ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA

Advice

Local Government Advice - Attachment

District Council of Grant

February 2024

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A The Commission's approach

In providing the Advice for the District Council of Grant (**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 (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]

- 2023-2024 Annual Business Plan & Budget (adopted June 2023)
- 2023-2024 to 2032-2033 Long Term Financial Plan (adopted August 2023)
- 2022-2023 to 2031-2032 Long Term Financial Plan (adopted September 2022)
- Community Wastewater Management System Asset Management Plan 2019 to 2029 (adopted March 2019)
- Stormwater Asset Management Plan 2019 to 2029 (adopted March 2019)
- Transport Asset Management Plan 2019 to 2029 (adopted March 2019)
- Buildings Asset Management Plan 2019 to 2029 (adopted March 2019)
- Fleet Asset Management Plan 2019 to 2029 (adopted March 2019)
- Information & Communication Technology Equipment Asset Management Plan 2019 to 2029 (adopted March 2019)
- Open Space Asset Management Plan 2019 to 2029 (adopted March 2019)
- Strategic Asset Management Plan 2019 to 2023 (adopted March 2019)
- Strategic Management Plan 2020-2030 (endorsed 2020)

The Commission notes that most of the Council's asset base is covered by its existing asset management plans (**AMPs**), and the asset valuations for those assets had been carried out at 1July 2018 (for buildings and other structures) and 1July 2019 (for stormwater, community wastewater management system infrastructure assets).[4]

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**),[5] it has also considered the Council's performance

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 District Council of Grant, *General Purpose Financial Statements for the year ended 30 June 2022* (included in its 2022-23 Annual Report), Note 7(a)(i) Infrastructure, Property, Plant and Equipment, p.22.

5 *Local Government Act 1999* (**LG Act**) s122(1g)(a)(i).

in that context. Findings regarding the content of the Council's AMPs, and the alignment between its LTFP and AMPs,[6] 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, as well as its 2022-23 LTFP forecasts, historical financial data, the number of rateable properties and Council staff (Full Time Equivalent (FTE)) numbers from 2012-13 onwards.[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 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 offices, and the individual circumstances of the Council, consisting of:

- its location as a rural agricultural council,
- its income level ($18.5 million), and
- the size of its rates base (about 5,500 ratepayers[8]).

6 As required under s122(1b) of the LG Act.
7 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.
8 Based on the estimated number of property assessments in 2023-24.

Summary of the District Council of Grant's financial sustainability performance and the Commission's risk assessment

Financial sustainability indicators:	Last 10 years from 2012-13 (Actual performance)		2022-23 Audited	Next 10 years from 2023-24 (Council forecasts)
Operating surplus ratio (target 0-10%)	Operating deficits	Improved performance --------------------->		Surpluses projected from 2024-25 (except for 2026-27) ---------------->
Net financial liabilities ratio (target 0-100%)	Ratio within target range ---------------->	Ratio below zero (driven by higher cash balances and lower debt levels)		
Asset renewal funding ratio (target 90-110%)	Ratio is below the suggested target range	Higher renewal works spending & ratio roughly within target range for remaining projections -->		
Identified Risks:				
Cost control risk	Operating expenses per property average growth 1.9% pa to 2022-23 (CPI 2.6%) ----------------------------->			Operating expenses growth of 2.4% is marginally lower than forecast CPI (CPI 2.6%) --->
Affordability risk	High rates revenue per property average growth of 4.6% pa to 2022-23 (CPI 2.6%) ----------------------------->			Projected rate revenue per property average growth of 3.4% above forecast CPI (CPI 2.6%) ----------------------------------->

Red	Ratio outside suggested LGA target range or higher risk
Amber	Ratio close to suggested LGA target range or medium risk
Green	Ratio within suggested LGA target range or lower risk

