Advice

Local Government Advice

District Council of Lower Eyre Peninsula

February 2024

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Glossary of terms

ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
Commission	Essential Services Commission, established under the *Essential Services Commission Act 2002*
CPI	Consumer Price Index (Adelaide, All Groups)
Council	District Council of Lower Eyre Peninsula
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

District Council of Lower Eyre Peninsula

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the District Council of Lower Eyre Peninsula's current financial performance is **sustainable,** but notes that the outlook for its projected financial performance is **mostly sustainable** but with risk, when taking into account the council's forecast moderate expense growth increase over the next 7 years and the planned average rate increases of 3.6% p.a. per property over this period

RISKS IMPACTING SUSTAINABILITY

- 7-year long-term financial plan forecast instead of 10-year
- If moderate growth in forecasted expenses is not realised, and are understated
- Asset renewal funding continues to be at low levels with high backlog levels
- Moderate operating surpluses in forecasted period not met resulting in a cumulative rolling operating deficit in the medium to long-term

CONTINUE

- The good practice of effective cost constraint
- Updating the valuation and useful lives of assets

COMMISSION'S RECOMMENDATIONS

- Review the inflation forecasts in the budget and forward projections
- Monitor cost growth in its budgeting and report any actual and projected cost savings
- Revise the long-term financial plan with 10-year forecasts
- Address the backlog of asset renewal in the near to medium-term using cash
- Align proposed expenditure in the asset management plan with the long-term financial plan
- Achieve the reviews of strategic documents and asset management plans
- Limit any further average rate increases above inflation

KEY FACTS

- Population in 2021 was **5,910**
- Council covers **4,771 square kilometres**
- **4,207** rateable properties in 2022-23
- **$8.94 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$101.4 million**

1 The Commission’s key advice findings for the District Council of Lower Eyre Peninsula

The Essential Services Commission (**Commission**) finds the District Council of Lower Eyre Peninsula’s (**Council’s**) medium-term financial position **sustainable,** however, notes that it has only forecast its financial position for seven years which is less than required under section 122(1)(a) of the *Local Government Act 1999* (**LG Act**).

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**

The Council’s sustainable forecast performance is contingent on:

- the renewal of its asset stock at the level specified in its LTFP which is lower than the identified expenditure required in the IAMP (given that the Asset Renewal Funding Ratio averages 80.7 percent throughout the seven-year life of the LTFP, it is reliant on restricted expenditure meaning that the 'sustainable' performance may be at the expense of longer-term asset degradation),
- a period of service consolidation at the minimum level accepted by the community
- continued cost control, and
- further rate increases.

The Commission identified the major risks to Council’s sustainability as follows:

- The Council has forecast moderate growth in income and expenses, close to the RBA forecast inflation, and if this forecast is not realised, the Council may need to either increase rates, or reduce service levels to maintain its forecast OSR.
- The decline in projected OSR, together with increases in renewal and new capital expenditure which may be subject to inflationary pressures, could result in additional unexpected deficits.
- The Council has consistently underperformed in meeting its asset renewal funding ratio and this could decline further if capital expenditure on renewals continues to be limited due to economic or other conditions.

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

Budgeting considerations

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

Continuing to provide evidence of ongoing cost efficiencies

3. **Monitor** cost growth in its budgeting, to keep costs constrained within the long-term financial plan forecasts, including related to depreciation expenses.
4. **Report** any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.
5. **Revise** the long-term financial plan with 10-year forecasts pursuant to section 122(1)(a) of the *Local Government Act 1999*.

Refinements to asset management planning

6. **Provide** more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.
7. **Address** the backlog of asset renewal in the near to medium term using cash reserves to mitigate the risk of future asset failure or higher levels of deferred asset renewals.
8. **Continue** to update the valuation and useful lives of assets to reduce the risk to intergenerational equity.
9. **Align** the proposed expenditure in its asset management plans with its long-term financial plan to reduce the risk of inaccurate forecasting.
10. **Achieve** the reviews of strategic documents and asset management plans as it has proposed.

Containing rate levels

11. **Limit** any further average rate increases above inflation, to help reduce any emerging affordability risk in the community.

2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by 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 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 meeting with the Commission and for providing relevant information to assist the Commission in preparing this advice.

2.1 Summary of advice

In general, the Commission finds the Council's short to medium-term financial position sustainable noting the limitations of a seven-year forecast.

