Advice

Local Government Advice

Town of Walkerville

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

Town of Walkerville

AT A GLANCE

OVERVIEW

The Essential Services Commission finds the Town of Walkerville's current and projected financial performance **sustainable** taking into account the council's above inflation expense growth increase over the next 10 years and the planned average rate increases of 3.6% p.a. per property over this period

RISKS IMPACTING SUSTAINABILITY

- Assets are not renewed at a rate adequate to maintain the level of services
- If assets are not renewed appropriately the Council risks incurring high repair and maintenance costs in the future
- Significant expenditure on new and upgraded assets rather than renewal of existing assets

CONTINUE

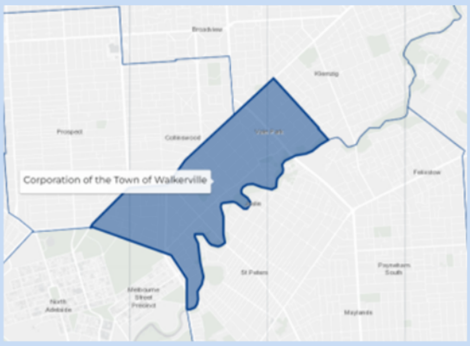
- Providing transparency and reviewing the inflation rates and relevant assumptions in the long-term financial plan and annual budget
- Monitoring growth in costs
- Regularly reviewing asset valuations and depreciation schedules
- Holding community consultations and surveys to identify community priorities

COMMISSION'S RECOMMENDATIONS

- Consider reporting actual and projected cost savings in the annual budget and long-term financial plan
- Provide more funding for the renewal of assets rather than prioritising projects that involve new and upgraded assets to utilise cash reserves
- Consider limiting future increases in rates to no more than the expected rate of inflation to help reduce an emerging affordability risk in the community

KEY FACTS

- Population in 2021 was **8,023**
- Council covers **3.57 square kilometres**
- **4,104** rateable properties in 2022-23
- **$9.7 million of rate income** in 2022-23
- Value of assets held in 2022-23 equals **$149 million**



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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	Town of Walkerville
CWMS	Community Wastewater Management System
ESC Act	*Essential Services Commission Act 2002*
F&A	Local Government Advice: Framework and Approach – Final Report
FTE	Full Time Equivalent
IAMP	Infrastructure and asset management plan (also called an AMP)
LG Act	*Local Government Act 1999*
LGA SA Financial Indicators Paper	Local Government Association of South Australia, Financial Sustainability Information Paper 9 - Financial Indicators Revised May 2019
LGGC	Local Government Grants Commission
LGPI	Local Government Price Index
LTFP	Long-term financial plan
Regulations	*Local Government (Financial Management) Regulations 2011*
RBA	Reserve Bank of Australia
SACES	The South Australian Centre for Economic Studies
SEIFA	Socio-Economic Indexes for Areas
SMP	Strategic management plan
SG	Superannuation Guarantee
The scheme or advice	Local Government Advice Scheme

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

1 The Commission's key advice findings for the Town of Walkerville

The Essential Services Commission (**Commission**) consider that the Town of Walkerville (**Council**) to be in a **sustainable** financial position with projected operating surpluses, but it is reliant on further growth in rate revenue and its ability to control expense growth as it continues to fund major expenditure on new/upgraded assets and refocuses on the renewal and replacement of assets.

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**

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, plans its asset needs appropriately, renews its asset base to meet sustainable service levels and constrains the extent of further rate increases:

Budgeting considerations

1. **Continue** to provide transparency in its long-term financial plan and annual budget by clearly identifying the annual inflation and other relevant assumptions as inputs to its projected revenue (including rates) and expenditure as well as providing the past and forecast performance of the three financial ratios.

2. **Continue** to follow the good practice of reviewing its inflation forecast in the budget and the long-term financial plan each year, given the potential for changes in inflationary expectations over the forecast period.

Continuing to provide evidence of ongoing cost efficiencies

3. **Continue** to monitor the growth in costs, including those related to capital projects.
4. **Consider** adopting the good practice of reporting actual and projected cost savings in the annual budget and long-term financial plan to provide evidence of constraining the growth in costs and achieving efficiencies across its operations and service delivery.

