Advice

Local Government Advice - Attachment

Light Regional Council

February 2024

Enquiries concerning this advice should be addressed to:

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: advice@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

Table of contents

A The Commission's approach

In providing the Advice for the Light Regional Council (**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]

- 2023-2024 Annual Business Plan Budget and 2023-2033 LTFP (adopted June 2023)
- 2012-2013 to 2032-2033 Long Term Financial Plan
- 2020-2030 Asset Management Plan
- Technical Asset Management Plan Summary – Bridges, Floodways, Footpaths, Stormwater, Transport (Roads), 2020-2030
- Technical Asset Management Plan Summary – Buildings & Open Space, 2020-2030
- Technical Asset Management Plan Summary – Community Wastewater Management System (CWMS), 2020-2030
- Economic Development Plan 2020-2030
- Letter from Light Regional Council dated 31 August 2023 – Material matters – 2023-24 ABP and LTFP
- Letter from Light Regional Council dated 11 December 2023 – Council Responses to ESCOSA Questions
- Audit and Risk Committee Meeting Agenda, Item ARC7.3 – Public Consultation – Draft 2023/2024 Annual Business Plan, Budget and 2023-2033 Long-Term Financial Plan (June 2023)
- Meeting in-person between Light Regional Council and ESCOSA at Kapunda on 12 December 2023

The Commission notes that most of the Council's asset base is covered by its existing asset management plans (**AMPs**), and asset valuations 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 their infrastructure and asset management plans (**IAMPs**) (usually termed AMPs) and long-term financial plans (**LTFPs**),[4] it has also considered the Council's performance

1 Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

2 The indicators are specified in the *Local Government (Financial Management) Regulations 2011*. Since 2011, each council has been required to refer to these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. The councils can adopt their own target range for each ratio, but the Commission has adopted the previously suggested Local Government Association (**LGA**) target ranges as a basis for its analysis, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

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

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

in that context. Findings regarding the content of the Council's AMPs, and the alignment between its LTFP and AMPs,[5] are discussed in section C.3.

The Commission has also reviewed the Council's template data which contains its 2023-24 LTFP forecasts for 2023-24 to 2032-33, 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, 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 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 ($28.4 million) and the size of its rates base (more than 8,265 ratepayers[8]).

Summary of the Light Regional Council's financial sustainability performance and the Commission's risk assessment

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%)	Operating deficits	Improved performance ------->		Surpluses projected ------------------------------>	
Net financial liabilities ratio (target 0-100%)	Ratio met historically -->			Ratio projected within target from FY27 ->	
Asset renewal funding ratio (target 90-110%)	Volatility in renewal works spending & some years below target range --->				Ratio within or above LGA target range as deferred renewals addressed --->
Identified Risks:					
Cost control risk	Operating expenses per property average growth 2.1% pa to 2021-22 (CPI 2.0%) --------------------------------------->			On average, operating expenses growth less than forecast CPI --------------------------->	
Affordability risk	Rates revenue per property average growth of 4.6% pa to 2021-22 (CPI 2.0%) -->			Projected rate revenue per property average growth below forecast CPI (CPI 2.8%) -->	

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

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.
8 Based on the estimated number of property assessments in 2023-23.

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	280.6	301.0	20.4	7.3
Total operating expenses	278.6	278.1	-0.4	-0.1
Operating surplus / (deficit)	2.1	22.8	20.8	7.4
Capital expenditure on renewal of assets[10]	70.1	70.1	-	-
Capital expenditure on new and upgraded assets[11]	13.1	13.1	-	-

B.1 Changes to operating performance

The Council has budgeted (in 2023-24) for an increase in its operating surplus of $22.8 million compared to a surplus of $2.1 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 2030-31, as shown in the table above) indicate the Council's cumulative operating surplus improved by $20.8 million. This outcome reflects the Council's significant increase in operating income arising from the receipt of funds pertinent to its Bunyip 1 Water project completed in 2022-23.[12]

For the 2023-24 budget year, the Council has also noted a decrease in finance costs that contributed to the improvement in the operating deficit (compared to the LTFP) and certainty in employee expenses as a result of its enterprise agreement, (together a $0.4 million decrease in operating expenses).

Some of the amendments, compared to the LTFP, include:[13]

- Decreased cost pressures for 'materials, contracts and other' expenses.
- Employee expenses contained by enterprise agreement (for the known period of the agreement).
- A further 2.1 percent increase in rates revenue.
- Increase in income of $11 million from Bunyip 1 project, with an associated decrease in finance costs.

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 10 applies.
12 Correspondence from Light Regional Council dated 31 August 2023, p. 3.
13 Footnote 12 applies.

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

B.2 Indexation adjustments

The Council applies indexation adjustments to its cost and revenue estimates, including 2.1 percent for rates, 3 percent for materials, contracts and other expenses and 2 percent for wages and salaries.[14] The Council stated that its general rate revenue and services charges are increased at a rate below CPI inflation.[15] Based on updated inflation assumptions in its 2022-23 LTFP, an increase in its revenue estimates by 1.3 percent over the 2023-24 to 2031-32 forecast period,[16] including recognition of deferred grant income compared with the same estimates in its 2022-23 LTFP, supports the Council's statement.