Operating surpluses are forecast to decline with three out of the seven forecast years forecasting operating deficits, while spending on renewal/replacement and new capital initiatives will increase. Historically, the Council has demonstrated effective cost constraint, but it has also struggled to meet the ongoing renewal needs of its existing infrastructure base.[10] This now presents a backlog of deferred renewal and rehabilitation it needs to address in the future that is not funded in the current LTFP.

Historically, rate increases have risen above inflation and are forecast to continue to grow to increase the Council's financial capacity to cover its operating and service sustainability requirements. Its

1 Amendments to the LG Act (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).
2 Commonly referred to as asset management plans.
3 The objectives of the advice with reference to a council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMPs.
4 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.
5 Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
6 LG Act s122(1f)(a) and (1g)(a)(ii).
7 LG Act s122(1f)(b) and (1g)(b).
8 LG Act s122(1h).
9 The Commission must publish its advice under LG Act s122(1i)(a).
10 As recommended by its IAMPs.

forward projections from 2023-24 (in its LTFP) indicate a financially sustainable outlook as growth in average income slightly outpaces growth in average expenses, but with:

- continued average rate increases above the Reserve Bank of Australia (**RBA**)-based forecast inflation rate (and generally aligned with the Council's forecast inflation),
- continued cost constraint with lower average cost growth than it has experienced over the past 10 years (slightly above the rate of RBA-based forecast inflation), and
- new or upgraded capital works expenditure as forecast noting this is at a level unlikely to address the accumulation of deferred renewals as required in the IAMP.

The Commission considers that the Council is formulating the financial projections in its LTFP, with transparency around its assumptions and directions, including the ratepayer impact. The Commission encourages it to continue this approach. However, the Commission has identified an improvement opportunity in aligning the estimates (or explaining the variances) in the LTFP and annual business plan.

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.[11]

2.2.1 Advice on material plan amendments in 2023-24

Key Points:

⚠ A decrease in operating performance by $4.8 million or by 5.2 percent, resulting in the Council projecting a volatile operating surplus result with deficits in 2025-26, 2026-27 and 2028-29, mainly driven by recent and Council's forecast inflationary pressures.

⚠ An additional $5.8 million (or 26.6 percent) for asset renewals, and an additional $0.5 million (or 2.4 percent) for new and upgraded capital works driven by inflation estimates.

⚠ Council's stated assumptions for indexation in its 2023-24 LTFP are transparent and based on its annual review of their forecasts, but there is still uncertainty around its assumptions.

The Council's 2023-24 LTFP includes a decrease in its projected operating performance, and increases to its projected capital expenditure estimates, compared with the 2022-23 forecasts,[12] as follows:

- A decrease in operating performance by $4.8 million or by 5.2 percent, resulting in the Council projecting a volatile operating surplus result with deficits in 2025-26, 2026-27 and 2028-29. This is mainly driven by recent and Council's forecast inflationary pressures.
- An additional $5.8 million (or 26.6 percent) for asset renewals, and an additional $0.5 million (or 2.4 percent) for new and upgraded capital works. Much of the increases are being driven by the inflation estimates.

The Council has adjusted its operating income and expense forecasts by higher amounts with increases of 13.1 percent for income and 18.3 percent for expenses on its 2021-22 estimates.[13] Based on updated

[11] The attachment will be available on the Commission's website with the Advice.
[12] The overlapping forecast period in both LTFPs (2022-23 to 2029-30 and 2023-24 to 2029-30).
[13] See footnote 13.

inflation assumptions in its 2023-24 LTFP, an increase in its cost and revenue estimates by up to 19 percent over the 2023-23 to 2029-30 forecast period,[14] compared with the same estimates in its 2022-23 LTFP, could account for higher inflation forecasts. The Council has assumed Consumer Price Index (**CPI**) inflation increases of 8.6 percent in 2023-24, 4.75 percent in 2024-25, 3.25 percent for the 2025-26, and 2.75 percent annually from 2026-27.

The Council has forecast revenue into its LTFP projections; however, its current inflation forecasts do present a risk to its cost and income projections in the current inflationary environment. The RBA currently forecasts the CPI (Australia-wide) to increase by 3.9 percent in the year to the June 2024 quarter and by 3.3 percent in the year to June 2025. Thereafter, it is reasonable to anticipate a return to long-run averages (and growth of 2.6 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 are transparent and based on its annual review of these forecasts[16] but observes that there is still uncertainty around the assumptions given they are higher than RBA forecast inflation. Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission has found that it would be appropriate for it to:

1. **Review** its inflation forecasts in its budget and forward projections from 2023-24 to align more consistently with RBA inflation forecasts, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

The Council adopted its annual business plan and budget in July 2023, three months after it adopted its LTFP 2023-30 in April 2023. The Council proposed further material amendments to its 2023-30 estimates for the financial year from those proposed in its LTFP.