Refinements to asset management planning

5. **Continue** to review asset valuations and depreciation schedules regularly to ensure they reflect current asset values and asset life, incorporate this information into the AMP for each asset group and include this data in the annual budget and long-term financial plan.
6. **Provide** more funding for the renewal of assets rather than prioritising projects that involve new and upgraded assets to utilise cash reserves.
7. **Continue** to hold community consultations and conduct surveys to identify community priorities for new capital projects and renewal and redevelopment projects as part of the planning process for the budget and long-term financial plan.

Containing rate levels

8. **Consider** limiting future increases in rates to no more than the expected rate of inflation to help reduce an emerging affordability risk in the community, based on the Council's strong financial position.

2 About the advice

The Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, has been given a role by the State Parliament to provide advice on material changes proposed by local councils in relation to elements of their strategic management plans (**SMPs**) and on the proposed revenue sources, including rates, which underpin those plans.[1]

One of the main purposes of the Local Government Advice Scheme (**advice** or **the scheme**) is to support councils to make 'financially sustainable' decisions relating to their annual business plans and budgets in the context of their long-term financial plans (**LTFPs**) and infrastructure and asset management plans (**IAMPs**)[2] – both required as part of a council's SMP.[3] Financial sustainability is considered to encompass intergenerational equity,[4] as well as program (service level) and rates stability in this context.[5] The other main purpose is for the Commission to consider ratepayer contributions in the context of revenue sources, outlined in the LTFP.[6] In addition, the Commission has discretion to provide advice on any other aspect of a council's LTFP or IAMP it considers appropriate, having regard to the circumstances of that council.[7]

The first cycle of the scheme extends over four years from 2022-23 to 2025-26, and the Commission has selected 17 councils for advice in the second scheme year (2023-24), including the 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 Commission staff 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 current financial position sustainable. It notes that the Council has consistently run an operating surplus since 2014-15, indicating that the operating income it collects usually exceeds its operating expenses.

Over the same period, the Council has increased its level of rates consistently above inflation. Although its residential rates are the second highest in the state, the socio-economic ranking for the community is also high, which suggests that there may be greater capacity in the Council area than in other communities to pay higher rates, but not when rates continue to increase above inflation for an extended period.[10]

1 Amendments to the LG Act (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).
2 Commonly referred to as asset management plans.
3 The objectives of the advice with reference to a council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMPs.
4 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.
5 Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.
6 LG Act s122(1f)(a) and (1g)(a)(ii).
7 LG Act s122(1f)(b) and (1g)(b).
8 LG Act s122(1h).
9 The Commission must publish its advice under LG Act s122(1i)(a).
10 The Council area is ranked 63 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

Asset renewal expenditure has been volatile over the 10-year period from 2012-13, marked by a decline since the high levels in 2012-13 and 2013-14, which could have impacted community service levels by the end of the historic period.

Its forward projections from 2023-24 (in its LTFP) forecast a moderate financial sustainability outlook with operating income increasing more than expenses with:

- continued average rate increases above the Reserve Bank of Australia (RBA)-based forecast inflation rate (and aligned with the Council's forecast inflation),
- continued cost control in employee expenses, along with a review of the costs of capital projects, to control the growth in expenses to under the rate of forecast inflation for the period 2025-26 through 2032-33,
- lower spending on new or upgraded capital works for new capital projects relative to spending on renewal and rehabilitation capital works after 2025-26, and
- plans to assess community needs to identify new capital works projects to increase expenditure on capital projects from 2025-26 onwards.[11]

The Commission considers that the Council is demonstrating good practice regarding the formulation of its financial projections in its LTFP, but limited transparency around its assumptions and directions, including the ratepayer impact due to it not producing a LTFP in the required format until the current 2024-33 LTFP cycle.

2.2 Detailed advice findings

The next sections summarise the Commission's more detailed observations and advice findings regarding the Council's material changes to its 2023-24 plans (compared with the previous year's plans), its financial sustainability (in the context of its long-term operating performance, net financial liabilities, and asset renewals expenditure) and its current and projected rate levels.

In providing this advice, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (F&A). The attachment explores these matters further.[12]

2.2.1 Advice on material plan amendments in 2023-24

Key Points:

- ✓ Budgeted for an improvement in operating performance in the 2023-24 LTFP, with an increase in income of $8.85 million or 7.5 percent and an increase in expenses of $7.0 million or 5.9 percent).