The Council has factored several genuine savings into its LTFP projections, discussed in section C.1. 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 RBA's 2 to 3 percent target range).[17]

The Commission notes that the Council's stated assumptions for indexation in its 2023-24 LTFP are based on its annual review of these and other forecasts. Noting the Council has endeavoured to find savings 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 in its annual budget and forward projections from 2023-24, given the potential for higher short-term inflation outcomes, followed by a return to long-term averages.

B.3 Increase to capital expenditure estimates

The Council's 2023-24 LTFP indicate no changes in capital expenditure for asset renewals nor for new and upgraded assets compared to the previous year's LTFP (for the period from 2022-23 to 2030-31). 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 Council adopted its LTFP in June 2023, together with its annual business plan and budget.

The Commission notes that the Council's LTFP identifies the risks to its estimates after it is adopted (due to environmental and economic factors, for example) and that the annual business plan also includes its 2023-24 estimates (from the LTFP). The Commission also acknowledges the Council's efforts in community consultation on budget development and material budget adjustments and inclusion of community feedback.[18]

The Commission has noted that the Council has prepared its AMP in real terms as opposed to nominal terms and it stated that these costs were included in budgets following indexation for inflation. The Commission notes the Council's process in disclosing information underpinning capital expenditure in its LTFP. Other parameters and assumptions were also provided;[19] however, the Council's assumptions about inflation were not explicitly stated. The Commission recommends that the Council:

---

14 Final 2023 2024 ABP and Budget, p. 23.
15 Final 2023 2024 ABP and Budget, p. 12.
16 The set of nine years forecast in both the 2022-23 and 2023-24 LTFP projections.
17 RBA, Forecast Table - November 2023, available at https://www.rba.gov.au/publications/smp/2023/nov/economic-outlook.html.
18 Light Regional Council, *Audit and Risk Committee Meeting Agenda – 13 June 2023, Item ARC7.3 Public Consultation – Draft 2023/2024 Annual Business Plan, Budget and 2023-2033 Long-Term Financial Plan,* p. 18 available at https://www.light.sa.gov.au/__data/assets/pdf_file/0031/1413598/ARC20230613AGN.PDF.
19 Light Regional Council, 2023/2024 Annual Business Plan, Budget, and Long Term Financial Plan, p. 21.

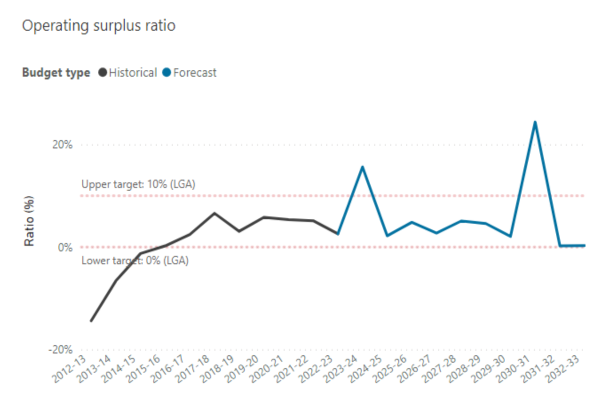
2. **Further define** the basis, including inflation assumptions, for preparation of annual business plans, budgets and the long-term financial plan in the accompanying documentation to increase transparency about the assumptions underpinning the figures.

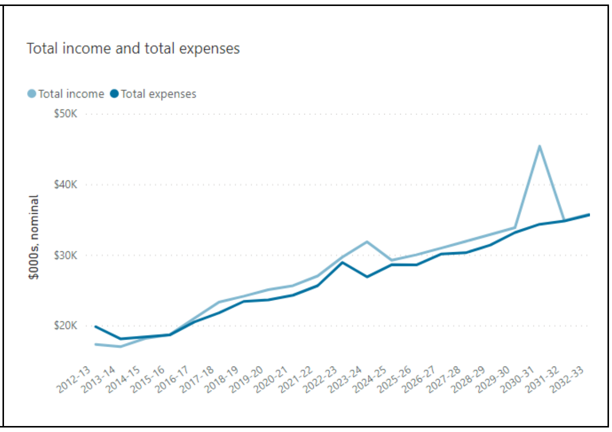
C Financial sustainability

C.1 Operating performance

The Council had operating deficits from 2012-13 to 2014-15, followed by consistent operating surpluses until 2021-22. The operating income surplus averaged $0.3 million per annum from 2012-13 to 2021-22 (see the left chart below).

The projected operating performance is expected to remain in surplus, with revenue growth at 1.3 percent and expenditure growth at 3.2 percent (see the right chart below). Spikes in the operating surplus are related to the Council's Bunyip water projects.





Rates revenue has increased on average by 5.5 percent per annum from 2012-13 to 2021-22,[20] during which time rateable property growth averaged 0.8 percent and CPI growth averaged 2.0 percent. Over the same period 'grants, subsidies and contributions' (accounting for 8.9 percent of total operating income) increased by an average of 2.8 percent per annum. Grants income has been 'lumpy' from year to year,[21] and the three-year average of $271 per ratepayer in 2021-22 reflects an increase in value in real terms compared with the three-year average of $194 in 2014-15.

