supported by increased grants, subsidies and contributions. Operating income growth averaged 3.6 percent per annum from 2012-13 to 2021-22, almost double the rate of operating expense growth (averaging 1.9 percent per annum).

The short-term decline in the forecast operating surplus ratio is attributed to material increases in operating expenditure in 2022-23 (with significant year-on-year increases reported in 'employee costs', 'material, contracts and other' expenses, and 'depreciation' of 13 percent, 6 percent, and 6 percent, respectively).[15] The Council is forecasting to continue budgeting for higher operating costs which will continue to temper its operating surpluses over the short-term.

Looking forward, the Council is projecting average annual rates revenue growth of 3.4 percent to 2032-33, which is above the forecast long-term inflation by 0.8 percentage points.[16] This average growth in annual rates revenue is also higher than the expected expense growth (which is forecast to grow by an annual average rate of 2.4 percent for the same period).

The Council has confirmed that the number of rateable properties is assumed to be constant at current levels (of 5,528). Expenses per property (a metric which also accounts for growth) are expected to increase by an average of 2.4 percent per annum over this period, which is generally consistent with current inflation projections.

The Council's total expenses are also forecast to grow by an annual average of 2.4 percent over this period. This represents an anticipated real terms reduction in total expenses growth relative to the RBA forecast for CPI growth over this period.[17] The Commission also notes this comes after a steep increase in total expenses in 2022-23 of eight percent and may make the Council's forecast of 2.4 percent average growth in total expenses difficult to achieve.

When considering the Council's recent financial results (from 2021-22) together with its short-term budget forecasts (till 2024-25), the Commission is seeing material cost pressures emerging over a cumulative three-year period, notably:

- 28.1 percent cumulative increase in 'employee costs' to 2024-25 (accounting for 38.2 percent of total operating expenses[18]), and
- 13.2 percent cumulative increase in 'materials, contracts and other' expenses (accounting for 32.7 percent of total operating expenses[19]).

The Council has stated its commitment to identify efficiency gains and reduce costs. However, the Commission notes that no specific projected cost-savings, nor a strategy for achieving the Council's cost constraint objectives, are identified in its LTFP. The Commission further notes the consultation

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14 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).

15 Calculated by the Commission, based on the Council's Financial Reporting template provided to the Commission.

16 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.

17 See footnote 17.

18 The Council indicates this may be higher due to the costs associated with the inclusion of saleyards and airport operations.

19 See footnote 19.

feedback from submissions on the Council's draft 2023-24 annual business plan identified the community would benefit from clarity on cost-saving measurements.[20]

Despite this, the Commission notes that the Council's community consultation processes are comprehensive and effective in understanding and responding to concerns on rates affordability and service provision. The Council has also used a range of approaches and media channels to inform its community on its proposed plans and, as a result, received a high level of engagement compared with previous years.[21] In general, the written responses showed that respondents preferred the Council to effectively look for ways to be more transparent in the revenue source/budget for road upgrades, transport (road) asset service levels, as well as the Council's short-run deficit position.

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. 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.
4. Continue the good practice of consulting with the community on its annual business plan, with a focus on understanding the community's preferences on service levels.

**Net financial liabilities**

Key Points:

- Between 2012-13 and 2022-23, the net financial liabilities ratio has trended between 27.7 percent and negative 24.1 percent, averaging negative 7.2 percent over the period 2017-18 to 2021-22.
- In the 2023-24 LTFP, the Council has forecast that the net financial liabilities ratio will remain below the LGA's suggested lower target range of zero.
- When the net financial liabilities ratio is viewed in isolation, it is at a level which demonstrates that the Council has the financial capacity for its operating income to cover its net financial liabilities. The ratio is driven by its cash reserves and a conservative view of borrowings, which provides a reserve for unforeseen expenditure requirements to manage inflation risk, and generally, its financial sustainability risk.