The Commission has compared the Council's projections in its 2023-24 LTFP with data contained in its previous year's spreadsheet[13] for the period 2022-23 through 2031-32 and focused on the aggregate of

lower access to economic resources in general, compared with other areas, available at Socio-Economic Indexes for Areas (SEIFA), Australia, 2021 | Australian Bureau of Statistics (abs.gov.au).

11 The Council advised the Commission that it has held consultations and drafted a revised LTFP to be approved in early 2024, which will include expenditure on new capital projects in the latter years of the 10-year forecast period. The new data is not included in this advice.

12 The attachment will be available on the Commission's website with the Advice.

13 The Council provided the Commission with draft LTFP data in a spreadsheet for 2022-23 through 2031-32 but did not produce a LTFP in the required format prior to the current LTFP.

the nine overlapping years' statistics 2023-24 to 2031-22 to ensure a comparable analysis of material amendments.

The Council has budgeted for an improvement in operating performance in the 2023-24 LTFP, with an increase in income of $8.85 million or 7.5 percent and an increase in expenses of $7.0 million or 5.9 percent. In aggregate, the projections show an improvement of $1.85 million in the Council's cumulative performance (that is, over the 9-year comparative period to 2031-32[14]).

The material changes are attributable to an alignment of rates income to the recent rates of inflation and RBA projections for inflation,[15] increased investment income due to higher interest rates, the increased cost of planned capital projects, and changes to the Council subsidiary projections, with smaller adjustments for other income. This reflects the Council's efforts to maintain an operating surplus while providing for future and currently unplanned capital improvements.

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. 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. Continue to provide transparency in its long-term financial plan and annual budget by clearly identifying the annual inflation and other relevant assumptions as inputs to its projected revenue (including rates) and expenditure as well as providing the past and forecast performance of the three financial ratios.

The Council adopted its 2023-24 Annual Business Plan and Budget on 17 July 2023, and its LTFP 2023-32 on 16 October 2023.[16]

The Commission observes that the Council noted risks to its estimates arising from the impact of inflation upon expenditure, the cost of living and the burden of rates upon ratepayers[17] and that the annual business plan also includes its 2023-24 estimates to show further budget amendments to those estimates. In addition, there are no current regulatory requirements for it to publish its LTFP projections with its annual business plan and budget.

The Council stated that capital projections included in the LTFP are conservative and based on the major projects approved by the Council, as well as the capital spend required for the current AMP,[18] but stated: 'With minimal debt from 2026-27 onwards, Council will be in a position to act on strategic capital initiatives, as and when these opportunities arise, in line with Council's strategic plans and the needs of the community'.[19]

The Council coordinates its long-term projections[20] with its annual budget process and publishes the Annual Business Plan on its website. The Council has not, however, produced a LTFP in the required format prior to the current 2024-33 LTFP and this cannot be located on the website, which provides limited transparency to the community[21] concerning its financial position and plans for service delivery.

The Commission considers it would appropriate for the Council to:

[14] The overlapping forecast period for LTFP data (2022-23 to 2031-32 and 2023-24 to 2032-33).
[15] RBA, Forecast Table - August 2023, available at https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html.
[16] The Council advised the Commission that is has prepared a draft updated LTFP which it expects to be approved in early 2024.
[17] Town of Walkerville Long Term Financial Plan 2024-2033 pp. 9 & 10.
[18] Town of Walkerville Long Term Financial Plan 2024-2033 p. 10.
[19] Ibid.
[20] That is, the financial spreadsheets.
[21] The LTFP 2020-2029 and LTFP 2016-17 are available on https://www.walkerville.sa.gov.au/council/strategic-plans/long-term-financial-plan but the current LTFP 2024-33 has not been made available.

2. Continue to follow the good practice of reviewing its inflation forecast in the budget and the long-term financial plan each year, given the potential for changes in inflationary expectations over the forecast period.

The Council advised the Commission of material changes to the Council's adopted capital expenditure budget for 2021-22, which had occurred outside of its annual budget process, which arose due to the deferral of works or capital budget timing changes across multiple financial years. The Commission would encourage the Council to monitor these matters and, where possible, ensure that the community is consulted on material budget adjustments.