The Council's operating expense growth of 2.9 percent (from 2012-13 to 2021-22) was primarily due to an average annual increase of 4.7 percent in 'employee' expenses and 3.5 percent in 'materials, contracts and other' expenses (see the changes by expense type in specific time periods in the left chart over the page).

Looking forward, the Council is projecting average annual rates revenue growth of 3.3 percent to 2032-33, which encompasses forecast growth in rateable properties. This growth is above the forecast long-term inflation,[22] and represents a small real terms increase in rates per property (mainly from the period 2023-24 to 2024-25). After that time, rates are projected to increase at a rate below forecast inflation. The average growth in annual rates revenue is also higher than expected expense growth (rates are discussed in more detail in section D).

Forecast average expense growth of 3.2 percent per annum is above the RBA-based forecast inflation growth[23] and represents a decline from the Council's cost control performance historically (with average annual growth of 2.9 percent in the 10 years to 2020-21).

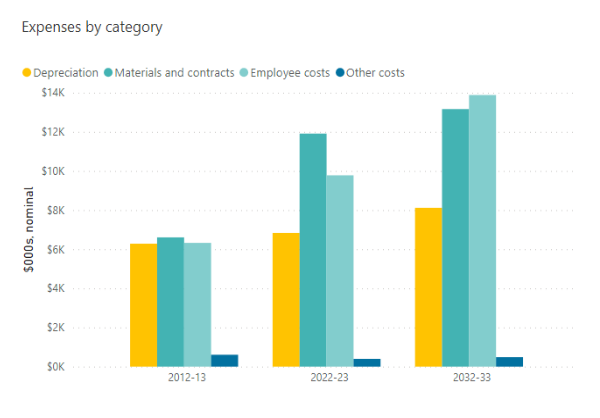
20 Based on the compound average annual growth rate formula (which is the adopted approach to calculating average annual growth rates throughout the Commission's advice).

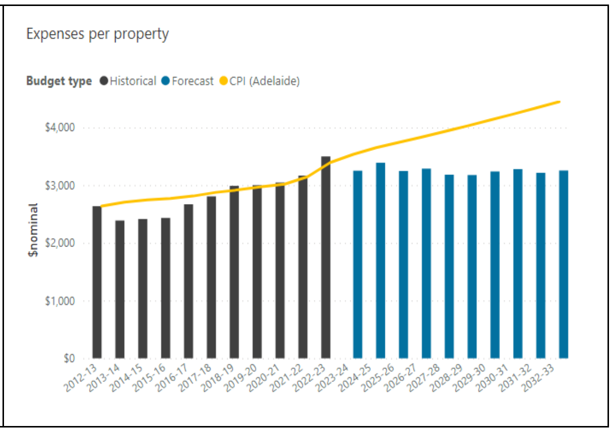
21 Due to the timing of different grants and sometimes advance grant payments (as for the 2023-24 grant allocation, which was received and accounted for in 2022-2023).

22 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 2026 (and the Commission's calculations of average annual percentage growth) and within the RBA's target range (2 - 3 percent) from 2025-26.

23 Footnote 22 applies.

Expenses per property (a metric which also accounts for growth) are expected to remain relatively static over this period, which would represent a significant cost reduction in real terms (based on current inflation projections) (see the right chart below). The Council anticipates benefitting from economies of scale with respect to its forecast growth. This may be a risk, but it appears to be mitigated by significant progress and ongoing demand within the Roseworthy expansion.[24]





The Council's template data (provided to the Commission) shows that employee numbers are assumed to increase from a current level of 97 FTE to 108 FTE. Most of Council's operating income and expense lines indicate growth close to or above current inflation forecasts. Grants income represents a forecast of $2.8 million per annum (on average in nominal terms), compared to a historical average of $1.9 million per annum.[25] In addition, 'employee' expenses and 'materials, contracts and other' expenses are forecast to increase by an average of 3.1 percent and 3.8 percent per annum respectively, from 2023-24 to 2032-33. Overall, this would reflect contained growth, close to forecast inflation. This is a positive trend, noting that the Council's improved financial sustainability outlook does rely on continued cost containment and the economies of scale associated with growth in rateable properties as mentioned above.

The Commission has observed the current practice of the Council in conducting regular service level reviews of its operations, focused on achieving increased productivity, efficiency and effectiveness, and ultimately, real savings,[26] for example, some of the forecast developments will also contribute community assets such as community centres and sports facilities.[27]

To ensure the Council is positioned to contain its expenses within its forecast cost base and achieve its operating performance targets (without the need for further rate increases above inflation), the Commission encourages it to:

3. **Continue** to monitor cost growth in its budgeting, including related to employee expenses, to contain it within the forecast long-term financial plan.
4. **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 containing cost growth and achieving efficiency across its operations and service delivery.

