Essential Services Commission of South Australia

Advice

Local Government Advice - Attachment

District Council of Cleve

February 2024

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A The Commission's approach

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

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

- 2023-24 Annual Business Plan and Annual Budget (adopted July 2023)
- 2024-2033 Long-Term Financial Plan (adopted August 2023)
- 2023-2032 Long-Term Financial Plan
- 2012-2013 to 2032-2033 LTFP estimates provided by the Council to the Commission (in an Excel template)
- 2012-2013 to 2032-2033 LTFP estimates provided by the Council to the Commission (in an Excel template) – updated into nominal terms at Commission's request
- 2024-33 Infrastructure and Asset Management Plan (adopted August 2023)-
- 2020-2025 Strategic Plan
- Economic Development Framework (adopted September 2021)

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

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing its infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and long-term financial plans (**LTFPs**),[4] it has also considered the Council's performance in that context. Findings regarding the content of the Council's AMP, and the alignment between its LTFP and AMP,[5] are discussed in section C.3.

The Commission has also reviewed the Council's template data which contains its 2023-24 LTFP forecasts for 2023-24 to 2032-33, as well as its 2022-23 LTFP forecasts, and historical financial data and number of rateable properties and council staff (Full Time Equivalent (**FTE**)) numbers from 2012-13 onwards.[6] [7] All charts and tables in the Advice are primarily sourced from these datasets. In addition,

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 its own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

3 The F&A listed 29 analytical questions that the Commission has answered in assessing the Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

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

5 As required under s122(1b) of the LG Act.

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

7 The Council's estimates for the 2022-23 financial year, relied on at the time of preparing this advice, were unaudited.

the Commission has reviewed the Council audit committee reports, and other public information, as appropriate.

The Commission has noted that the Council originally prepared its LTFP in real terms as opposed to nominal terms. While the Council may have its reasons for doing so, this approach does not allow the Commission to undertake a fair analysis and comparison of past performance with forecast performance. The Commission therefore requested the LTFP be provided in nominal terms to provide advice that is meaningful and of value to Council and its community. Note that this conversion to nominal terms means that figures mentioned below may not align with Council's published ABP and LTFP documents.

The Commission has reported its estimates in nominal terms based on the amended data provided. 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 June quarter 2025), and the midpoint of the RBA target range (2.6 percent) thereafter.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Council, including its location as a regional council, its income level ($8.1 million) and the size of its rates base (more than 1,550 ratepayers[8]).

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

Summary of the Council’s financial sustainability performance and the Commission’s risk assessment

The ‘heat map’ diagram below summarises the Commission’s findings with reference to whether the Council has met the suggested Local Government Association (LGA) target ranges for the three main financial sustainability indicators[9] and the level of cost control and affordability risk identified for the Council over time.

Financial sustainability indicators:	Last 10 years from 2012-13 (Actual performance)	2022-23 estimate	Next 10 years from 2023-24 (Council forecasts)
Operating surplus ratio (target 0-10%)	Def-icit; Surplus above or within target range from 2014-15 to date ------->	Surplus witin target range predicted from 2022-23 --->	
Net financial liabilities ratio (target 0-100%)	Net cash position historically -------------->	Ratio projected within target from 2022-23-------------->	
Asset renewal funding ratio (target 90-110%)	Volatility in renewal works spending & some years below target range ----------->	Ratio projected within target from 2022-23-------------->	
Identified Risks:			
Cost control risk	Operating expenses per property average growth 5.3% pa to 2021-22 (CPI 2.0%) ---->	On average, operating expenses per property growth below forecast CPI --->	
Affordability risk	Rates Revenue per property average growth 5.1% pa to 2021-22 (CPI 2.0%) ---->	On average, rates revenue per property growth below forecast CPI -->	

- Ratio outside suggested LGA target range or higher risk
- Ratio close to suggested LGA target range or medium risk
- Ratio within suggested LGA target range or lower risk

[9] LGA SA Financial Indicators Paper.

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, which is based upon the Council's updated nominal terms calculations.[10] 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	76.6	80.6	+4.0	+5.3
Total operating expenses	75.4	77.0	+1.6	+2.1
Operating surplus / (deficit)	1.2	3.7	+2.5	+212.0
Capital expenditure on renewal of assets[11]	23.4	25.1	+1.7	+7
Capital expenditure on new and upgraded assets[12]	1.5	6.9	+5.4	+359.0

B.1 Changes to operating performance

The Council has budgeted (in 2023-24) an increase in its operating surplus of $3.7 million compared to $1.2 million in the 2022-23 LTFP. In aggregate, the projections in its current and previous LTFPs (that is, over the nine-year comparative period to 2031-32, as shown in the table above) indicate the Council's cumulative operating surplus is forecast to improve by $2.5 million, which reflects the Council's recognition of inflationary impacts, and forecast increases in operating income being higher than operating expenses.