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 the 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)
Total operating income	177.0	186.6	9.6	5
Total operating expenses	178.3	185.8	7.5	4
Operating surplus / (deficit)	(1.3)	0.8	2.1	162
Capital expenditure on renewal of assets[10]	40.0	55.0	15.0	37
Capital expenditure on new and upgraded assets[11]	13.1	18.2	5.1	39

B.1 Changes to operating performance

In aggregate, the projections in the Council's current and previous LTFPs (that is, over the nine-year comparative period to 2031-32, as shown in the table above) indicate the Council's forecast cumulative operating surplus increasing by $2.1 million. This reflects the Council's efforts to achieve a sustained operating surplus (earlier on) from 2027-28 onwards (compared to 2030-31 in the previous LTFP).

For the overlapping nine years, the anticipated improvement in the operating surplus (compared to the previous LTFP) is due to a 5.0 percent increase (or a $9.6 million increase) in operating income, offsetting a 4.0 percent increase (or a $7.5 million increase) in expenses. Some of the amendments driving this, according to the Council's material amendments statement, include:

- Investment income has increased by 103 percent because of higher interest rates and significant cash balance until 2025-26.
- Grants, Subsidies & Contributions have increased by 20 percent. In 2022-23 the Council received an additional $0.4 million in Financial Assistance Grants, with the Council assuming it will continue to receive the same level of Financial Assistance Grants moving forward.
- Finance costs have decreased by 70 percent or by $1.3 million. The Council has decided (after reviewing its financial position), to fund the $1.3 million difference (capital costs for the saleyards upgrade and the grant received) with its own cash reserves rather than through additional borrowing. As a result, the interest repayments are lower than in the last LTFP.

[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).
[11] Footnote 9 applies.

- 'Materials, contracts, and other' expenses have increased by 13 percent. Electricity, cleaning and fuel costs have increased by $0.2 million indexed by CPI. Higher inflation estimates have also resulted in increased cost pressures for 'employee' expenses, as discussed in section B.2.

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. The table below highlights the Council's CPI assumptions from the 2023-24 LTFP.[12] This is a revision to its assumptions in its 2022-23 LTFP estimates (of average CPI growth of 3.7 percent annually).[13]

Financial Year	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Forecast CPI	4.00%	3.70%	3.50%	3.25%	3.00%	2.50%	2.50%	2.50%	2.50%

The increase in its cost and revenue estimates by up to 4.0 and 5.0 percent respectively over the 2023-24 to 2031-32 forecast period,[14] compared with the same estimates in its 2022-23 LTFP, were mostly driven by its higher inflation forecasts.

The RBA currently forecasts the CPI (Australia-wide) to increase by 3.9 percent in the year to the 30 June 2024 quarter, and by 3.3 percent in the year to 30 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).[15]

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.

Notwithstanding the need for the Council to endeavour to find improvements to 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.

B.3 Increase to capital expenditure estimates

The Council's 2023-24 LTFP indicates an increase in capital expenditure for asset renewals (by $15.0 million or 37 percent), and for new and upgraded assets (by $5.1 million or 39 percent), compared to the previous year's LTFP (for the period from 2023-24 to 2031-32). Over the 10-year projections in the 2023-24 LTFP, the Council has factored in a total of $62.7 million in capital renewal and replacement works, and $18.2 million in new and upgraded capital works, accounting for 77 percent and 23 percent of the total capital expenditure program respectively.

The Council has advised that the material amendments in its capital expenditure program are driven by:

- $15 million in asset renewals as a result of indexation,[16] and

[12] District Council of Grant, *2023-2024 to 2032-2033 Long Term Financial Plan*, August 2023, p. 10.
[13] District Council of Grant, *2022-2023 to 2031-2032 Long Term Financial Plan*, September 2022, p. 7.
[14] The set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections.
[15] RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/forecasts.html

[16] 2022-23 LTFP had capital works at today's dollars and not indexed.