C.2 Net financial liabilities

With the Council's operating deficits from 2012-13 to 2014-15, followed by ongoing operating surpluses, its net cash flows after operating and investing (that is, capital-related) activities has averaged negative $2 million annually between 2012-13 and 2021-22 – strongly influenced by major new capital

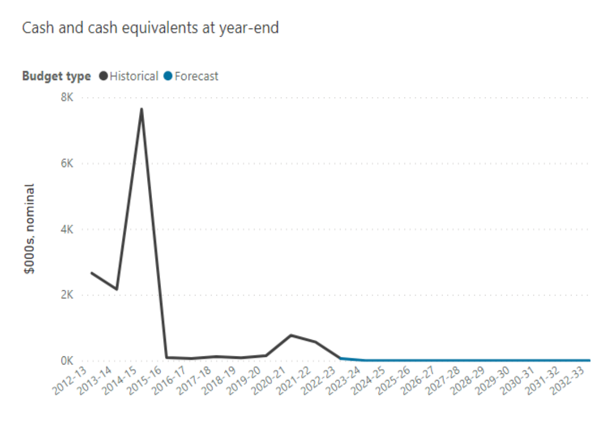
24 Email Correspondence with Council dated 31 January 2023 and Council comments on draft advice.
25 Based on the Council's Excel template provided to the Commission. Historical average is based on the 10-year period from 2011-12 to 2021-22; and forecast average is based on the 10-year period from 2023-24 to 2032-33.
26 Council, 2023/2024 Annual Business Plan, Budget, and Long-Term Financial Plan, p. 4.
27 Meeting between Council and ESCOSA on 12 December 2023.

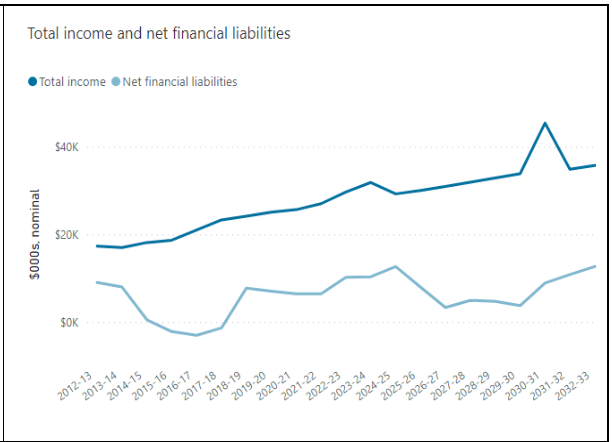
acquisitions in 2015-16 and 2018-19. This is different to the chart below which shows cash held by the Council at the end of each year, including financing activities, has been minimal in most years but which has averaged $1.4 million due to the high level of cash held at year end 2014-15.

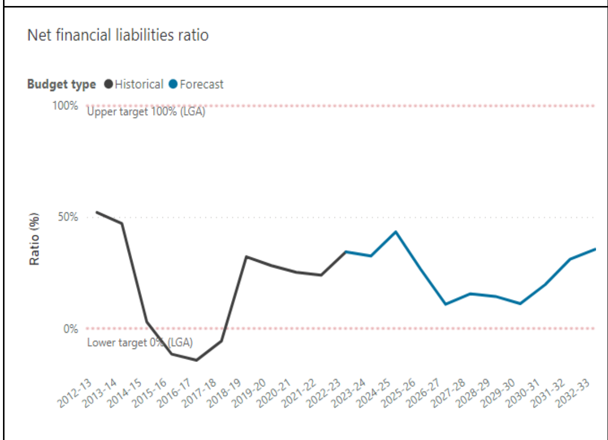
The Council has predominantly used borrowings to fund its renewal of existing assets and acquisition of new and upgraded assets and public private partnership projects (e.g. Bunyip water). For example, in the 2015-16 LTFP, the Council included borrowings of $11.3 million to fund the 'Bunyip1' major water project.[28] The Council discharged this loan in 2022-23 and used returns from the project to surrender additional cash advance debenture loans, reducing overall indebtedness.[29]

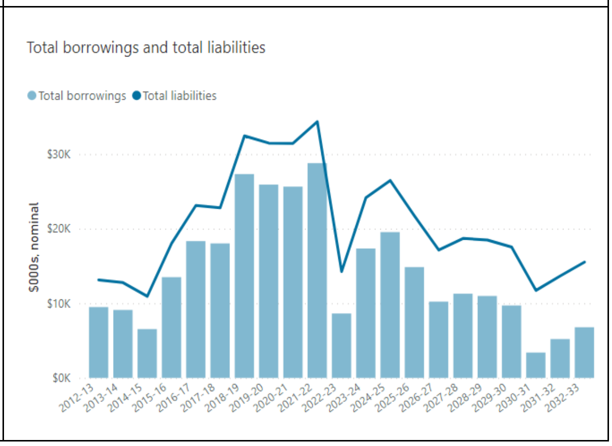
The Council's net financial liabilities ratio has trended between 52.1 and negative 14.3 percent between 2012-13 and 2022-23 (see the bottom left chart below). This is within (or below) the suggested LGA target range for the indicator of between zero and 100 percent (averaging 18 percent over this period) and is at a level which demonstrates that the Council is only accumulating liabilities that its operating income can reasonably service (see the top right chart below).[30] The Council has estimated that the ratio will peak at 43.3 percent in 2024-25, with additional borrowings related to the Bunyip2 major water project as noted in the December 2023 meeting with Council.

The ratio will then have a general downwards trajectory until 2029-30 then start rising again, which reflects both the declining trend in borrowings and other liabilities (see bottom right chart below), and the projected operating income growth (an average of 1.3 percent per annum). As previously stated, the Council is relying predominantly on growth in rateable properties and lower growth in operating expenses to maintain or improve its overall financial sustainability.