2.2.2 Advice on financial sustainability

Operating performance

Key Points:

- Operating surpluses consistently observed between 2014-15 to 2021-22, with the operating surplus ratio averaging 3.3 percent in that time.
- Total expenses between 2012-13 and 2021-22 increased by an average of 2.9 per annum which is 0.9 percent above CPI during that time.
- The operating surplus ratio is forecast to meet the suggested LGA target range from 2023-24 to 2032-33 averaging 2.0 percent per annum.
- Average operating expenses per rateable property between 2023-24 and 2032-33 are forecast to increase on average by 3.5 percent per annum, which is 0.9 percent more than the long-term RBA-based forecast inflation over the same period.

The Council ran operating surpluses from 2014-15 through 2021-22, with an operating surplus ratio[22] of 3.3 percent over the 10-year historic period 2012-13 to 2021-22, which sits within the LGA target range of 0 -10 percent.

Operating income grew by an annual average of 6 percent over the historical period, well above average inflation of 2.0 percent, while rates, which constituted over 80 percent of Council income, increased by an annual average of 4.8 percent. Income from grants, subsidies and contributions were 5.3 percent of income over the period due to substantial increases in 2016-17 and 2021-22.

Over the historic period, total expenses increased by an average of 2.9 percent per annum, also above the average inflation rate, led by an annual average increase in employee costs of 3.3 percent per annum and materials, contracts and other expenses of 2.6 percent.

Although both income and expenses increased by more than inflation over the historic period, the rate of increase in income was higher than expenses, which ensured the operating ratio was positive over the last 8 years of the historic period.

Over the 10-year forecast period through 2032-33, the ratio is less volatile, with an average value of 2.0 percent, indicating that the Council expects to continue to operate sustainably over the forecast period.

Income is forecast to increase by an average of 3.2 percent per annum, which sits above the forecast annual inflation of 2.6 percent. As was the case during the historic period, income from rates is the major source of income (at 85.3 percent of total income) and is forecast to increase at an annual

[22] 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).

average of 3.8 percent, which is substantially above the forecast inflation of 2.6 percent. Over the forecast period, income from grants, subsidies and income slows to increase by only 0.7 percent per annum as the current capital projects are completed during 2023-24 and 2024-25.[23]

During the forecast period, total expenses are forecast to increase at an annual rate of 3.5 percent, which also sits above the forecast annual inflation of 2.6 percent for the period. This is due in part to 'materials, contracts and other' expenses, which continue to be the largest category of expenses,[24] increasing at a rate of 3.1 percent per annum. Employee costs (33.5 percent of expenses) are forecast to increase by an average of 4.2 percent per annum, also above inflation, while depreciation (at 22.2 percent of total expenses) also increase faster than inflation at an average 4.1 percent.

The operating surplus is forecast to decrease to an average of 2.0 percent over the forecast period (but remain within the target range of 0 to 10 percent) as the rate of increase in expenses exceeds the rate of growth in income.

To ensure that the Council is positioned to achieve cost savings and deliver value for money to its ratepayers, and to potentially contain rate increases to under the rate of inflation, the Commission encourages it to:

3. **Continue** to monitor the growth in costs, including those related to major capital projects.
4. **Consider** adopting the good practice of reporting actual and projected cost savings in the annual budget and long-term financial plan to provide evidence of constraining the growth in costs and achieving efficiencies across its operations and service delivery.

Net financial liabilities

Key Points:

- ✅ The net financial liabilities ratio sat within the LGA target range of 0 to 100 percent throughout the historical period. and through 2028-29, after which the Council expects it to decline and remain below the 0 percent lower target.
- ⚠ The net financial liabilities ratio in the forecast period is becoming increasingly negative and outside the target range, with cash and cash equivalents rising to exceed $10 million by 2032-33 and borrowings reaching their lowest levels since 2012-13. This may present a risk of rates per property rising at levels higher than forecast CPI.

The net financial liabilities ratio is indicative of the Council's capacity to meet its financial obligations and had values that on average[25] sat within the LGA target range of 0 to 100 percent throughout the historical period 2012-13 through 2021-22.[26]

This pattern changes in the forecast period of the LTFP, with the net financial liabilities becoming increasingly negative and outside the target range, with cash and cash equivalents rising to exceed $10 million by 2032-33 and borrowings reaching their lowest levels since 2012-13.