The Council's net financial liabilities ratio has trended between 27.7 percent and negative 24.1 percent between 2012-13 and 2022-23. Since 2017-18, this ratio has been below zero, which is also below the suggested LGA target range for the indicator of between zero and 100 percent (averaging negative 7.2 percent over the period between 2017-18 to 2021-22). The Council has no new loan borrowings in 2022-23, and its outstanding debt as of 30 June 2023 was $2 million.[22]

In the 2023-24 LTFP, the Council has forecast that the net financial liabilities ratio will remain below zero and that the Council will hold negligible borrowings by 2028-29. Furthermore, the 2023-24 LTFP projects that the Council will not take on additional borrowings from 2028-29 onwards.

[20] District Council of Grant, *Ordinary Council Meeting Agenda -19 June 2023 Item 13.2.1 Attachment 3,* 2023-2024 to 2032-2033 Annual Business Plan & Budget – *Public Consultation,* available at https://lgasa-web.squiz.cloud/?a=1415987, p.216.

[21] The Council sought community engagement through four inner township master plan workshops. See District Council of Grant, *Ordinary Council Meeting Agenda -19 June 2023 Item 13.2.1, 2023*-2024 to 2032-2033 Annual Business Plan & Budget – *Public Consultation*, p.166.

[22] District Council of Grant, *Annual Report 2022-23,* p. 4.

As a result, the net financial liabilities ratio will progressively decline over the period to 2032-33, which also reflects the Council's operating income growth (an average of 2.6 percent per annum) and an accumulation of cash balances ($5.6 million is estimated by 30 June 2033). The Council's long-term forecasts suggests it will utilise cash reserves prior to borrowing for new capital works or major long-term infrastructure.[23]

When the net financial liabilities ratio is viewed in isolation, it is at a level which demonstrates that the Council has the financial capacity for its operating income to cover its net financial liabilities. The ratio is driven by its cash reserves and a conservative view of borrowings, which provides a reserve for unforeseen expenditure requirements to manage inflation risk, and generally, its financial sustainability risk.

The Commission understands that the Council regularly reviews the level of its cash reserves as part of its budgets and long-term planning processes; however, in general there could be improved disclosure on the reasons (or principles) for the level of its cash reserves. In this context, it would be useful to understand the intended uses of these funds and, ultimately, whether some should be returned to ratepayers (through an adjustment in rates). As the Commission has not made an assessment in this regard, it would be appropriate for the Council to:

5. Continue to review the extent of cash reserves in the context of its rates; and consider the intended uses of the accumulated funds.

**Asset renewals expenditure**

Key Points:

- ✓ Between 2012-13 and 2021-22, total capital expenditure averaged $6.0 million per annum (including $3.1 million on asset renewals and $2.9 million on new and upgraded assets).
- ⚠ Between 2012-13 and 2021-22, the asset renewal funding ratio averaged 88 percent.
- ✓ The forecast asset renewal funding ratio over the next 10 years is projected to average 99 percent.
- ⚠ Expenditure on new/upgraded assets is projected to average $3.6 million between 2023-24 and 2027-28 with zero expenditure forecast thereafter.
- ⚠ The last asset revaluation exercise was undertaken in 2018-19, with no indexation applied in 2019-20 or 2020-21, but indexation of 1.8 percent and 6.4 percent applied in 2021-22 and 2022-23 respectively.

Between 2012-13 and 2017-18, the ratio averaged 74 percent (72 percent on a cumulative basis), signifying a substantial underspend on the renewal and rehabilitation needs of its asset stock over this period. However, from 2018-19 to 2022-23, there is an improvement in asset renewal spending priorities. The result being that by the end of 2022-23, the Council appears to have largely caught up with its IAMP renewals expenditure, with the yearly average asset renewal ratio being 92 percent (88 percent on a cumulative basis) between 2012-13 to 2022-23.

Over the 2012-13 to 2021-22 period, the Council's spending on renewal and rehabilitation of assets averaged $3.1 million each year, with growth of 4.2 percent indicating an average increase in the expenditure over time. Expenditure on new/upgraded assets for the same period averaged $2.9 million per annum.

[23] District Council of Grant, *2023-2024 to 2032-2033 Long Term Financial Plan*, August 2023, p. 10.

Going forward, from 2023-24 to 2032-33, the asset renewal funding ratio on the IAMP basis is forecast to have an annual average of 99 percent,[24] which is in line with the LGA suggested target range. Average annual spending on renewal or rehabilitation of assets is projected to increase to $6.3 million per annum.