28 Correspondence with Light Regional Council dated 31 August 2023, p. 3.
29 Note 28 applies.
30 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).

C.3 Asset renewals expenditure

The Council has experienced a highly variable asset renewal funding ratio[31] between 2012-13 and 2021-22, and the 2022-23 unaudited estimates[32] continue the trend (see chart overleaf top right).

Between 2012-13 and 2021-22, the asset renewal funding ratio (under the 'IAMP-based' approach) averaged 111.9 percent,[33] signifying spending on the renewal and rehabilitation needs of its asset stock that is slightly above the LGA target range over this period but reflecting the Council's need to renew assets that were not renewed in a timely manner prior to 2012[34] (as also noted in meeting with Council). The Council's spending on renewal and rehabilitation of assets averaged $3.3 million each year over the period 2021-13 to 2021-22 (see chart overleaf top left). With reference to increased costs for construction, the Council noted it kept capital expenditure within forecast budgets by deferring projects.[35]

Over the 10-year projections in the 2023-24 LTFP, the Council has factored in a total of $94.8 million in capital renewal and replacement works: $80.2m on renewal and replacement works and $14.5 million in new and upgraded capital works, accounting for 84.6 percent and 15.4 percent of the total capital expenditure program respectively. The Council's stated practice[36] is to take a conservative approach and include only known grants in its LTFP, which may result in the capital expenditure on asset renewals appearing to be more significant. This may present difficulty in comparing historical performance (which includes all grants received) to forecast performance, noting that grants as a percentage of income were 8.9 percent in the period 2012-13 to 2021-22 compared to forecast 8.3 percent for the period from 2023-24 to 2032-33.

The Council's transport assets (mainly road assets) represent a significant asset class, and is a major focus of its renewal investment, estimated to account for approximately 77.5 percent[37] of the total asset renewal budget averaging $6.2 million per annum over the next 10 years. The renewal budget incorporates a portion of deferred renewal expenditure; however, the Council estimates that there will be a 12.5 percent funding shortfall for transport assets,[38] which will not be covered over the 10-year projections in the 2023-24 LTFP as it is not included in the projected funding. The Council intends to continue addressing deferred asset renewals as funding is available.[39] The intentional exclusion of funding to cover all deferred asset renewals presents a risk of asset failure or service level provision that is lower than expected.

From 2023-24 to 2032-33, the asset renewal funding ratio is forecast to average 112.6 percent (see chart overleaf top right), reflecting continuation of the historical trend that has been focused on renewing deferred asset renewals. Average annual spending on renewal or rehabilitation of assets is projected to increase to $8 million (in nominal terms).

The Council has significantly grown its asset base over the past 10 years, averaging $9.2 million per annum on new or upgraded assets between 2012-13 and 2021-22 (see the right chart overleaf). This has led to a steady increase in the value of the asset stock per property of $550 or 2.5 percent for each year over the 10 years to 2020-21 (see the bottom left chart overleaf).

The Council has forecast a continuation of its high levels of spending on renewals of asset stock as described above, in addition to expenditure on new/upgraded assets partly in transport asset projects

31 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).

32 2022-23 Unaudited figures as reported in the LTFP template.

33 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'.

34 Correspondence with Council dated 11 December 2023, and Council Responses to ESCOSA Questions (p. 4).

35 Correspondence with Council dated 11 December 2023 and Council Responses to ESCOSA Questions (p. 1).

36 Council Responses to ESCOSA Questions and Meeting between Council and ESCOSA on 12 December 2023.

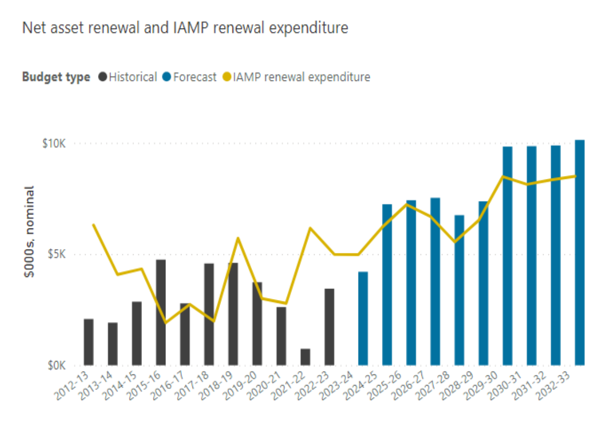
37 Technical Asset Management Plan Summary Bridges, Floodways, Footpaths, Stormwater, Transport (Roads) 2020-2030, p. 4 and LTFP renewal projections.

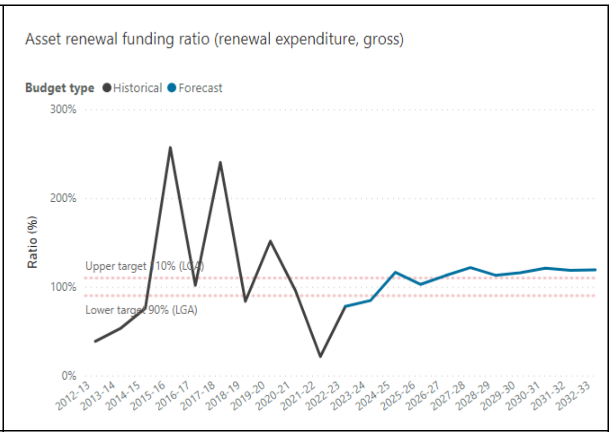
38 Note 37 applies.