[23] Income from grants, subsidies and contributions is forecast to increase by only 0.67 percent per annum over the 10-year forecast period, following the substantial grants received in 2021-22 and 2022-23 related to the 39 Smith Street and the Walkerville Oval Developments.
[24] At 41.6 percent of total expenses.
[25] With the exception of 2013-14, when the ratio was 101.8 percent.
[26] With a small peak of 101.8 percent in 2014-15.

This reflects the Council's intended strategic approach to funding projects via grants and borrowing over the medium term of the LTFP period, and its subsequent intention to pay off these loans and hold a significant cash reserve to fund unspecified capital projects nearer the end of the LTFP forecast period. This may explain why the Council's rates per property are forecast to rise at a significantly higher rate than the forecast CPI.

The Commission considers there is benefit in the Council reviewing this approach and whether it is reasonable to increase rates while building cash reserves over the forecast period when no need has been specified, and there are other approaches for funding projects that arise in the future. Opting for a different strategy provides for the possibility that the Council's intentions regarding rates growth can be reduced, which is of benefit to ratepayers. It also reduces the incentives for the Council to identify projects to undertake that it may challenge more thoroughly, if it did not have access, or expected access, to a considerable cash reserve.

Asset renewals expenditure

Key Points:

- Between 2012-13 and 2021-22, the Council averaged 64.7 percent on its asset renewal funding ratio (under the 'IAMP-based' approach), implying an underspend on the renewal and rehabilitation needs of its existing asset stock over this period. Over this period, the spending on renewal and rehabilitation of assets averaged $2.9 million each year.

- From 2023-24 to 2032-33, the asset renewal ratio is forecast to rise to an average of 110 percent resulting in a significant 'catchup' of expenditure in 2025-26 and 2026-27.

- It may be difficult to address the issue of a low asset renewal funding ratio when the focus is on significant expenditure on new/upgraded assets. This will require the Council to refocus its priorities and address the ongoing issue of low asset renewal expenditure relative to depreciation throughout both the historical and forecast periods.

- Utilising the asset renewal funding ratio (depreciation based) method, the average ratio for the last five years of the historic period (from 2017-18 through 2021-22) was only 57.7 percent, which indicates that the Council might have spent too little on maintaining its assets over the historic period.

The Council is not renewing and replacing assets at the rate required to maintain the level of services. Throughout the 10-year historic period, the asset renewal ratio – renewal expenditure based (net) had an average value of 82.4 percent and sat within the LGA target range of 90 - 100 percent for only one year (i.e. 97.4 percent in 2018-19).

Going forward, the asset renewal funding ratio measured on this basis returns to an average annual level of 110 percent, within the target range, during the forecast period 2023-24 through 2032-33, with a significant 'catchup' of expenditure in 2025-26 and 2026-27.

Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio,[27] which has declined from levels well above the LGA upper target of 100 percent at the start of the historic period to well below the LGA target of 90 percent for the remaining eight years. The average asset renewal funding ratio for the last five years of the period (from 2017-18 through 2021-22) was only 57.7 percent, which indicates that the Council might have spent too little on maintaining its assets over the historic period.

[27] The asset renewal funding ratio by the depreciation-based method (where asset renewal/replacement expenditure is divided by the 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.

The average value of the asset renewal funding ratio (depreciation based) over the forecast period 2023-24 to 2032-33 is only 57.1 percent, also below the lower target, and the ratio values for all years over the period lie below the lower target. Coupled with the low historic levels, this highlights a risk for the Council that their assets are not being renewed at a rate adequate to maintain the level of services and that the Council risks incurring high repairs and maintenance expenses to maintain their existing assets.[28]

It will be difficult for the Council to address the issue of a low asset renewal funding ratio while the Council is focusing on undertaking significant expenditure on new/upgraded assets. This will require the Council to refocus its priorities and address the ongoing issue of low asset renewal expenditure relative to depreciation throughout both the historical and forecast periods.

To align the average rate of consumption of its assets, as indicated by its depreciation expenses, and the annual spending on the renewal of its assets base over time, the Commission considers that it would be appropriate for the Council to:

5. Continue to review asset valuations and depreciation schedules regularly to ensure they reflect current asset values and asset life, incorporate this information into the AMP for each asset group and include this data in the annual budget and long-term financial plan.