- $5 million in new capital expenditure due to a more accurate costing for the Saleyards project and the introduction of the Donovans Community Wastewater Management System (CWMS) expansion.[17]

The Council's transport assets represent the largest asset class, and are a major focus of its renewal investment in 2023-24. The Council's capital expenditure outlook is discussed further in section C.3.

B.4 Changes between 2023-24 long-term financial plan and annual business plan

The Commission notes the Council regularly revisits its LTFP projections with disclosed average figures, however it is not always clear how its assumptions have changed over its forecast period; the implication being that its ratepayers (or stakeholders) may not be fully informed on these matters. More recently, in its 2023-24 LTFP, the Council has commenced disclosing its key long-term planning assumptions for each forecast year, and it is encouraged to continue this practice. A further positive aspect of the 2023-24 LTFP is that it includes two scenarios – that is, with and without the proposed 2024 major upgrade to the Saleyards facility. This practice assists the community to understand the impact of the project and how it might affect the Council's service levels and financial position.

The Council adopted its 2023-24 Annual Business Plan and Budget in June 2023, and the 2023-2024 to 2032-2033 Long-Term Financial Plan[18] in August 2023 respectively.

The Commission notes that the income and expenditure data contained in the 2023-24 LTFP is consistent with the data contained in the Annual Business Plan and Budget prepared in June 2023.

The Commission considers it appropriate that the Council:

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.

17 District Council of Grant, *2023-2024 to 2032-2033 Long Term Financial Plan*, August 2023, p. 9.

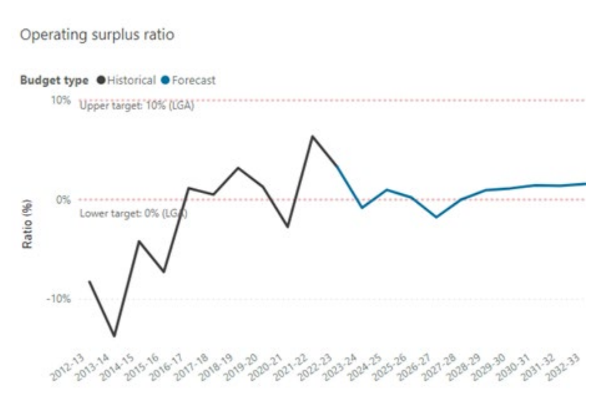
C Financial sustainability

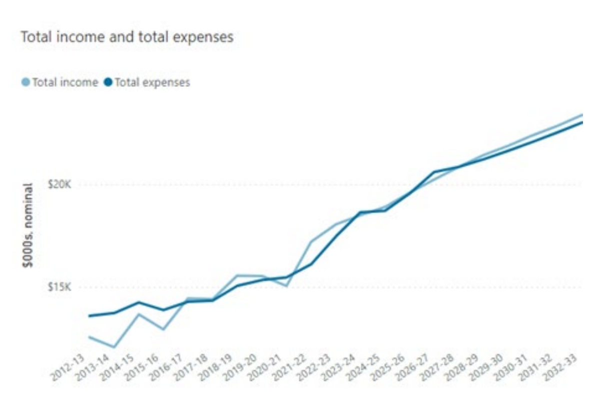
C.1 Operating performance

The Council historically experienced operating deficits from 2012-13 to 2015-16, followed by operating surpluses between 2016-17 and 2019-20. In 2020-21, a further operating deficit was followed by a 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[19] of approximately 0.5 percent (see the left chart below).

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 in 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).[20] The Council is forecasting to continue budgeting for higher operating costs which will continue to temper its operating surpluses over the short-term (see the right chart below).





Rates revenue has increased on average by 5.2 percent per annum from 2012-13 to 2021-22[21] (when rateable property growth averaged 0.6 percent and CPI growth averaged 2.0 percent). Over the same period, 'grants, subsidies and contributions' (accounting for 16 percent of total operating income) increased by an average of 3.8 percent per annum, and 'user charges' (accounting for 14 percent of total operating income) decreased by an average of 1.1 percent per annum. Grants income has been 'lumpy' from year to year.[22] However, taking into account the three-year average of $496 per ratepayer for 2019-20 to 2021-22 compares with the three-year average of $435 for 2012-13 to 2014-15, grants income is relatively stable in real terms (that is a 1.9 percent increase per annum in nominal terms,[23] compared to CPI growth of 2.0 percent).