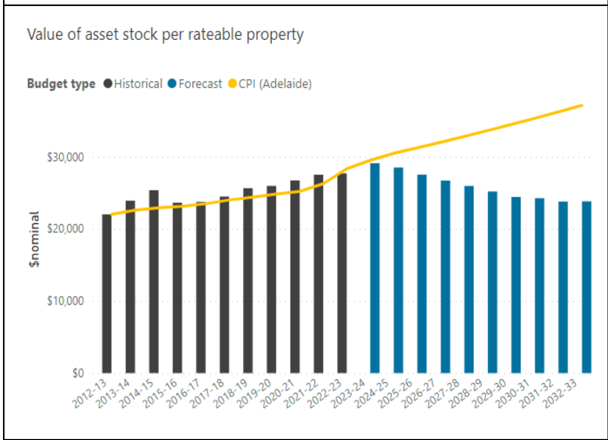
39 Correspondence with Council dated 11 December 2023, and Council Responses to ESCOSA Questions (p. 5).

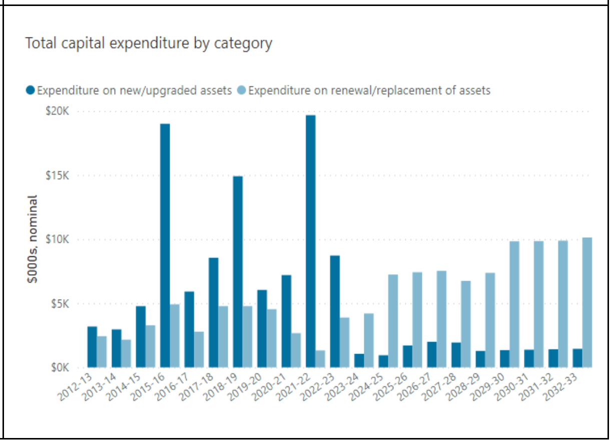
and township expansion. The Council further forecasts that expenditure on new and upgraded assets will average $1.5 million per annum from 2023-24 to 2032-33 with growth averaging 3.5 percent per annum (a modest level in comparison to historical expenditure – see chart below right), noting that grants supporting additional expenditure may be excluded as discussed above.

As discussed in a meeting with the Council, the Commission notes the financial impact of the Council's major water projects, significant transport related projects and strong development pipeline causing material differences to the historical expenditure and forecasts.[40] The forecast asset value per property is expected to decline from $28,419 in 2022-23 to $23,820 in 2032-33 (see bottom left chart below) noting that this may be a characteristic applicable to any fast-growing council where rateable property growth is high.









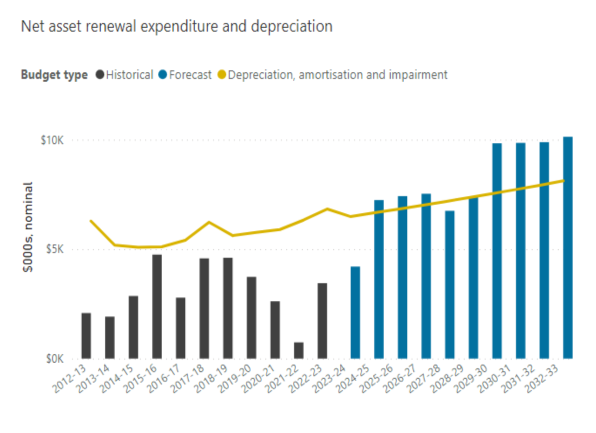
Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,[41] which is projected to track in line within the LGA recommended range (for the IAMP-based ratio) of 90-110 percent, averaging 103.7 percent per annum to 2031-32 (see chart overleaf below right). Historically (between 2012-13 to 2021-22) depreciation expenses have outpaced renewal capital expenditure by a significant margin (totalling $23.8 million over ten years). This earlier period may indicate an intergenerational equity[42] risk, as the Council had partly funded new/upgrade capital expenditure (through depreciation), while deferring or under investing on its asset renewal needs. There may also be a mismatch between the assessed useful lives of assets and actual useful lives of assets as indicated by renewals required.

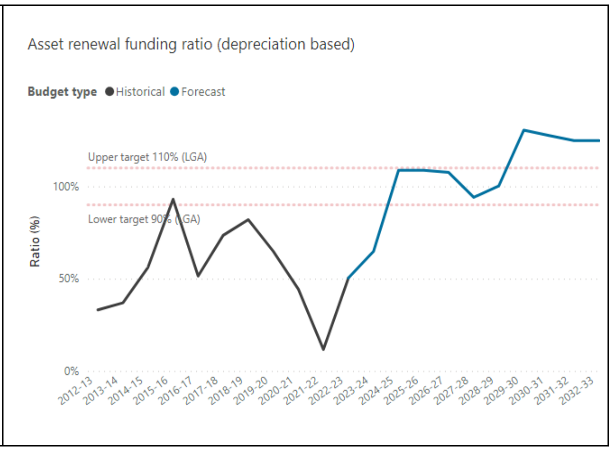
40 Correspondence with Council dated 31 August 2023 (p. 3); Correspondence with Council dated 11 December 2023; and Council Responses to ESCOSA Questions (p. 1).