Some of the amendments, compared to the 2023-2032 LTFP, account for:

- Recent high inflation estimates of 7 percent, and
- Inflation in local government cost drivers, including grant funding not keeping pace with increases in service delivery costs.[13]

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

B.2 Indexation adjustments

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

10 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.
11 The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).
12 Footnote 10 applies.
13 District Council of Cleve 2023-2024 Annual Business Plan & Annual Budget, p. 9, available at https://www.cleve.sa.gov.au/council/performances/plans .

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

To provide some guidance on how the Council's 2024-23 LTFP forecasts for 2023-24 to 2032-33 income and expenditure compare relative to inflation, the Commission notes that the RBA currently forecasts the CPI (Australia-wide) to increase by 3.6 percent in the year to the June 2024 quarter and by 3.1 percent in the year to June 2025. Thereafter, it is reasonable to anticipate a return to long-run averages (and average growth of 2.6 percent per annum from 2024-25 to 2032-33, based on the RBA's 2 to 3 percent target range).[14] The subsequent sections have regard for this as considered relevant.

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

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

1. Continue to review its inflation forecasts in its budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.
2. State the basis for preparation of annual business plans, budgets, and the long-term financial plan overtly in the accompanying documentation to increase transparency about the assumptions underpinning the figures.
3. Provide a version of the long-term financial plan in nominal terms, when developed using real terms, for the benefit of ratepayers.

B.3 Increase to capital expenditure estimates

The Council's 2023-24 LTFP indicates an increase in capital expenditure for asset renewals (by $1.7 million or 7 percent), and for new and upgraded assets (by $5.4 million or 359 percent), compared to the previous year's LTFP (for the period from 2022-23 to 2031-32). Over the 10-year projections in the 2023-24 LTFP, the Council has factored in a total of $27.1 million in capital renewal and replacement works and $7.8 million in new and upgraded capital works, accounting for 78 percent and 22 percent of the total capital expenditure program respectively.

The Council's transport assets (mainly road assets) represent the largest asset class, and is a major focus of its renewal investment, projected to account for 65.8 percent of the total asset renewal budget over the next 10 years.[15]

The Council's increase in proposed expenditure follows a comprehensive update of its asset management plan, reflecting the impact of multi-million-dollar damage inflicted on road networks in January 2022 storms.[16] Significant grant revenue over the period 2022-23 to 2024-25 provided for

14 RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/.
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15 District Council of Cleve Infrastructure & Asset Management Plan 2024-33 August 2023, p. 3 available at District Council of Cleve | District Council of Cleve.

16 District Council of Cleve Infrastructure & Asset Management Plan 2024-33 August 2023, p. 9 available at District Council of Cleve | District Council of Cleve.

disaster recovery funding and Federal government stimulus funding enables higher capital expenditure.[17]

For new and upgraded assets in 2023-24, the Council is budgeting $2.8 million for projects outlined in its annual business plan then allowing an additional $4.9 million spread over the remaining 9 years from 2024-25 to 2032-33 plan for future projects that will enable funding of its economic development plans.[18] The Council's capital expenditure outlook is discussed further in section C.3.

B.4 Changes between 2023-24 LTFP and annual business plan

The Council adopted its annual business plan and budget in July 2023, one month before it adopted its LTFP 2024-33 in August 2023. There is no current regulatory requirement for it to publish its LTFP projections with its annual business plan and budget.

The Commission notes that the Council's LTFP identifies variances due to the impact of an early payment of $1.79M Financial Assistance Grant (FAGs) in June 2023[19] and that timing in payment of FAGs may cause volatility in sustainability ratios.

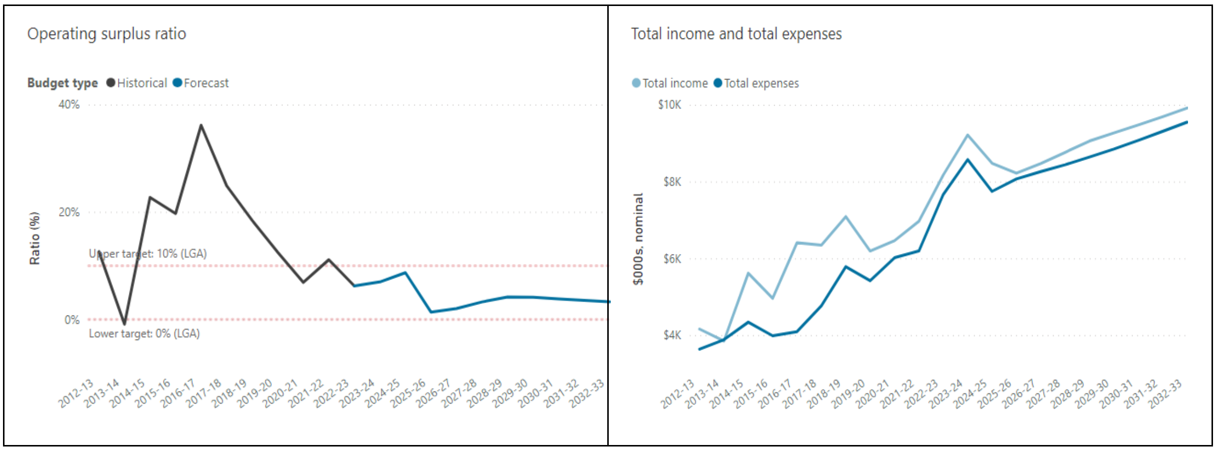
17 Information obtained at meeting with District Council of Cleve, 24.11.2023.
18 District Council of Cleve Infrastructure & Asset Management Plan 2024-33, p. 4, August 2023, available at District Council of Cleve | District Council of Cleve.
19 District Council of Cleve Long Term Financial Plan 2024-2033, p. 9, August 2023, available at District Council of Cleve | District Council of Cleve