[19] 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).

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

[21] 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).

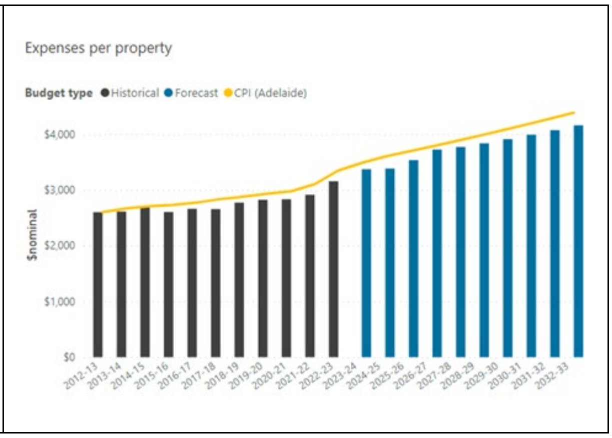
[22] Due to the timing of different grants and sometimes advance grant payments (as for the 2023-24 grant allocation, which was received and accounted for in 2022-23).

[23] The Commission calculates the grants income per rateable property for each year and takes the three-year moving average. 1.9 percent is calculated based on the compound average annual growth rate formula.

Meanwhile, the Council's operating expense growth over the 2012-13 to 2021-22 historical period, was primarily due to an average annual increase of 2.7 percent in 'materials, contracts and other' expenses, and 2.1 percent in 'employee' expenses (see the left chart below).

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.[24] This average growth in annual rates revenue is also higher than expected expense growth (rates are discussed in more detail in section D).

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 (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 70 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 $2.5 million per annum (on average in nominal terms), compared to a historical average of $2.3 million per annum.[25] In addition, 'materials, contracts and other' expenses and 'depreciation' expenses are forecast to increase by an average of 2.2 percent and 1.9 percent per annum respectively, from 2023-24 to 2032-33.

Total expenses are forecast to grow by 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. The Commission also notes this comes after a step increase in total expenses in 2022-23 of eight percent and may be 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[26]), and

[24] 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.

[25] Based on the Council's Excel template provided to the Commission. Historical average is based on the 10-year period from 2012-13 to 2021-22; and forecast average is based on the 10-year period from 2023-24 to 2032-33.

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

- 13.2 percent cumulative increase in 'materials, contracts and other' expenses (accounting for 32.7 percent of total operating expenses[27]).

The Council has stated a 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 feedback from submissions on the Council's draft 2023-24 annual business plan identified the community would benefit from clarity on cost-saving measurements.[28]

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.[29] 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 upgrade, transport (road) asset service level 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.