6. Provide more funding for the renewal of assets rather than prioritising projects that involve new and upgraded assets to utilise cash reserves.

7. Continue to hold community consultations and conduct surveys to identify community priorities for new capital projects and renewal and redevelopment projects as part of the planning process for the budget and long-term financial plan.

2.2.3 Advice on current and projected rate levels

Key Points:

⚠ Rate revenue per property growth has averaged 3.2 percent per annum for each property in the period between 2012-13 and 2021-22, which is 1.2 percent above CPI for the same period.

⚠ Forecast rate revenue growth increase of 3.6 percent per annum per property from 2023-24 to 2032-33, which is 1.0 percent above the RBA-based forecast of inflation over the same period.

⚠ Affordability risk among the community for these further increases appear to be moderate, for the following reasons:

- The Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Walkerville Council area.
- The current relatively high average rates (across most ratepayers), which are the second-highest rates in South Australia.
- The effect of cumulative increases in rates per existing ratepayer of approximately 3.6 percent per annum to the period 2032-33, which will increase the gap between the actual rates per property and CPI-adjusted rates.

The Council's rate revenue per property has grown by an average of 3.2 percent or $62 per annum for each rateable property over the 10 years of the historical period,[29] to reach an average value of

[28] In recent communications with the Commission, the Council advised that: 'recent spikes in construction costs since the last revaluation… has (sic) impacted the most recent revaluations and has increased depreciation through an increase in Current Replacement Cost… the condition of our asset stock is good with an average condition rating of 2.5 or higher. Current useful life benchmarks for some asset classes are on the conservative side and hence impacted annual depreciation.

[29] From 2012-13 through 2022-23.

$2310.10 in 2021-22. This translates to an annual average increase in rates revenue per property that is above the average inflation rate of 2.0 percent for the period.

The Commission notes that the Council has relatively high average rates for residential properties when compared to similar councils and the statewide average, but lower non-residential rates than the similar council average and the statewide average for the five year period through to 2019–2020.[30] Data sourced from the Local Government Grants Commission for the 2021-22 year shows that Council has the second-highest average residential rates in South Australia.[31]

Over the years of the LTFP 2023-24 through 2032-33, the Council is projecting average rates increases of 3.6 percent per annum, which is a full percentage point above the RBA projected average of 2.6 percent for the period. [32] The result is that the average rates per property at the end of the forecast period are $449.43 or nearly 26 percent higher than they would have been if they had increased only by the rate of inflation over the historic and forecast periods.

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

- the Council's relative average socio-economic indexes for areas (SEIFA) economic resources ranking for the Walkerville Council area,[33]
- the current relatively high average rates (across most ratepayers), which are the second-highest rates in South Australia, with further forecast increases above inflation, which will ensure rates remain among the highest in the state, and
- the effect of cumulative increases in rates per existing ratepayer of approximately 3.6 percent per annum to the period 2032-33, above the forecast rate of inflation, which will increase the gap between the actual rates per property and CPI-adjusted rates.

Given historical rate increases and the current economic conditions affecting many communities' capacity to pay, it would be appropriate for the Council to:

8. Consider limiting future increases in rates to no more than the expected rate of inflation to help reduce an emerging affordability risk in the community, based on the Council's strong financial position.

2.3 The Commission's next advice and focus areas

In the next cycle of the scheme, the Commission will review and report upon the Council's:

- ongoing performance against its LTFP estimates,
- achievement of cost savings and efficiencies and its continued reporting of these in its plans,
- reassessment of its capital spending for assets renewal and rehabilitation works and how it has addressed the associated risks, and
- measures to address any emerging affordability risks.

30 Refer to Council in Focus rates data for 2020 available at https://councilsinfocus.sa.gov.au/councils/corporation_of_the_town_of_walkerville

31 Data provided to the Commission by the SA Local Government Grants Commission for the 2021-22 financial year.

32 Ibid.

33 The Walkerville Council area is ranked 63 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 Socio-Economic Indexes for Areas (SEIFA), Australia, 2021 | Australian Bureau of Statistics (abs.gov.au)

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