The Commission notes that the Council's annual business plan includes budgets for 2023-24 that vary from the adopted LTFP 2023-30. While there is no current regulatory requirement for it to publish its LTFP projections with its annual business plan and budget, it might be useful for it to republish adjusted annual budget estimates for 2023-24.

Many councils do coordinate their long-term financial projections with their annual budget process, and it might be useful for the Council to republish adjusted annual budget estimates for 2023-24 that match the LTFP, particularly if the extent of revisions to estimates in its annual business plan and budget are substantial. To this end, the Commission considers that it would be appropriate for the Council to:

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

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

✓ Operating surpluses consistently achieved between 2012-13 and 2021-22, with the operating surplus ratio averaging 4 percent over this period.

14 The set of six years forecast in both the 2022-23 and 2023-24 LTFP projections.
15 RBA, Forecast Table - August 2023, available at: https://www.rba.gov.au/publications/smp/2023/aug/
16 Noting that the Council uses the December (Adelaide All-Groups) CPI inflation forecasts while ESCOSA uses the June (Australian Wide) RBA inflation forecasts (as noted in District Council of Lower Eyre Peninsular feedback on draft Advice.

⚠ The operating surplus ratio is forecast to be an average of 0.4 percent from 2023-24 to 2029-30 (noting that the forecast is only for seven years and not the required 10 years).

⚠ 'Materials, contracts and other' and 'depreciation' expenses increased by an average of 3.8 and 5.4 percent per annum respectively from 2012-13 to 2021-22, when average annual CPI growth was 2.0 percent.

⚠ The estimated rate of growth in operating expenses projected over the next seven years (from 2023-24 to 2029-30) is an average of 2.9 percent per annum, which is slightly above RBA-based forecast inflation (noting that the forecast is only for seven years and not the required 10 years).

The Council has predominantly run operating surpluses from 2012-13 to 2021-22, with the operating surplus ratio[17] averaging 4 percent over this period. In its forward projections, the operating surplus ratio is predicted to be more volatile with an average ratio of 0.4 percent. For the period from 2023-24 to 2029-30, three of the seven years are projected to have operating deficits.

Operating income growth averaged 4.8 percent per annum from 2012-13 to 2021-22, with a similar rate of operating expense growth at 4.7 percent.[18]

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

On the cost side, its 'materials, contracts and other' and 'depreciation' expenses both increased (averaging 3.8 and 5.4 percent per annum respectively) from 2012-13 to 2021-22, when average annual CPI growth was 2.0 percent.[19] 'Employee' expenses increased by an average of 6.3 percent per annum (with approximately 1.9 percent growth in full-time equivalent (**FTE**) staff per year).

The estimated rate of growth in operating expenses projected over the next 7 years (from 2023-24 to 2029-30) is an average of 2.9 percent per annum, which is slightly above RBA-based forecast inflation.[20] Combined with rates and investment income revenue growth (above RBA-based forecast inflation), the Council's operating performance is projected to be volatile but with an average of 0.4 percent over the 7 years from 2012-13 to 2029-30. The associated impact on ratepayers is discussed further below.

The Commission notes the practice of the Council in conducting regular service level reviews of its operations, focused on achieving increased productivity, efficiency and effectiveness, and aligning services to customer demand.[21] While annual reviews of the AMP are undertaken prior to budget setting, the AMP is formally updated on a five-year basis[22] which may understate projected expenditures.

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:

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17 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).

18 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).

19 ABS data 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

20 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.

21 Lower Eyre Council correspondence dated 26.9.2023, "2023-24 Local Government Advice Scheme – Financial Reporting Commentary", p.3.

22 Meeting with District Council of Lower Eyre Peninsular 24.11.2023.

3. **Monitor** cost growth in its budgeting, to keep costs constrained within the long-term financial plan forecasts, including related to depreciation expenses.
4. **Report** any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.
5. **Revise** the long-term financial plan with 10-year forecasts pursuant to section 122(1)(a) of the *Local Government Act 1999.*

Net financial liabilities

Key Points:

- Net cash flows after operating and investing (that is, capital-related) activities has averaged $70k per annum between 2012-13 and 2021-22.
- Between 2012-13 and 2021-22 the net financial liabilities ratio averaged 29.3 percent.
- The forecast net financial liabilities ratio over the next seven years is projected to be 13.1 percent which demonstrates that the council is accumulating liabilities that its operating income can reasonably service.