C Financial sustainability

C.1 Operating performance

The Council has predominantly run operating surpluses from 2012-13 to 2021-22, with the operating surplus ratio[20] averaging 16 percent over this period. The Council received a combination of additional rates, statutory charges, user charges and 'grants, subsidies and contributions' income to generate its relatively strong operating income growth of 5.9 percent per annum from 2012-13 to 2021-22. In its forward projections, the operating surplus ratio is forecast to be 4 percent on average and remain within the suggested LGA target range of 0-10 percent in the period 2023-24 –2032-33.

The decrease in its projected operating performance is attributed to budgeting for modest revenue increases which are lower than expense growth, even when taking into consideration that expense growth is forecast to be slower than it has in the previous 10 years.



Rates revenue has increased on average by 4.7 percent per annum from 2012-13 to 2021-22[21] (when rateable property growth averaged 0.8 percent and CPI growth averaged 2 percent).

Over the same period 'grants, subsidies and contributions' (accounting for 35 percent of total operating income) increased by an average of 6.9 percent per annum. Grants income has been 'lumpy' from year to year,[22] and has averaged $2,091 per property over the period from 2012-13 to 2021-22. The Commission acknowledges the impact of the irregular payment of the FAGs where councils may receive payments that do not correspond to the financial year to which the payment relates. This may distort sustainability ratios from year to year, particularly in smaller councils where grants income is a significant proportion of income.

The Council's operating expense growth (from 2012-13 to 2021-22) was primarily due to an average annual increase of 3.9 percent in 'employee' expenses and 8 percent in 'materials, contracts and other' expenses (see the changes by expense type in specific time periods in the left chart overleaf).

Looking forward, the Council is projecting total income growth averaging 0.8 percent annually, which is well below the RBA inflation forecasts. Despite this, average annual rates revenue growth of 3.5 percent

20 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).

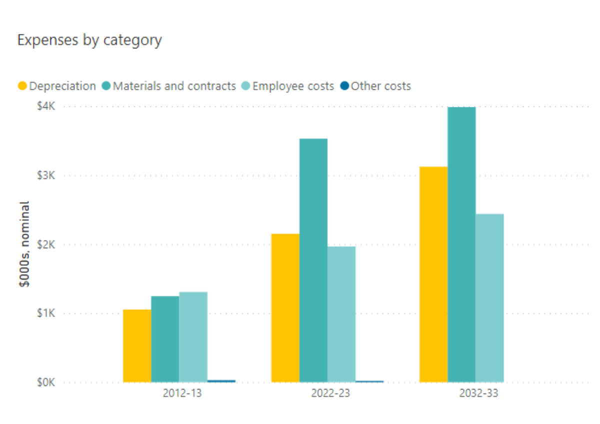
21 Based on the compound average annual growth rate formula (which is the adopted approach to calculating average annual growth rates throughout the Commission's advice).

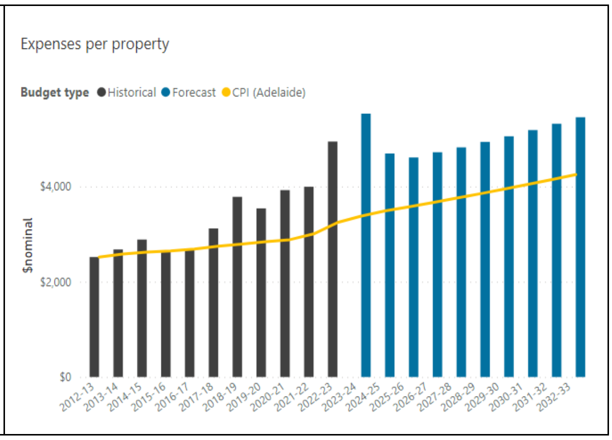
22 Due to the timing of different grants and sometimes advance grant payments (as for the 2023-24 grant allocation, which was received and accounted for in 2022-23).

to 2032-33 is forecast, which is above the RBA forecast long-term inflation rate,[23] but includes growth in rateable properties of 0.8 percent. Increasing rates, offsets an average annual decline of 3.5 percent in income from grants, subsidies, and contributions, noting the Council's practice of only recognising grants once they are certain.