Expenditure on new/upgraded assets is projected to average $3.6 million between 2023-24 and 2027-28 with zero expenditure forecast thereafter. This suggests that the Council's approach to investment in new infrastructure may be contingent on it achieving additional grant funding,[25] the Council only recognising new grant funding when it is certain. Based on historical expenditure,[26] it is likely that anticipated new and upgraded capital expenditure is understated because of this. These factors suggest that the Council's LTFP is not complete. While affordability of the initial expenditure is not an issue for this Council due to it having access to combinations of cash reserves and borrowing capacity, affordability to the community in the longer-term does require consideration, as new infrastructure brings a future stream of liabilities related to depreciation expenses, maintenance and repair, and asset renewal costs.

This, along with other matters, impacts the understanding of how the asset stock per rateable property evolves. Over the historical period, the value of the asset stock declines from $166 million in 2012-13 to $147 million in 2021-22, largely driven by a downwards revaluation of roads and kerbs and the removal of residual values in 2015-16.[27] This also contributed to growth in depreciation only being 1.2 percent over this period. The Commission also notes that the Council's approach to asset revaluation historically may also have contributed to this. The last asset revaluation exercise was undertaken in 2018-19, with no indexation applied in 2019-20 or 2020-21, but indexation of 1.8 percent and 6.4 percent applied in 2021-22 and 2022-23 respectively.

The asset stock is forecast to increase to $183.8 million by 2032-33 (from $154 million in 2022-23) following significant new/upgraded expenditure in 2024-25[28] related to the CWMS and saleyards. The average asset stock per rateable property will increase from $0.28 million to $0.33 million during the forecast period, based upon the Council's LTFP.

Overall, the Commission considers there is a risk that the lack of regularity in the Council's approach to asset revaluation, alongside its likely underestimation of overall expected capital expenditure, risks it under estimating depreciation and IAMP renewal expenditure. Other things being equal, this suggests that the Council's expense forecast is likely to be optimistic, meaning that if service levels are to be maintained/improved, its rates forecasts are likely to be too low.

The Commission acknowledges that the Council has noted that, while its funding for current lifecycle infrastructure costs was considered adequate between 2019 and 2029, it remains below long-term needs and requires review to fully understand the demand for services and affordability over the longer term.[29]

24 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'.

25 District Council of Grant, *2023-2024 to 2032-2033 Long Term Financial Plan*, August 2023, p. 10.

26 From 2012-13 to 2021-22.

27 Email correspondence from Council 23.1.2024.

28 District Council of Grant, Strategic Asset management Plan 2019-2023, p.35.

29 District Council of Grant, Strategic Asset Management Plan 2019-2023, p7.

Noting that additional grant funding may influence future capital spending on new/upgraded assets and the benefits of a more consistent approach to asset revaluation, the Commission recommends that the Council:

6. **Adhere** to the principles underpinning its long-term financial plan projections to provide more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.
7. **Consider** a more consistent approach to asset revaluations to ensure the forecast rate of asset consumption (and depreciation expense) in the long-term financial plan reflects recent macro-economic conditions.

Notwithstanding, the asset renewal ratio in the Council's LTFP is projected to broadly track in line with the recommended minimum level (for the IAMP-based ratio) of 90 percent, averaging 91 percent per annum between 2023-24 and 2032-33. In part, this reflects the shift in the Council's asset spending priorities towards asset renewals, rather than new and upgraded asset expenditures.

The Commission also notes that over the entire period from 2012-13 to 2032-33, cumulative depreciation and gross IAMP expenditure differs by 3 percent, indicating strong alignment between the two measures. This suggests year-on-year differences are primarily due to timing differences between collection of the depreciation charges via rates and charges, and practically renewing the asset stock. This, however, is based upon the Council's AMPs being accurate, robust, and current.

In this respect, the Commission notes the Council's AMPs were last comprehensively reviewed in 2019 and are almost five years old. The Council is preparing to undertake this review again in 2024.[30] The Council currently has individual AMPs for transport, buildings, fleet, CWMS, stormwater, open space, and Information & Communication Technology (ICT) infrastructure assets. These cover the Council's asset base and reflect comprehensive asset valuations that have been carried out in 2018 or earlier.[31]

In addition to updating the AMPs, the Commission notes that further updates to the Council's Asset Management Strategy (adopted in March 2019) may be needed to align to the current economic environment. Further, it is noted that councils are required to undertake a comprehensive review of their strategic management plans (including asset management plans) within two years after each general election of the council.