With the Council's frequent operating surpluses from 2012-13 to 2021-22, its net cash flow after operating and investing (that is, capital-related) activities has averaged $0.07 million annually for the period. The Council has used loan borrowings between 2012-13 and 2020-21 to fund its renewal of existing assets and acquisition of new and upgraded assets.

The Council's net financial liabilities ratio has trended between 48.8 and negative 3.1 percent between 2012-13 and 2021-22 which is within (or below) the suggested LGA target range for the indicator of between zero and 100 percent (averaging 29.3 percent over this period).[23] The Council projects it will continue to meet the suggested LGA target range under its 2023-24 to 2029-30 forecast with an average of 13.1 percent, which demonstrates that the council is only accumulating liabilities that its operating income can reasonably service.

Based on the Council's projected repayment of borrowings, relatively low forecast net financial liabilities ratio in the longer-term, and treasury management policy, the Commission notes that it might have the opportunity to utilise its cash holdings to further address its asset renewal expenditure requirements.

Furthermore, with its forecast annual end of year cash position averaging $7.4 million between 2023-24 and 2029-30, it would have operating capacity for further borrowing repayments if it is deemed appropriate.

[23] 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).

Asset renewals expenditure

Key Points:

- ⚠ Between 2012-13 and 2021-22 total capital expenditure averaged $52.8 million per annum (including $22.9 million on asset renewals and $29.9 million on new and upgraded assets, but this was insufficient to cover the asset renewal and rehabilitation requirements in its asset management plans.
- ⚠ Between 2012-13 and 2021-22 the asset renewal funding ratio averaged 78 percent.
- ⚠ The forecast asset renewal funding ratio over the next seven years is projected to average 80.7 percent.
- 🛑 Depreciation expenses (which represent the rate of asset consumption) are projected to exceed renewal spending, with renewal spending forecast to account for 68.7 percent of depreciation expenses on average to 2029-30.
- 🛑 Under investment in the renewal of assets as depreciation expenditure outpaces capital expenditure on renewals significantly in addition to lower than required expenditure per the asset management plans.

Between 2012-13 and 2021-22 the Council's total capital expenditure was $52.8 million (including $22.9 million on asset renewals and $29.9 million on new and upgraded assets). However, this was not sufficient to cover the asset renewal and rehabilitation requirements specified in its AMPs. The Council's asset renewal funding ratio (IAMP-based) was below the suggested LGA target range of 90 to 110 percent over these years,[24] and averaged 78 percent between 2012-13 and 2021-22. This indicates that the Council underperformed in meeting its asset service sustainability requirements over this period.

From 2023-24, the Council is adjusting its asset renewals spending profile with higher projected annual renewal expenditure averaging $4 million to 2031-32, in nominal terms. Despite the increase, its asset renewal funding ratio (IAMP-based) is expected to continue to trend below the suggested LGA target range (averaging 80.7 percent from 2023-24 to 2029-30) and is unlikely to address the asset renewal funding shortfall. This coincides with higher forecast spending by the Council on new or upgraded assets (estimated to average $3.4 million per annum to 2029-30). The Commission notes some of the forecast new capital expenditure relates to its airport asset which does not impact on ratepayers, but which may skew the ARFR and the forecast Asset Renewal Funding gap).[25]

The Council advised it has received unusually high levels of grant funding in the past two to three years, which has enabled it to increase and prioritise new asset funding in the short term.[26] The Council has acknowledged that a shortfall in asset renewal expenditure remains over the forecast period (2023-24 to 2029-30) but expects to fund it from its Asset Sustainability Reserve[27] which would require debt funding.

24 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).

25 Meeting with District Council of Lower Eyre Peninsular 24.11.2023.

26 Lower Eyre Council correspondence dated 26.9.2023, "2023-24 Local Government Advice Scheme – Financial Reporting Commentary", p4-5

27 Note 25 applies.

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

6. **Provide** more funding for the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.
7. **Address** the backlog of asset renewal in the near to medium term using cash reserves to mitigate the risk of future asset failure or higher levels of deferred asset renewals.