Total income growth is lower than forecast average expense growth of 1.2 percent per annum, which is below the RBA-based forecast inflation growth[24] and represents a change from the Council's past performance (with average annual growth of 6.1 percent in the 10 years to 2021-22)The main contributor to this is significantly lower growth in materials and contracts expenses and employee costs. The Council will utilise in-house resources for some capital works which will capitalise what otherwise might be operational expenditures. The Council is also projecting that employee numbers will remain at 21 FTE over the LTFP.

Lower expenses growth, coupled with expected growth in rateable properties averaging 1.4 percent annually, results in expenses per property decreasing by an average of 0.2 percent per annum over the period from 2023-24 to 2032.33, which represents a cost reduction in real terms (based on current inflation projections) (see the right chart below). Despite this, actual expenses per property remain high relative to the inflation adjusted equivalent from 2012-13 to 2032-33. This is because historically expenses growth has exceeded inflation by a considerable margin, resulting in the LTFP starting from a high base.





User charges (averagely 4 percent of total income); however, are forecast to grow by an average of 17.5 per cent which is slightly higher than the historical average of 14.9 percent per annum.[25] These charges reflect the Council's strategy of cost recovery for service provision such as CWMS. Noting that some of the following expenses may be capitalised as renewal capital works are undertaken in-house, 'employee' expenses and 'materials, contracts and other' expenses are forecast to increase by an average of 1.8 percent and decline by an average of 0.9 percent per annum respectively, from 2023-24 to 2032-33. Overall, this would reflect much more constrained growth, below forecast inflation. This is a positive trend, noting that the Council's improved financial sustainability outlook does rely on continued 'cost constraint'.

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:

23 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 June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2-3 percent) from 2026-27.

24 Footnote 23 applies.

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 2022-23; and forecast average is based on the 10-year period from 2023-24 to 2032-33.

4. **Continue** to monitor cost growth in its budgeting, where possible, including related to employee expenses.
5. **Consider** minimising average rate level increases if unanticipated grants (not already accounted for in the long-term financial plan) are received.
6. **Continue** its practice of reporting any actual and projected cost savings in its annual budget (and long-term financial plan, as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery.

C.2 Net financial liabilities

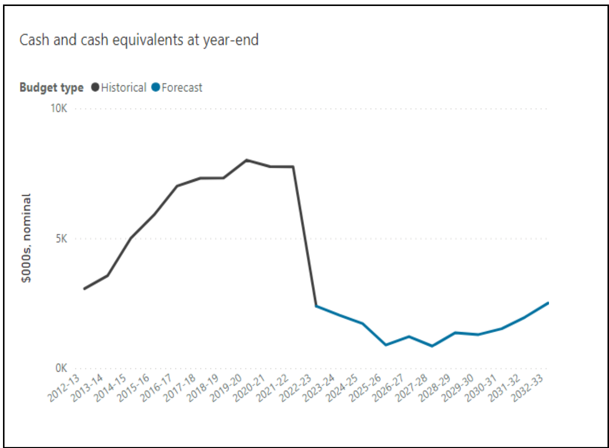
With the Council's predominant operating surpluses from 2012-13, its net cash flows after operating and investing (that is, capital-related) activities have averaged $0.5 million annually between 2012-13 and 2021-22 (refer to left chart below).

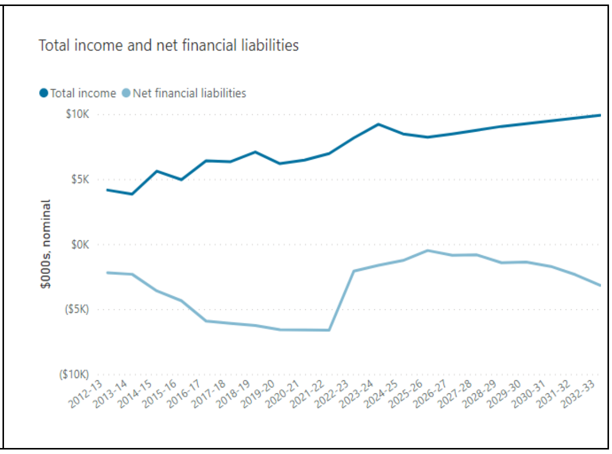
The Council has used loan borrowings between 2012-13 and 2021-22 and is progressively reducing this debt.[26] Forecasts for 2023-24 indicate that the Council will pay down this debt by 2026-27 with no new debt going forward.

The Council's net financial liabilities ratio has trended between negative 52.8 and negative 106.2 percent between 2012-13 and 2022-23 (see the left chart overleaf) with a positive net cash position. This is below the suggested LGA target range for the indicator of between zero and 100 percent (averaging -84 percent over this period).