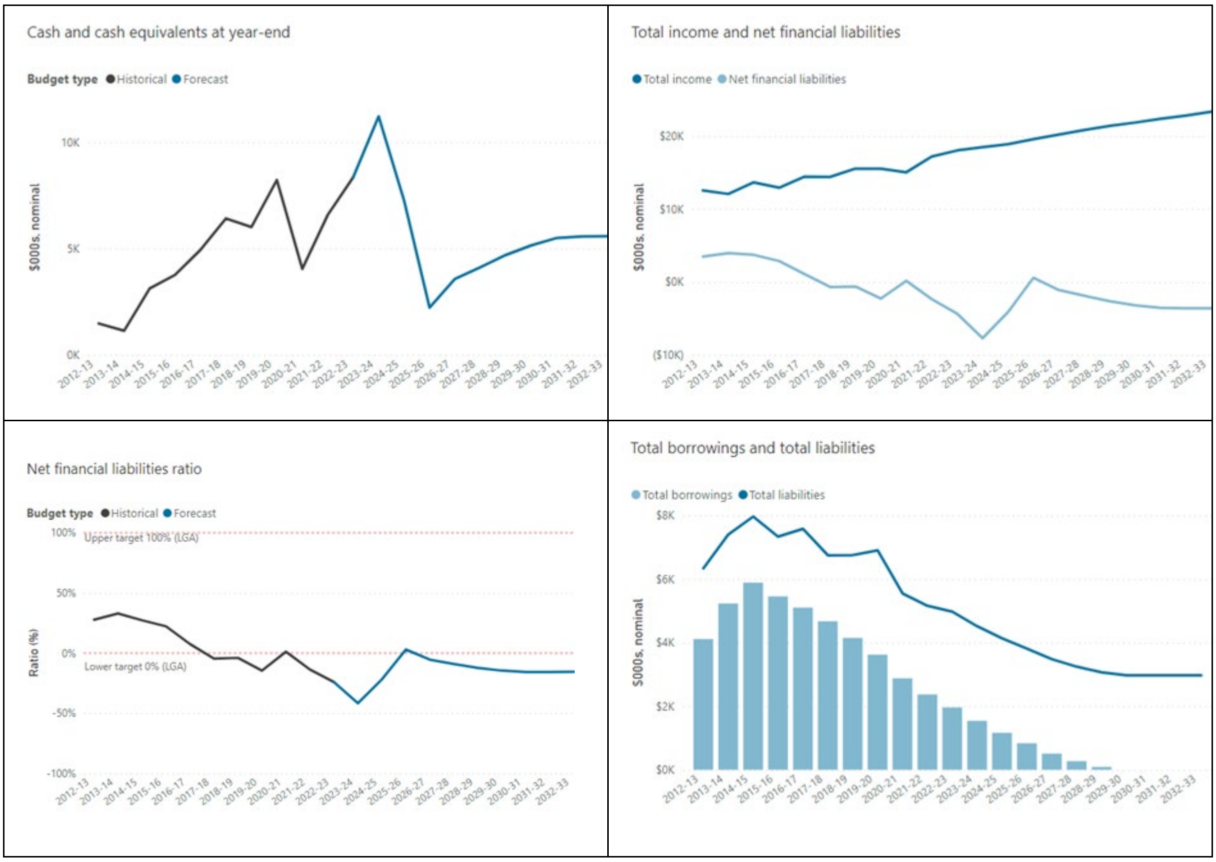
C.2 Net financial liabilities

The Council experienced both operating deficits and surpluses between 2012-13 and 2022-23. Its cash and cash equivalents (see the top left chart over the page) shows cash held by the Council at the end of each year, which has averaged $4.9 million across the same time period.

The Council has no new loan borrowings in 2022-23, and its outstanding debt as of 30 June 2023 was $2 million.[30] The Council's net financial liabilities ratio has trended between 27.7 and negative 24.1 percent between 2012-13 and 2022-23 (see the bottom left chart over the page). 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).

In the 2023-24 LTFP, the Council has forecast that the net financial liabilities ratio will continue to sit below zero, and that it 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 (see the bottom right chart over the page).

27 See footnote 26.
28 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,* p.216.
29 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.
30 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 ahead of borrowing for new capital works, or major long-term infrastructure.[31]

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 the Council's cash reserves and a conservative view of borrowings, which provides a reserve for unforeseen expenditure requirements including to manage inflation risk, and generally to manage 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.