With the Council's projected spending on asset renewals, the depreciation expenses (which represent the rate of asset consumption) are projected to exceed renewal spending. Renewal spending is forecast to account for 68.7 percent of depreciation expenses on average to 2029-30.[28]

This highlights the under investment on asset renewals as depreciation expenditure outpaces capital expenditure on renewals by a significant margin in addition to lower than required expenditure as per the IAMP. This gap totalled $10 million over the period 2012-2013 to 2021-22 and is set to increase over the forecast period (2023-24 to 2029-30) to $20 million indicating that significant under expenditure on asset renewal is occurring and will continue in the forecast period. The Council has advised it has experienced material and staffing resource issues that have impacted its ability to achieve all planned asset renewals, but has strategies in place to mitigate adverse outcomes.[29] Noting that a proportion of the gap relates to known deferrals or airport assets, the ARFR gap trend may indicate an intergenerational equity risk,[30] as the Council had partly funded capital expenditure (through depreciation) but had deferred or under invested on its asset renewal needs.

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

8. **Continue to** update the valuation and useful lives of assets to reduce the risk of intergenerational equity.

The Commission notes that the asset renewal capital expenditure funding forecasts (in its 2023-30 LTFP) do not align with its AMP renewal targets, however some of the reasons for that are noted above. The Commission's review of the AMPs has found that, on balance, the Council's strategic planning processes and the LTFP do not align well. Ideally, asset revaluations would also align with AMP reviews and update. The Council indicated to the Commission that it is proposing several amendments to its AMP and other strategic documents in 2023-24.[31]

The Commission recommends that the Council:

9. **Align** the proposed expenditure in its asset management plans with its long-term financial plan to reduce the risk of inaccurate forecasting.
10. **Achieve** the review of strategic documents and asset management plans as it has proposed.

2.2.3 Advice on current and projected rate levels

Key Points:

- Rate revenue per property growth has averaged 4.4 percent or $65 per annum for each property in the period between 2012-13 and 2021-22, which is 2.4 percent above CPI for the same period.

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

[29] Meeting with District Council of Lower Eyre Peninsular 24.11.2023.

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

[31] Provided in an email to the Commission on 10 October 2023.

⚠ The forecast rate increase for 2023-24 to 2029-30 is 3.6 percent per property (noting that the forecast is only for seven years and not the required 10 years).

✅ Affordability risk among the community for the further rate increases appears to be low, based on a range of factors including the existing relatively low average rate level, and its high socio-economic SEIFA ranking.

The Council's historical rate revenue per property growth has averaged 4.4 percent or $65 per annum for each property in the period between 2012-13 and 2021-22. The average growth of 4.4 percent per annum has exceeded CPI growth at 2 percent for the same period. However, the Council still has relatively low average rates for both residential and rural categories[32] and is considering further differential rate options.[33]

Over the forward years of its LTFP, the Council is projecting average rates revenue increases of approximately 4.7 percent per annum from 2023-24 to 2029-30. It has budgeted for an average rate increase of 3.6 percent per property per annum for its existing ratepayers in 2023-24 to 2029-30,[34] which includes a significant increase of 12.6% in total rates revenue for 2023-24 between estimates in 2022-23 LTFP and 2023-24 LTFP. This long-term growth trend is impacted by the Council's projected rates increases in the first three years of its LTFP (from 2023-24 to 2025-26) being above the RBA forecast rates.[35]

In total, the LTFP effectively projects a cumulative increase of $93 per annum per existing ratepayer (to $2,774) per annum) by 2029-30, which is consistent with the Council's assumed inflation growth over this period, (estimated by the Council to be 8.6 percent in the first year of the LTFP)[36] but is above the RBA-based long-term inflation forecast of an average of 2.6 percent per annum.[37]

Affordability risk among the community for the further rate increases appears to be low, based on a range of factors including the existing relatively low rate levels,[38] and the relative average socio-economic ranking for the Council.[39]

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

11. **Limit** any further average rate increases above inflation, to help reduce any emerging affordability risk in the community.

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32 Refer to Councils in Focus rates data for 2021-22 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_lower_eyre_peninsula. The Commission is not relying on these rate comparisons for its advice; the data source provides just one indicator, among many, which has informed its advice on the appropriateness of the rate levels.
33 Meeting with District Council of Lower Eyre Peninsular 24.11.2023..
34 Based on the Council's Excel template (with the 2023-30 forecasts) provided to the Commission.
35 Lower Eyre Council correspondence dated 26.9.2023, "2023-24 Local Government Advice Scheme – Financial Reporting Commentary", p8.
36 Lower Eyre Council correspondence dated 26.9.2023, "2023-24 Local Government Advice Scheme – Financial Reporting Commentary", p7.
37 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.
38 See footnote 32.
39 The District Council of Lower Eyre Peninsula area is ranked 64 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics Socio-Economic Indexes for Areas Index of Economic Resources (2016), where a lower ranking (e.g., 1) denotes relatively lower access to income and other economic resources, compared with other areas, available at: https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021.

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:

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

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