The Council area is predominantly rural with agriculture a critical economic industry within the region. A key factor is having confidence in the transport infrastructure to help ensure agricultural products reach their destination as well as keeping the overall asset stock in good health, Community feedback does not appear to relate to affordability, but to wanting a greater understanding of the Council's infrastructure condition. The Council could benefit from a more robust planning process to its asset management planning. As such, the Commission recommends that the Council:

8. **Consider** adopting a more robust and regular asset management planning process (including transport).

### 2.2.3 Advice on current and projected rate levels

Key Points:

- Rate revenue per property growth has averaged 4.6 percent or $67 per annum for each property in the period between 2012-13 and 2021-22, which is more than double the rate (2 percent) above CPI for the same period.

[30] The Council will develop a draft asset management plan in February 2024, followed by broader consultation in April/May 2024. District Council of Grant, Ordinary Council Meeting Agenda 15th January, p. 21.

[31] District Council of Grant, Strategic Asset Management Plan 2019-2023, p.26.

The forecast rate increase for 2023-24 is 8.1 percent per property, and it is forecast for rates to increase on average by 3.4 percent per annum or $796 in total to 2032-33.

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

- the Council's relatively high socio-economic indexes for areas (SEIFA) economic resources ranking,
- the current relatively low rates for residential ratepayers, and
- the effect of cumulative increases in rates per existing ratepayer of approximately 0.8 percent per annum from 2023-24 to 2032-33 after excluding forecast inflation.

The Council's rate revenue per property growth has averaged 4.6 percent or $67 per annum for each property in the period between 2012-13 and 2021-22, which has exceeded CPI (average growth of 2.0 percent per annum), but also encompasses 0.6 percent average annual growth in rateable properties. Current rate levels partially reflect the Council's trend of an increasing operating surplus but also that rates are increased as a proportion of total revenue.[32]

In 2023-24 the Council's rate increases are estimated to result in an 8.1 percent increase or $171 per property for its existing ratepayers,[33] which reflects the Council's estimated inflation of 7.9 percent.[34] This is in line with the RBA estimated short-term inflation of 7.9 percent for the same period.[35]

Over the forward years of its LTFP, the Council is projecting average rates increases for its existing ratepayers of approximately 3.4 percent per annum from 2023-24 to 2032-33.

In total, the LTFP effectively projects a cumulative increase of $796 per existing ratepayer (to $3,088 per annum) by 2032-33. Although rates growth is consistent with the Council's assumed inflation growth over this period, it is higher than the RBA-based inflation forecast of an average of 2.6 percent per annum.

The current economic environment is putting more pressure on many communities' capacity to pay for further rate increases, including those of the Council. However, on balance, the affordability risk among the Council's community for these further rate increases appears to be low, when considering:

- the Council's relatively high socio-economic indexes for areas (SEIFA) economic resources ranking,[36]
- the current relatively low rates for residential ratepayers,[37] and

32 Rates revenue accounted for 65 percent of operating income in 2022-23 compared to 56 percent in 2012-13.
33 Based on the Council's 2023-24 Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $12.668 million (in 2023-24 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.
34 District Council of Grant, 2023-2024 to 2032-2033 Annual Business Plan & Budget, June 2023, p. 21
35 CPI Adelaide (All groups) increased by 7.9 percent in the year to March 2023 quarter and has reduced in the year to June 2023 and September 2023 quarters to 6.9 percent and 5.9 percent, respectively. Available at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023
36 The District Council of Grant area is ranked 69 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 (2021), 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/websitedbs/censushome.nsf/home/seifa
37 Refer to Councils in Focus rates data for 2022 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_grant.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.

- the effect of cumulative increases in rates per existing ratepayer of approximately 0.8 percent per annum from 2023-24 to 2032-33 after excluding forecast inflation.

## 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 Council's:

- ongoing performance against its LTFP estimates,
- updates to the Strategic Asset Management Plan and Technical Asset Management 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.

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