41 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.

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

Council has also noted that significant increases in construction costs in later years (2020-2022) has led to reduced construction outcomes, as costs were contained within the capital works program aligned to LTFP targets.[43] Limiting expenditure to budget when costs have risen gives rise to additional deferred asset renewals which, when combined with known shortfalls in funding allocation (refer discussion above), creates a risk of asset failure.





The Council has a comprehensive AMP 2020-2030 in addition to detailed technical AMPs for transport assets, buildings and open spaces, and CWMS assets. These cover most of the Council's asset base and reflect asset valuations that have been carried out within the last four years. In formulating its AMPs, the Council has considered several matters such as customer levels of service, utilisation and demand of 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 2030. The Council has also detailed how its asset renewal funding forecasts (in its 2023-24 LTFP) aligns with its AMP renewal targets. The Commission notes the Council's process of annual review of asset register data and rolling 4-year reviews of specific asset classes.[44] The Commission's review of the AMPs has found that the Council's strategic planning processes aligns with good practice for a council of its size and complexity.

The Council advises that the current asset class under review is transport assets and potential expenditure from this review is not yet included in the LTFP.[45] Given that transport assets form a major part of the Council's asset base, there is a risk that significant additional expenditure may be required for depreciation and operational or capital expenditures.

The Council's planned renewal expenditure is mainly attributed to transport assets, covering bridges, floodways, footpaths, stormwater and transport, and accounts for approximately 81 percent of total renewals from 2023-2030.[46] Aside from transport works, the Council has planned renewals for buildings and open spaces, and CWMS assets (together approximately 19 percent of total renewals). The Council has a strong focus on, and successful track record in attracting, funding to undertake renewal and new capital projects.[47]

As previously noted, the Council has identified some deferral of completion of construction outcomes due to budgetary constraints which has led to a 'renewal funding gap', across all asset classes in its AMPs. This gap is estimated to be $6 million in 2023-24 and potentially extending to $16 million in 2032-33; however, the Council anticipates a lower inflation and lower interest rates environment in coming years which may mitigate the size of the gap. In addition, the Council is reviewing its long-term

43 Correspondence with Council dated 31 August 2023, p. 1.
44 Council's Responses to ESCOSA Questions (p. 1) and meeting between the Council and ESCOSA on 12 December 2023.
45 Correspondence with Council dated 31 August 2023, p. 6.
46 Data from Technical Asset Management Plan Summaries -Budget Summary by Lifecycle Activity
47 Correspondence with Council dated 11 December 2023; Council's Responses to ESCOSA Questions (p. 1); and meeting between the Council and ESCOSA on 12 December 2023.

funding/borrowing strategy with a focus on inter-generational impacts.[48] The Commission notes that a deferred asset renewal gap under the current funding regime will remain unless the Council assigns more funding to renewal capital expenditure. For these reasons, the Commission considers that it would be appropriate for the Council to:

5. Increase funding to address deferred asset renewals and review adequacy of renewal spending by 2028.
6. Forecast and include the impact of new assets into long-term financial plan to provide transparency for existing and future ratepayers.

'The Council indicated to the Commission that it is proposing several amendments to its AMPs, as follows:[49]

- Comprehensive review of all transport infrastructure including asset condition assessments.
- Revaluation of transport assets.
- Review and update of AMP with potential changes in priorities.

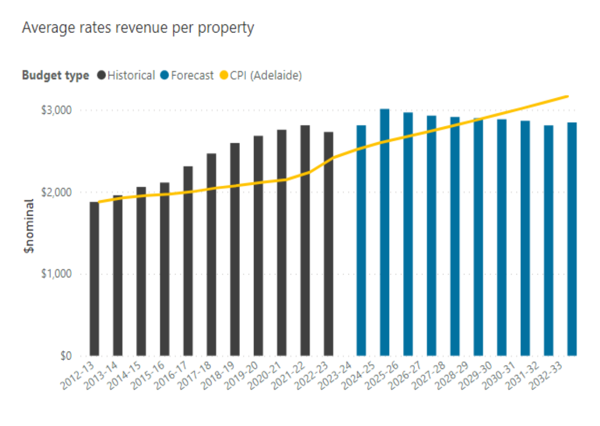
48 Note 43 applies.
49 Correspondence with Council dated 31 August 2023 (p. 6) and in meeting with Council on 12 December 2023.

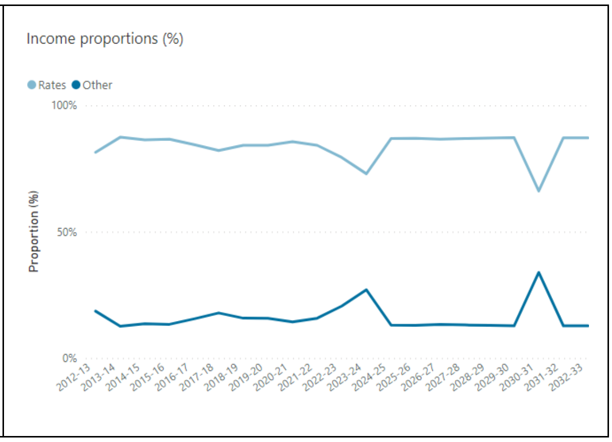
D Current and projected rate levels

D.1 Historical rates growth

The Council's rate revenue per property growth has averaged 4.6 percent or $93 per annum for each property over the past 10 years,[50] to reach an estimated $2,811 per property in 2021-22 (see the left chart below). This has exceeded CPI growth (2.0 percent per annum over this period[51]), 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), higher employee-related costs, and the Council's focus to improve its operating surplus.