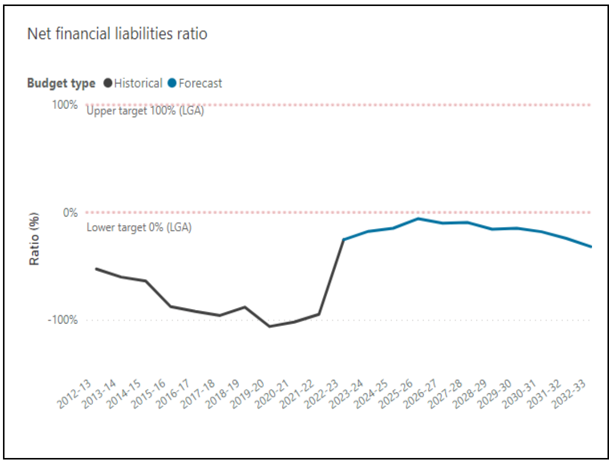
The Council has estimated that the net financial liabilities ratio will average negative 16 percent between 2023-24 and 2032-33 which is below the LG recommended ratio (see the left chart overleaf).[27] The positive net cash position that is held throughout the forecast period reflects the repayment of borrowings, maintenance of other liability levels, and growth in income that exceeds growth in expenses.

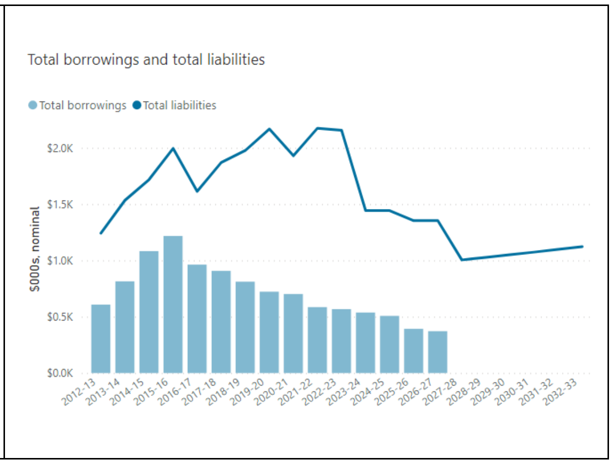
As previously stated, the Council is relying predominantly on further rates revenue growth together with lower growth in operating expenses to maintain overall financial sustainability.





26 Based on the Council's Excel template provided to the Commission.
27 The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100 percent of total operating income, but possibly higher in some circumstances (LGA SA Financial Indicators Paper, pp. 7-8).



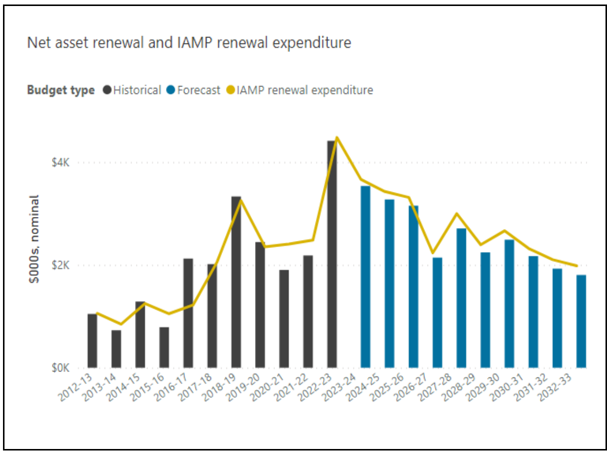


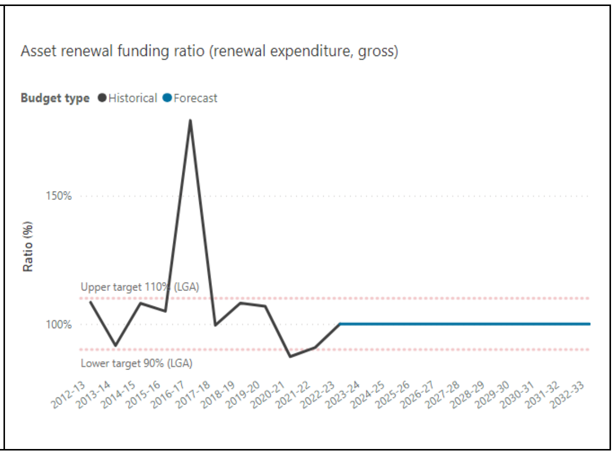
Based on the Council's projected repayment of borrowings, and negative forecast net financial liabilities ratio, the Commission notes that it might have the opportunity to utilise surplus cash to further address its asset renewal expenditure requirements and keep rate increases at minimum levels required.

The strong end of year cash positions forecast also provides the Council with the opportunity and capacity to limit any rate rises in real terms below the rate of CPI. Noting the Council's economic development strategies however, it may also be appropriate to raise the NFLR by accepting a lower operating surplus ratio than normal due to the large cash balances on hand.

C.3 Asset renewals expenditure

The Council has maintained its average asset renewal funding ratio[28] between 2012-13 and 2021-22 within the LGA target range and the 2022-23 unaudited estimates[29] indicate this trend will continue (see the charts below).





Between 2012-13 and 2021-22, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 108 percent (see right chart above),[30] signifying an appropriate spend on the renewal and rehabilitation needs of its asset stock over this period. The Council's spending on renewal and rehabilitation of assets averaged $1.8 million each year (over this period).

28 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).