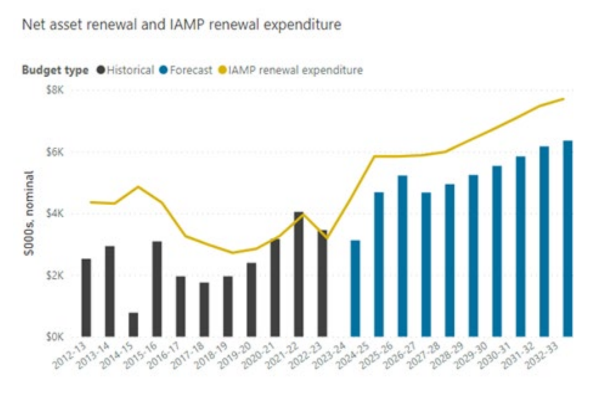
C.3 Asset renewals expenditure

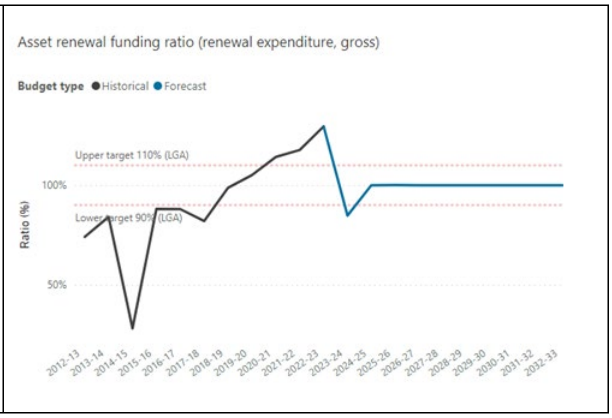
Between 2012-13 and 2017-18, the Council averaged 74 percent on its asset renewal funding ratio (72 percent on a cumulative basis), signifying a substantial underspend on the renewal and rehabilitation needs of its asset stock over this period. However, from 2018-19 to 2022-23, there is an improvement in

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

asset renewal spending priorities (see the charts below). The result being that by the end of 2022-23, the Council will 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.





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,[32] 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 (refer to right chart over the page).

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,[33] and the Council only recognising new grant funding when it is certain. Based on historical expenditure,[34] it is likely that anticipated new and upgraded capital expenditure is understated because of this.

These factors suggests that the Council's LTFP is not complete, as 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.

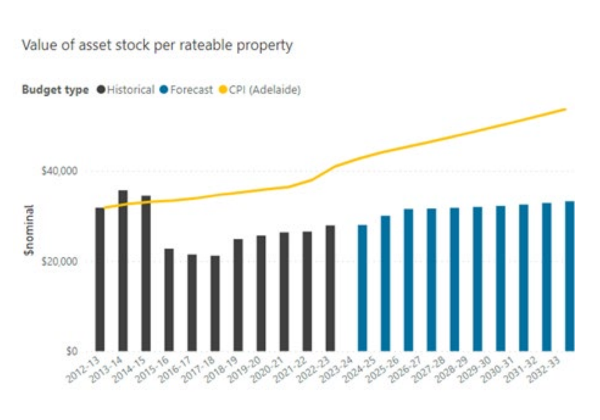
This, along with other matters, impacts the understanding of how the asset stock per rateable property evolves (refer to left chart over the page). Over the historical period, the value of the asset stock declines from $166 million in 2012-13, to $147 million in 2021-22, largely driven by a downwards revaluation of roads and kerbs and the removal of residual values in 2015-16[35]. 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.

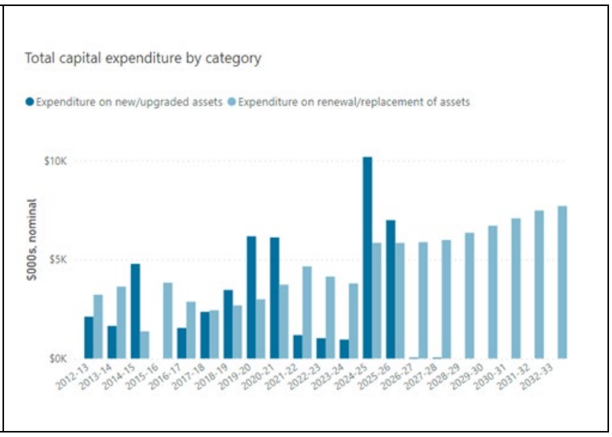
The asset stock is forecast to increase to $183.8 million by 2032-33 (from $154 million in 2022-23) following significant new/upgraded expenditure in 2024-25[36] related to CWMS and saleyards. The

32 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'.
33 District Council of Grant, *2023-2024 to 2032-2033 Long Term Financial Plan*, August 2023, p. 10.
34 From 2012-13 to 2021-22.
35 Email correspondence from Council 23.1.2024.
36 District Council of Grant, Strategic Asset management Plan 2019-2023, p.35.