The Council remains mostly reliant on its rate base for its operating sustainability although income from capital projects has supported the Council to minimise future rates rises and absorb some expenditure increases.[52] As the chart below indicates (to the right), rates revenue has been maintained at a steady proportion of income, forecast to account for 83.5 percent of budgeted operating income on average between 2023-24 and 2032-33, compared with 81.4 percent of income in 2012-13. The Commission notes the Council has set its rates after undertaking its own benchmarking reflecting its services and ratepayer's service level expectations.[53]





D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 3 percent or $81 per property for its existing ratepayers in 2023-24.[54] The rates increases are contained despite recent higher short-term inflation, and this was enabled by a significant reduction in finance costs following the realisation of benefits from the Bunyip 1 water project.[55] The Council also has a strategy to provide rates relief for ratepayers that experience property valuation increases of more than 10 percent,[56] noting that rateable property valuations increased 13.62 percent from July 2022 until April 2023 when rates were set.[57] The Council has also assumed growth in the area will be strong, with growth in rateable properties increasing at 3.2

50 From 2012-13 to 2021-22.
51 CPI Adelaide (All groups). Available at: https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023#capital-cities-comparison
52 Light Regional Council 2023/2024 Annual Business Plan, Budget and Long-term Financial Plan, p. 10.
53 Correspondence with Council dated 31 August 2023, p. 7.
54 Based on the Council's 2023-24 Annual Business Plan and its Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $23.239 million (in 2023-24 budgeted rates revenue) compared to unaudited 2023-23 estimates. Individual rate level changes may be higher or lower depending on the rates category and property value.
55 Correspondence with Council dated 31 August 2023, p. 3.
56 Note 45 applies.
57 Light Regional Council 2023/2024 Annual Business Plan, Budget and Long-term Financial Plan, p. 8.

percent over the forecast period. Significant regional population growth is anticipated in the area surrounding Roseworthy over the next decade.[58]

Different rate categories are subject to varying changes, with residential ratepayers to pay a lower increase of 2.7 percent or $48 per property on 2022-23 levels. Primary production (mostly farmland) ratepayers are budgeted to pay 2.8 percent or $74 per property.[59]

Other than 'general rates' revenue, the Council collects income from waste collection, the CWMS charge, and the Regional Landscape Levy.

D.3 Projected further rate increases

Over the forward years of its LTFP, the Council is projecting average rates increases per property for its existing ratepayers of approximately 0.6 percent per annum from 2022-23 to 2032-33 primarily due to the forecast growth in rateable properties.

In total, the LTFP effectively projects a modest cumulative increase of $171.35 per existing ratepayer by 2032-33,[60] which is consistent with the Council's assumption of growth in rateable properties, lower inflation and interest rate growth over this period but is also below the RBA-based inflation forecast of an average of 2.6 percent per annum.[61]

As a result of the modest rates increases, the percentage of the Council's total income contributions from ratepayers is projected to average around 83.5 percent, a consistent percentage compared with the historical average.

Risks for ratepayers may arise if:

- the anticipated growth does not eventuate,
- inflation exceeds the Council's estimates,
- additional operational expenditure is required due to a revised transport AMP, or
- unanticipated remedial expenditure is required due to deferred asset renewal backlogs.

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,[62]
- the current rates without further forecast increases above inflation for ratepayers,

58 Light Regional Council 2023/2024 Annual Business Plan, Budget and Long-term Financial Plan, p. 5.
59 Rate in the dollar applied to the capital value of the property in the Council area. Light Regional Council, 2023/2024 Annual Business Plan, Budget and Long-term Financial Plan, p. 49.
60 The Commission has calculated growth based on removing the effect of the Bunyip water projects income on rates revenue following discussion with the Council on 31 January 2024.
61 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 2026 (and the Commission's calculations of average annual percentage growth) and within the RBA's target range (2 - 3 percent) from 2025-26.
62 The Light Regional Council area is ranked 70 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2021), where a lower score (eg, 1) denotes relatively lower access to economic resources in general, compared with other areas, available at https://www.abs.gov.au/ausstats/subscriber.nsf/log?openagent&2033055001%20-%20lga%20indexes.xls&2033.0.55.001&Data%20Cubes&5604C75C214CD3D0CA25825D000F91AE&0&2016&27.03.2018&Latest.

- the effect of cumulative increases in rates per existing ratepayer of approximately 2.0 percent per annum to the period 2031-32, below the forecast rate of inflation, and
- the overall financial sustainability risks of the Council and its LTFP trend towards ongoing operating surpluses.

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:

7.	Consider limiting future increases in rates to no more than expected inflation.

The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444
E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au