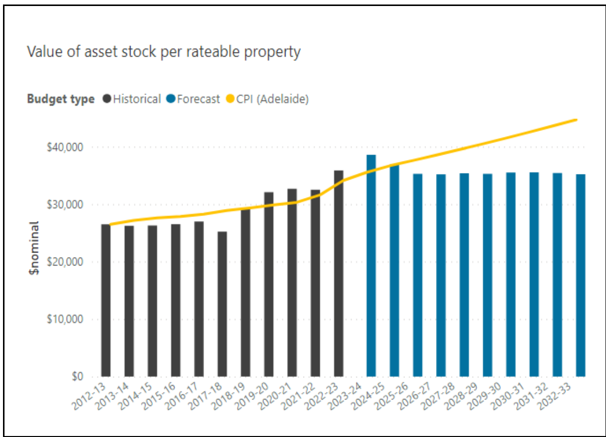
29 Based on the Council's Excel template provided to the Commission.

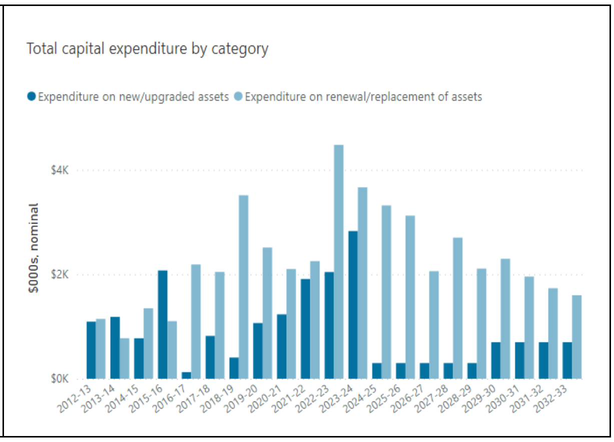
30 The quoted averages for the ratio are based on 'gross asset renewal expenditure' (before the sale of replaced assets) rather than 'net asset renewal expenditure'.

The Council's planned renewal expenditure is mainly attributed to transport assets (covering sealed roads, sheeted roads, kerbs, and footpaths) and accounts for approximately 65.8 percent of total renewals expenditure from 2023-24 to 2032-33.[31] Aside from transport works, the Council has planned renewals expenditure for plant and equipment which equals approximately 26 percent of total renewals).

From 2023-24 to 2032-33, the ratio is forecast to average 100 percent, reflecting the Council's intention to continue meeting its renewal needs based on revised asset management plans. Average annual spending on renewal or rehabilitation of assets is projected to be $2.7 million (in real terms).

The Council has grown its asset base over the past 10 years from $38.2 million to $50.4 million with total capital expenditure averaging $3 million per annum (including $1 million per annum on new or upgraded assets) between 2012-13 and 2021-22 (see the right chart below). This has led to an average increase in the value of the asset stock per property of $6,707 or an average of 2.5 percent growth per annum over the 10 years to 2021-22 (see the left chart below). By implication this indicates the Council's asset stock has maintained value in real terms (as the increase was above the historical rate of inflation).





Over the next ten years of its LTFP, the Council is forecasting to slightly decease its asset renewal funding ratio and minimise spending on new/upgraded assets which will result in a decrease in the value of asset stock in real terms (see chart above at left). The Commission notes the practice of the Council to forecast recurrent grants only and recognise additional grant funding when obtained, in line with its strategic approach of developing capital projects, then seeking grant funding or subsidy.[32] This practice may understate likely grant forecasts given the Council's successful track record in obtaining grants.

Council will need to assess the risk of adding new infrastructure in the context of creating a stream of future liabilities associated with each asset. While affordability of the initial expenditure is not an issue for the Council due to cash reserves and borrowing capacity, affordability to the community in the longer-term requires consideration.

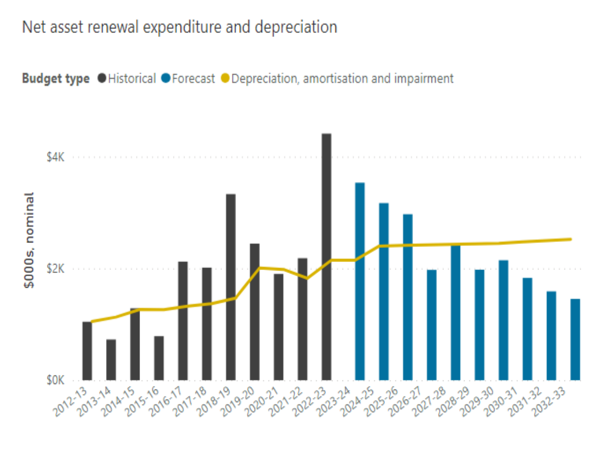
Noting that additional grant funding may influence future capital expenditure on new/upgraded assets, the Commission considers that it would be appropriate for the Council to:

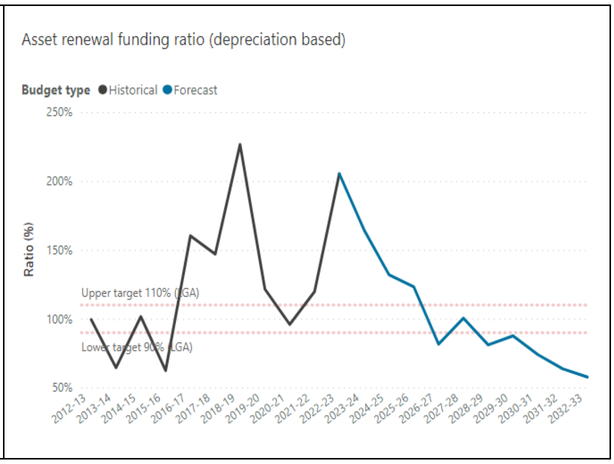
7. **Adhere** to the principles underpinning its long-term financial plan projections to provide more funding to the renewal of its assets, rather than prioritising initiatives which involve new or upgraded infrastructure.

[31] District Council of Cleve Infrastructure & Asset Management Plan 2024-33, p. 3 and 4, adopted August 2023, available at [2024-33-Infrastructure-and-Asset-Mangement-Plan-Final.pdf (cleve.sa.gov.au)](cleve.sa.gov.au).

[32] Information obtained at meeting with the Council on 24 November 2023.

When the asset renewal funding ratio is instead calculated by the depreciation-based method, between 2012-13 and 2021-22 it has historically been an average of 120 percent over the period. The projected performance for 2023-24 to 2032-33 is for an average of 97 percent (although with volatility from year to year) suggesting that the level of spending recommended by AMPs is becoming more closely aligned with asset valuations and useful life assumptions, as used for depreciation purposes (see charts below).





The forecast capital expenditure reflects a significant shift in the Council's asset spending priorities towards asset renewals rather than new and upgraded asset expenditures (see graph above right – previous page). However, from 2028-29 to 2032-33 depreciation expenses are forecast to be consistently higher than renewal expenditure range and with a decreasing trend (see graph above left).

This presents a risk that asset lives could be assumed to be shorter (in the depreciation calculation) than occurs in practice; however overall, there does not appear to be a pattern of divergence. Accordingly, the Commission considers that it would be appropriate for the Council to:

8. Continue its practice of reviewing the estimates of asset lives and valuations in its long-term financial plan and asset management plans, to ensure that depreciation and renewal expenditure remain aligned in the longer term.

The Council has recently updated its Infrastructure & Asset Management Plan which covers most of the Council's asset base and reflects asset valuations that have been carried out within the last four years. The Commission notes the practice of the Council in revaluing its assets as frequently as is needed to ensure both depreciation and the fair value of assets is accurate.[33] The Commission has also noted the current practice of the Council in conducting asset management data and service level reviews of its operations, focused on achieving increased productivity, efficiency, and effectiveness.[34]

In formulating its AMPs, the Council has considered several matters such as customer levels of service, utilisation of and demand for its assets, life cycle management, and risk management planning. These matters (among others) have informed the Council's planned operating and maintenance budgets, and asset renewal needs over the period to 2033. The Council has also showed the extent to which its asset renewal funding forecasts (in its 2023-24 LTFP) aligns with its AMP renewal targets. The Commission's review of the AMPs has found that, on balance, the Council's strategic planning processes align with good practice for a council of its size and complexity.

33 Information obtained at meeting with the Council on 24 November 2023.

34 District Council of Cleve 2023-2024 Infrastructure and Asset Management Plan 2024-33, p. 7, adopted August 2023, available at [2024-33-Infrastructure-and-Asset-Mangement-Plan-Final.pdf (cleve.sa.gov.au)](cleve.sa.gov.au).

The Council continues to undertake a significant economic development strategy to increase both population and economic activity.[35] It is undertaking major new asset construction in 2023-24 aligned with its economic and development plans, including:[36]

- Boarding house
- Tourism assets – RV parks, marina upgrades
- Residential amenities – Community Wastewater Management System (CWMS) play-space, dog park

[35] Footnote 38 applies.
[36] Footnote 38 applies.

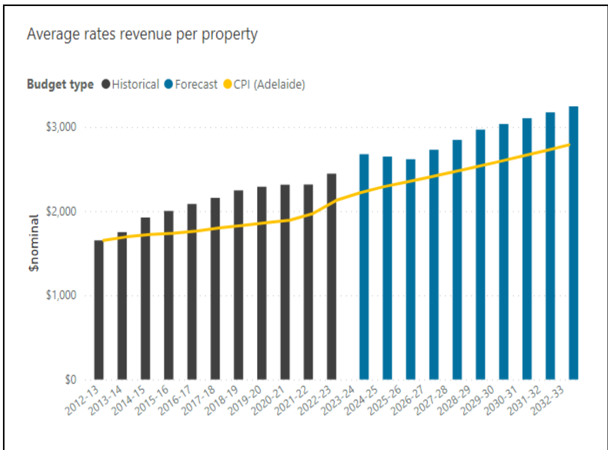
D Current and projected rate levels

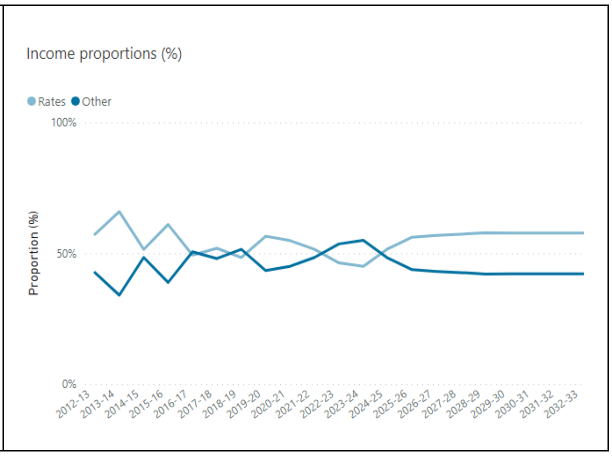
D.1 Historical rates growth

The Council's rate revenue per property growth has averaged 3.8 percent or an average increase of $66 per annum for each property over the past 10 years,[37] to reach an estimated $2,316 per property in 2021-22 (see the left chart below). This has exceeded CPI growth of an average of 2 percent per annum over this period, but also encompasses 0.8 percent average annual growth in rateable property numbers. Current rate levels partially reflect its recent history of spending growth, predominantly on capital expenditure (on renewals, and new and upgraded assets), and higher employee and materials-related costs.

The Council remains reliant on its rate base for its operating sustainability. As the chart below indicates (to the right), rates revenue is forecast to account for 45 percent of budgeted operating income in 2023-24, and averaging 55 percent in the period 2023-24 to 2032-33, which remains consistent with the period from 2012-13 - 2021-22.

The Commission notes that the Council has average rates across all categories of ratepayer that are comparable to similar councils;[38] however it has relatively lower levels for residential categories, and higher rates for rural ratepayers.





D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 9.8 percent (from 2022-23) for its existing ratepayers in 2023-24 taking the average residential rate to $952.[39] The rates increase reflects higher short-term inflation (estimated by the Council to be 7.9 percent), maintaining and improving infrastructure to acceptable standards, and service delivery needs for a decreasing population.[40] The Council has also assumed a small growth in the area in rateable properties (continuing at 1.4 percent per annum).[41]

37 From 2012-13 to 2021-22

38 Refer to Councils in Focus rates data for 2019-20 available at https://councilsinfocus.sa.gov.au/councils/district_council_of_cleve. 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.

39 Based on the Council's 2023-24 Annual Business Plan (p. 26) and its Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $4.149 million (in 2023-24 budgeted rates revenue) compared to unaudited 2022-23 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.

40 District Council of Cleve Annual Business Plan & Budget 2023-2024, p. 9.

41 Based on the Council's Excel template provided to the Commission.

Ratepayer categories are subject to differential general rate charges based on locality of land and its use; however, all ratepayers are to pay the same percentage increase of 9.8 percent on 2022-23 levels.[42]

On a proportional revenue basis, residential ratepayers account for around 21 percent of 2023-24 budgeted rates revenue, while primary production ratepayers account for 69 percent.

Other than 'general rates' revenue, the Council collects income from waste collection and the CWMS charge.[43]

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average rates increases in overall rates revenue for its existing ratepayers of approximately 3.5 percent per annum from 2023-24 to 2031-32. Combined with the projected increase in rateable properties of 1.4 percent, the LTFP effectively projects an average increase of $80 per annum per existing ratepayer (to an estimated $3,245 per annum) by 2032-33, which is below the RBA-based inflation forecast of an average of 2.6 percent per annum.[44]

The percentage of the Council's total income contributions from ratepayers is projected to remain consistent with the historical rate at an average of 55 percent. The Commission notes that the projections for rate increases are based on the achievement of growth in rateable properties which presents a risk of higher rates if the forecast growth is not achieved. However, it is further noted that the strong economic development strategy is already achieving population growth results (as per meeting with Council).[45]

D.4 Affordability risk

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

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area,[46] and
- the current relatively low average rates (across most ratepayers).

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:

9. Consider limiting future increases in rates to no more than expected inflation in real terms based on the Council's strong financial position, to help reduce any emerging affordability risk in the community.

[42] District Council of Cleve Annual Business Plan & Budget 2023-2024, p. 26.
[43] District Council of Cleve Annual Business Plan & Budget 2023-2024, p. 24.
[44] The forecast average annual growth in the CPI from 2022-23 to 2031-32 is estimated to be 2.6 percent based on the RBA forecasts for the CPI (Australia-wide) to June 2025 (and the Commission's calculations of average annual percentage growth) and the midpoint of the RBA's target range (2.6 percent) from 2025-26.
[45] Information obtained at meeting with District Council of Cleve, 24 November 2023.
[46] The District Council of Cleve area is ranked 46 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 SEIFA (abs.gov.au)

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