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.[37]

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.

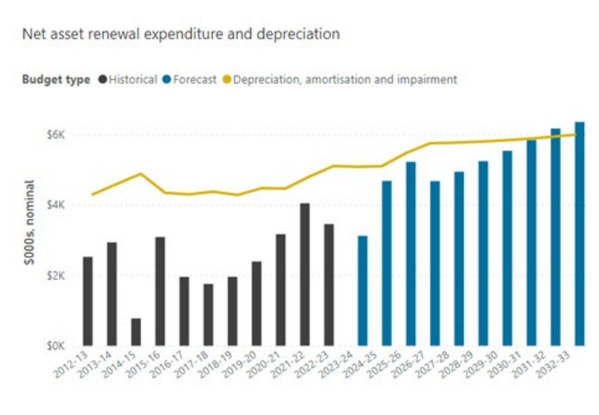
While asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio, the Commission notes that the previous point made regarding the Council's depreciation charge make this complicated.[38] Notwithstanding, the asset renewal ratio in the Council's LTFP is projected to broadly 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 (see charts below). In part, this reflects the shift in the Council's asset spending priorities towards asset renewals rather than new and upgraded asset expenditures.

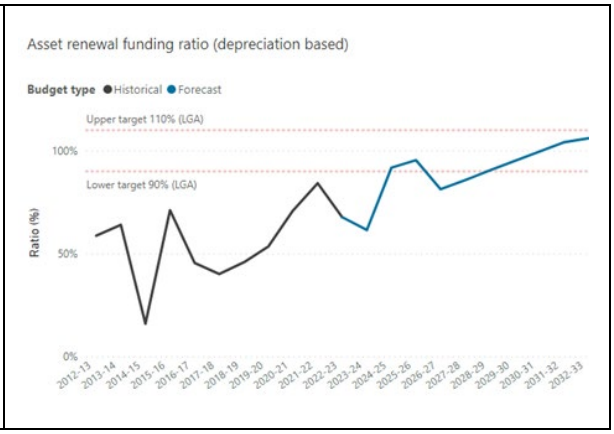
The Commission also notes that over the entire period from 2012-13 to 2032-33, cumulative depreciation and gross IAMP expenditure differs by 3 percent, indicating strong alignment between the two measures. This suggests year-on-year differences are primarily due to timing differences between

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

38 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.

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.[39] The Council currently has individual AMPs for transport, buildings, fleet, CWMS, stormwater, open space and Information & Communication Technology infrastructure assets. These cover the Council's asset base and reflect comprehensive asset valuations that have been carried out in 2018 or earlier.[40]

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).

[39] 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.

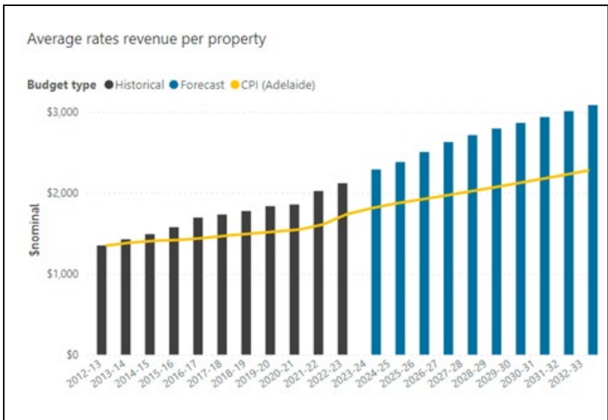
[40] District Council of Grant, Strategic Asset Management Plan 2019-2023, p.26.

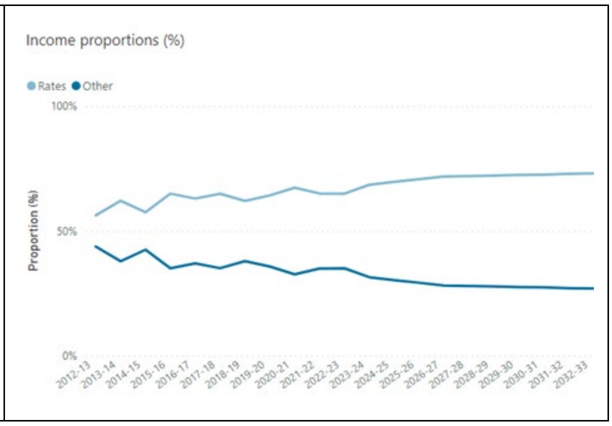
D Current and projected rate levels

D.1 Historical rates growth

The Council's rate revenue per property growth has averaged 4.6 percent or $67 per annum for each property over the past 10 years,[41] to reach an average $2,025 per property in 2021-22 (see the left chart below). This has exceeded CPI growth (at an average of 2.0 percent per annum over this period[42]) but also encompasses 0.6 percent average annual growth in rateable property numbers. Current rate levels partially reflect its recent history of spending growth on renewal expenditure and the Council's trend of an increasing operating surplus.

The Council remains reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue accounted for 65 percent of operating income in 2022-23 compared with 56 percent of income in 2012-13. Forecast rates revenue will continue to rise to an average of 72 percent of income by 2032-33, highlighting the trend of rates increasing as a proportion of total income (refer to right chart below).





D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 8.1 percent or $171 per property for its existing ratepayers in 2023-24.[43] The rates increase reflects the Council's expected financial pressures across its service delivery, and is consistent with the increase in CPI[44] during the previous 12 months at the time the budget was developed.[45]

Differential general rating methodology was introduced by the Council from 2022-23.[46] [47] The 2023-24 annual business plan noted that different rate categories are subject to varying changes, with residential ratepayers paying 0.4 percent or $3.69 less per property than that of 2022-23 rate levels. Primary

41 From 2012-13 to 2021-22.

42 CPI Historical time series. Available at https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023#capital-cities-comparison

43 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.

44 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.

45 District Council of Grant, 2023-2024 to 2032-2033 Annual Business Plan & Budget, June 2023, p. 21.

46 District Council of Grant, 2022-2023 Annual Business Plan, June 2022, p. 15.

47 The Council informed the Commission that the removal of the rate cap had a significant impact on the 2022-23 rates.

production (mostly farmland) ratepayers are budgeted to pay the largest increase of 11.1 percent or $287.42 per property.[48]

On a proportional revenue basis, primary production ratepayers accounted for around 69 percent of 2023-24 budgeted rates revenue, followed by residential ratepayers (26 percent). Other than 'general rates' revenue (which represents around 81 percent of total rates revenue[49]), the Council collects income from CWMS charges, waste collection, and the Regional Landscape Levy (around 7, 7 and 5 percent respectively).

The Council advises its intention to run an operating deficit in 2023-24 to limit rate rises required, whilst one-off project expenditure occurs.[50]

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 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 (refer to the previous page chart on the left side).[51]

D.4 Affordability risk

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,[52]
- the current relatively low rates for residential ratepayers,[53] 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.

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48 District Council of Grant, 2022-2023 Annual Business Plan, June 2022, p. 23.

49 Before discretionary rebates.

50 District Council of Grant, 2023-2024 to 2032-2033 Annual Business Plan & Budget, p.18.

51 RBA data forecast time series. Available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html

52 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 (e.g., 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

53 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.

ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA