Advice

Local Government Advice - Attachment

Town of Walkerville

February 2024

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A The Commission's approach

In providing the Advice for the Town of Walkerville (**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]

- Town of Walkerville Annual Business Plan 2023/24
- Town of Walkerville Annual Business Plan 2023/24 Summary
- Walkerville Long Term Financial Plan 2024-2033 - Draft
- Walkerville Long Term Financial Plan Model FY 2023
- Annual Business Plan 2022/23 – Town of Walkerville
- Asset Management Plan 2020-2030 – Town of Walkerville
- Asset Management Plan 2020-2030 – Town of Walkerville revised
- Town of Walkerville Audit Committee Agenda Thursday 2 June 2022 Redacted
- Town of Walkerville Audit Committee Agenda 2 June 2022 Redacted
- Town of Walkerville Council Meeting Public Agenda 20 July 2020
- Town of Walkerville Minutes of Council Meeting Monday 20 July 2020
- Town of Walkerville 2023-2033 Roads Asset Management Plan
- Town of Walkerville 2023-2033 Footpaths Asset Management Plan
- Town of Walkerville 2023-2033 Stormwater Asset Management Plan

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.[4]

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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 The Council advised the Commission that Transport, Footpaths, Historical Collections and Stormwater assets underwent a condition-base audit as at 30 June 2023. All other assets underwent a desktop indexation evaluation (except for Land). Revaluations were undertaken by Council's asset consultant, Brightly Asset. Assets are independently condition audited every 4 years against accepted industry standards such as IPWEA Practice Notes and Engineering Standards. Administration has access to all IPWEA documentation and training to ensure assets are being are being managed to acceptable standards, and Elected Members have undertaken IPWEA Asset Management Training released in September 2023.

Given that the Commission must, in providing advice, have regard to the objective of councils maintaining and implementing their infrastructure and asset management plans (IAMPs) (usually termed AMPs) and long-term financial plans (LTFPs),[5] it has also considered the Council's performance in that context. Findings regarding the content of the Council's AMPs, and the alignment between its LTFP and AMPs,[6] are discussed in section C.3.

The Commission has also reviewed the Council's template data which contains its 2023-24 LTFP forecasts for 2023-24 to 2032-33, as well as its 2022-23 LTFP forecasts, and historical financial data and number of rateable properties and council staff (Full Time Equivalent (FTE)) numbers from 2012-13 onwards.[7] [8] 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 (2.5 percent) thereafter.

Finally, in formulating this Advice, the Commission has had regard to the circumstances of the Council, including its location as an urban development and urban city centre council, its income level ($12.3 million) and the size of its rates base (over 4,000 ratepayers[9]).

The 'heat map' diagram over the page 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[10] and the level of cost control and affordability risk identified for the Council over time.

5 *Local Government Act 1999* (LG Act) s122(1g)(a)(i).
6 As required under s122(1b) of the LG Act.
7 Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data.
8 The Council's estimates for the 2022-23 financial year, relied on at the time of preparing this advice, were unaudited.
9 Based on the estimated number of property assessments in 2022-23.
10 The suggested LGA target range for the ratios are discussed in more detail in the attachment.

Summary of the Town of Walkerville'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%)	Below target; Volatile --->; Within target range ------------->		Within target range ----------------------->
Net financial liabilities ratio (target 0-100%)	Within target range -->		Within target range --------> Below target range ----->
Asset renewal funding ratio (target 90-110%)	Volatile and outside target range ------------------------>; Below target range ---------------------->		Below target range; Within target range - ---------------------->
Identified Risks:			
Cost control risk	Below CPI - ------------->; Above CPI -->; Below CPI ----------------------->		Above forecast CPI ------------>; Below forecast CPI ----->
Affordability risk	Rates increases above average CPI ------------------->		Rates increases above forecast CPI ----->

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

B Material plan amendments in 2023-24

The Council has made several amendments to its 2023-24 budget and forward projects, primarily to account for inflation but also the receipt of additional grant funding, increased redevelopment and major capital project costs, and a change in the Council subsidiary projections. The material adjustments to some of its main financial forecasts are listed in the table below (in nominal terms).[11] 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	118.6	127.5	+8.9	+7.5
Total operating expenses	118.1	125.1	+7.0	+5.9
Operating surplus / (deficit)	0.5	2.4	+1.9	+380
Capital expenditure on renewal of assets[12]	15.9	15.9	0	0
Capital expenditure on new and upgraded assets[13]	1.8	15.5	+13.7	+761

B.1 Changes to operating performance

The Council is budgeting for a higher operating surplus between 2023-24 and 2031-32 of $2.4 million compared to $0.5 million projected in the 2022-23 LTFP. The material changes are attributable to an alignment of rates income to the recent rates of inflation, increased investment income due to higher interest rates, the increased costs 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 and provide for future and currently unplanned capital improvements.

For the 2023-24 budget year, the Council stated that the budget was designed to deliver a modest operating surplus while maintaining all existing services and funding key projects, with the intention to keep rate increases below the average rate of inflation for the previous 12 months. The Council has planned for a surplus of $69,525 with total expenditure $12.2 million, which includes capital expenditure totalling $15.3 million.[14] The Council has forecast income of $12.3 million for 2023-24, which includes an average residential rate increase of 6.9 percent,[15] associated with increases to both income and expenditure arising from higher forecast inflation over the 10-year period.

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

[11] 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.
[12] The capital expenditure estimates are based on the 2023-24 LTFP estimates provided by the Council to the Commission (in an Excel template).
[13] See footnote 10.
[14] The total capital expenditure of $15.3 million includes $1.39 million on renewal Capex and $14 million upgrade Capex.
[15] Town of Walkerville, Annual Business Plan 2023/24, p. 6, pp. 24 to 28.

B.2 Indexation adjustments

The Council has applied CPI-based inflation adjustments to its cost and revenue estimates, including indexation based on the December 2022 CPI of 8.6 percent.[16] The key economic assumptions for the life of the 2023-24 to 2031-32 LTFP were obtained from the RBA, including the CPI projections, forecast as an average of 2-3 percent from financial years 2026-27 onwards.

In addition to indexation, the Council's growth in rateable properties assumption is set at 0.2 percent per year for the life of the LTFP, based on historical data. The Council has also set the total employee FTEs at 35 for the term of the 2031-32 LTFP because the Council anticipates that the current level of Council services can be maintained, and that improvements in technology and processes will lead to further efficiencies. The Council also advised the Commission during a meeting held with the Council on 30 October 2023 that they are currently conducting a review of the organisational structure to redeploy and make efficient use of resources where required.

The Commission notes that the Council's stated assumptions are transparent and based on its annual review of forecasts. Notwithstanding the need for the Council to endeavour to find savings and reduce any inflationary impact on its community, the Commission found 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.

B.3 Increase to capital expenditure estimates

Over the 10-year projections in the 2023-24 LTFP, the Council has factored in capital expenditure of $15.9 million on the renewal of assets, which is unchanged from the previous LTFP, and $15.5 million on new/upgraded assets, an increase of $13.7 million or 761 percent. This results in renewals and new/upgraded assets accounting for 52.4 percent and 47.6 percent of expenditure, respectively.

The increased expenditure on new/upgraded assets includes $6.5 million for the 39 Smith Street Redevelopment Project, approved after the 2022-23 LTFP, and carry-forward of the $9.5 million Walkerville Oval Redevelopment Project, originally forecast at $7 million and deferred from the 2022-23 financial year for review due to the projected cost increases.

Council has indicated that although the 2023-24 LTFP projects significant cash on hand in the later years of the LTFP, this is unlikely to remain the case as additional major projects are identified based on community needs.[17]

The Council's transport assets (road and kerb assets) represent the largest asset class, and a major focus of its renewal investment, projected to account for around half of the total asset renewal budget over the next 10 years. The Council adopted their 2023-2033 Roads Asset Management Plan, 2023-233 Footpaths Asset Management Plan and 2023-2033 Stormwater Asset Management Plan in November 2023, and is currently updating their LTFP.[18]

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16 ABS CPI Adelaide, all groups, 12 months to December 2022.

17 As per the Materials Amendments Reasons provided by the Council in the Financial Template.
The Council advised the Commission during the meeting held 30 October 2023 that the cash ($6 million) is attributable to the $5 million special Purpose Grant received for the 39 Smith Street redevelopment project and that a corresponding liability to undertake the committed works is listed in the balance sheet.
The Council's Treasury Management Policy also stipulates that any cash surplus is to be held and used to pay down existing debt.
The Council provided the Commission with their 2023-2033 AMPs for roads, footpaths and stormwater in October 2023, with the understanding that the draft AMPs were consistent with the 2023-24 LTFP data.

18 The Commission has based its Advice upon the Council's approved plans and the data provided by the Council in the Financial Template, based upon the Council's LTFP 2024-2032.

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 coordinates their long-term projections with their annual budget process and publishes both on their website, along with the underlying projections for inflation. The Council adopted its 2023-24 Annual Business Plan and Budget on 17July 2023 and the LTFP 2024-33 on 16 October 2023.

The data contained in the LTFP is based on the assumptions and data set out in the 2023-24 annual business plan.

During the Commission's meeting with the Council on 30 October 2023, the Council advised that they were updating their LTFP to include significant changes to their planned capital expenditure from that in the 2023-24 LTFP.[19]

Following the meeting, the Council also provided the Commission with copies of the Draft Roads AMP 2023, Draft Footpaths AMP 2023 and Draft Stormwater AMP, which were out for consultation at that time. Since these AMPs were not yet approved when the 2023-24 LTFP was approved, this information was not included in the analysis for the Advice.

The Commission considers it would appropriate for the Council to:

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 in December 2023, that it has drafted a revised LTFP which incorporates the AMP 2023-2033 information and revised capital expenditure projections, but the Commission is unable to base its Advice upon plans that have not yet been approved.
The Council advised by email that its draft revised LTFP is expected to be approved in early 2024.

19 In December 2023, the Council advised by email that they anticipated that this draft LTFP was expected to be approved in early 2024. Since the updated LTFP had not been approved in time to prepare this Advice, the Commission has based its Advice on the 2023-24 LTFP.

C Financial sustainability

C.1 Operating performance

The Council was in deficit for 2012-13 and 2013-14 but has run operating surpluses since 2014-15, with the annual operating surplus averaging around $0.45 million over the 10-year historical period 2012-13 through 2021-22. Over the last five years of this period, the average annual operating surplus was almost twice this, leading to some volatility in the operating surplus ratio over this period, with the ratio remaining within or slightly above the 0 – 10 percent target range since 2016-17.

The Council has achieved an operating surplus within the target range for the latter years of this period by ensuring that income rose by more than expenses. Over the forecast period of the LTFP, this pattern in income and expenses growth is anticipated to continue, with the result that the Council is able to maintain its operating surplus ratio within the LGA's recommended bounds, with it gradually increasing in the latter part of the forecast period. This allows the Council to undertake some significant capital projects, while also developing a large cash reserve, both of which of are considered in subsequent sections.

Historically, over 2012-13 to 2021-22 the Council's income grew in real terms (at an average of 5.2 percent per annum, above the average annual inflation of 2.3 percent for the period) and exceeded annual average expenses growth of 2.8 percent (see chart at right on page 9).

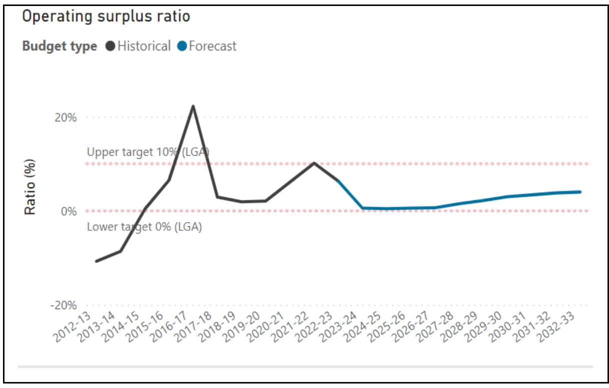
The primary source of income over the historical period was rates. This contributed more than 80 percent to income, registering annual average growth for the historical period of 4.8 percent. The result is that the burden of the increase in the operating surplus over the historical period has fallen on ratepayers, despite the increased contribution of income from grants, subsidies, and other income. Income from these sources contributed 4.3 percent to income in 2012-13, growing to just over 10 percent of income in 2021-22, due to the funds received for planned infrastructure developments.

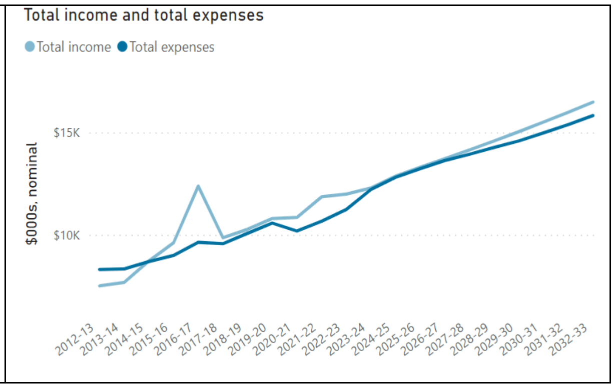
Over the historical period, the number of ratable properties increased by 1.5 percent per annum, with the average rates per property rising faster than inflation at 3.2 percent per annum. During the last five years of the historic period, the average rates per property per annum grew by an average of 2.3 percent per annum, in line with inflation over the period.

By contrast, expenses per rateable property registered an average annual growth of 1.3 percent over the 2012-13 to 2021-22 period, representing a decline in real terms. This is because rateable property growth reduced the impact of total expenses growth of 2.8 percent. Over this period, the Council's cost composition did not change significantly. Materials and contracts costs rose at an annual average rate of 2.4 percent, with depreciation rising by 1.8 percent. The other main cost category, employee costs, registered the largest average annual growth rate of 3.3 percent as FTEs increased from 27 to 35 (or by 30 percent). However, growth in employee costs per FTE was only 0.3 percent.

Looking forward over the LTFP, the Council is forecasting significantly slower growth in the number of rateable properties from 2023-24 through 2032-33 of 0.19 percent per annum. The growth is slower because the Council is an established urban council, with growth limited to the subdivision of existing properties.

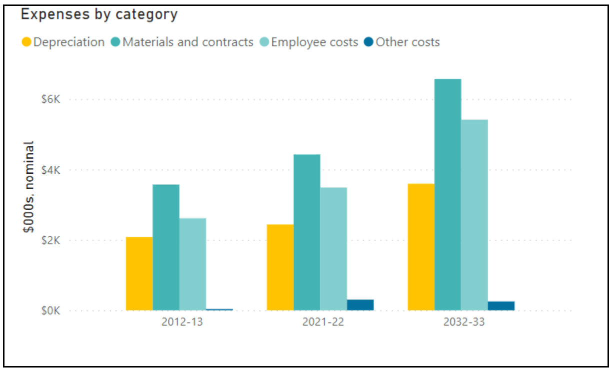
There is, however, not an equivalent slowdown in income growth. Total income is forecast to increase at an average of 3.2 percent per annum over the 10-year forecast period through 2032-33, which lies above the average forecast growth in inflation of 2.6 percent for the same period. The main driver of this forecast rise is strong growth in rates income. This will continue to grow in real terms per rateable property and is forecast to remain the major source of council income (i.e. 85 percent) over the forecast period.

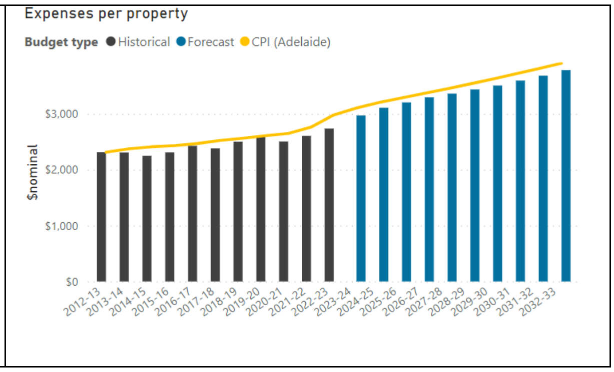




In contrast average expenses growth forecast by the Council sits below the RBA-based forecast inflation growth of 2.5 percent per annum over the period 2025-26 through 2032-33 and indicates continued cost control over the period, which results in an anticipated real reduction in expenses per property (as shown in the figure below right).

Over the historical and forecast period combined, expenses growth per property has remained slightly under the CPI (Adelaide), as shown in the figure below right, even with the major building projects, given the Council's approach to controlling costs. The picture is very different for the average rates revenue per rateable property growth, which remains above CPI growth for the entire period. This ensures that total income per annum has remained above total expenses per annum since 2017-18 and through the forecast period. This enables the Council to not only fund the refurbishment and new capital projects, but also build up reserves to undertake and fund new yet-to-be-identified capital projects later in the forecast period, while also drawing down debt (see subsequent section).[20]





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.

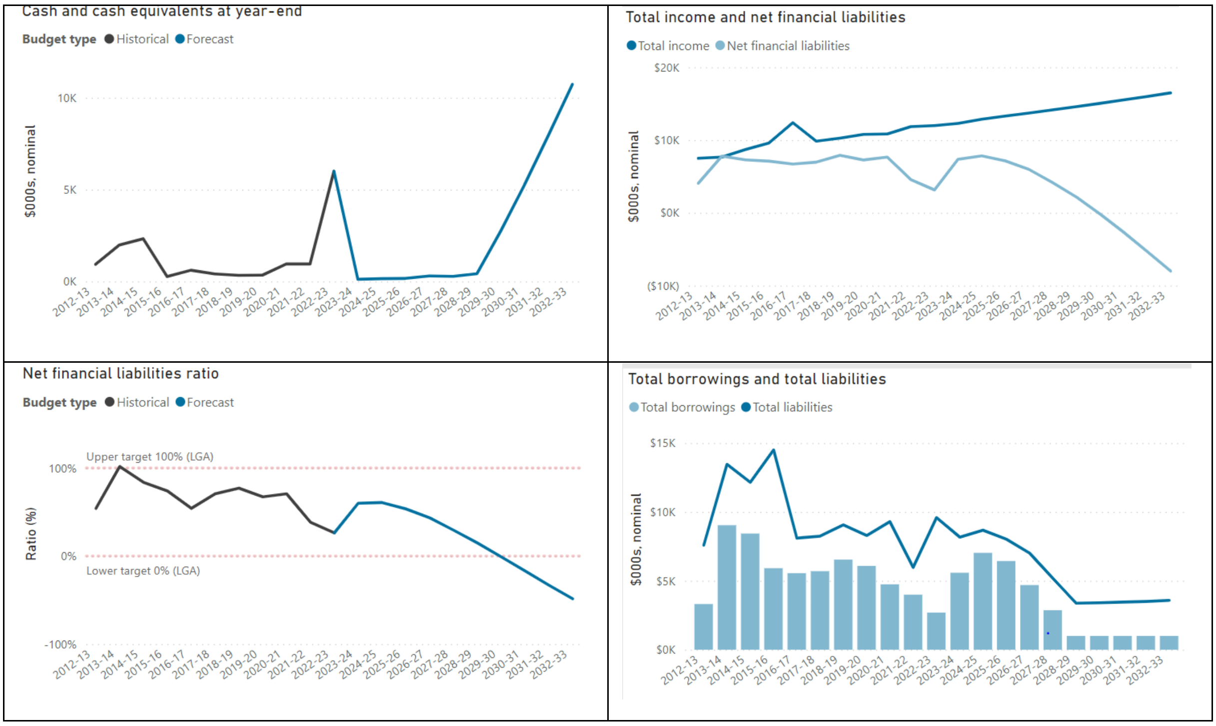
C.2 Net financial liabilities

Over the historical period to 2021-22, trends in the Council's net financial liabilities are uneventful, with the Council utilising borrowings as needed, with a cash reserve averaging around $0.9 million. The result

20 As advised by the Council during discussions with the Commission.

is that the net financial liabilities ratio generally remains in the target range of 0 - 100 percent throughout the historical period 2012-13 to 2021-22, with a small peak above range of 101.8 percent in 2013-14.[21] This steady pattern changes in the forecast period of the LTFP, with the net financial liabilities becoming increasing negative and outside the target range, cash and cash equivalents rising to exceed $10 million by 2032-33, and borrowings reaching their lowest levels since 2012-13.

This reflects the Council's intended strategic approach to funding projects such as the 39 Smith Street building and the Walkerville Oval Redevelopment via grants and borrowing over the medium term of the LTFP forecast period, and its subsequent intentions to pay off these loans and hold a significant cash reserve to fund unspecified potential capital projects nearer the end of the LTFP forecast period.[22] This strategy is why the Council's rates per rateable property are forecast to rise at a significantly higher rate than CPI (see operating performance section).



The Commission notes the following observations with respect to this strategy:

- The Council intends to hold ratepayers' money in cash reserves for unspecified projects that could be financed through debt if an actual need arose. By doing this it is intending to place an opportunity cost upon its ratepayers, as they could use these funds to finance their needs as they see fit, given their circumstances.
- This approach does not account for intergenerational equity concerns, as it is front-loading the collection of funds for unspecified projects that will be for the benefit of future ratepayers.

Overall, the Commission considers there is benefit in the Council reviewing this approach and whether it is reasonable for it to intend to collect ratepayers' resources from them, when no need is specified and there are other approaches to funding any project that may arise in the future. Opting for a differing 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

21 But within the Council's financial guideline range of 0-12 percent.

22 As stated by the Council in the Material Amendments Reasons in their Financial Temple: 'The structure of cash/borrowings was revised as part of the 2023-24 LTFP based on major capital projects. Whilst the 2023-24 LTFP projects significant cash on hand in the later years of the plan, it is unlikely that this will be the case as additional major projects are likely to be identified based on community needs.'

undertake that it may challenge more thoroughly, if it did not have access, or expected access to, a considerable cash reserve[23].

C.3 Asset renewals expenditure

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. 97.36 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' in expenditure intended in 2025-26 and 2026-27.

The Council made the following comment regarding the asset renewal funding ratio (net) in their 2023-24 LTFP: [24] 'The LTFP includes a target Asset Renewal Funding Ratio between 90 - 110 percent. The ratio is indicative of Council renewing its asset base in keeping with the required expenditure as stipulated in the Asset Management Plan. The ratio is below target in forecast year 2023-24 whilst major projects are being delivered, however the target ratio is achieved in subsequent years as capital expenditure is reallocated to renewals.'

Asset renewals can also be evaluated by the depreciation-based asset renewal funding ratio[25] (see chart on page 13), which has declined from levels well above the LGA upper target of 110 percent at the start of the historic period, including a peak of 245 percent in 2013-14, to well below the LGA lower target of 90 percent for the remaining eight years. The average asset renewal funding ratio for the last 5 years of the historic period (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 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.[26]

The Council recently updated its AMPs for roads, footpaths and stormwater assets, and is incorporating the data into a revised LTFP, which ought to address the issue of a low asset renewal funding ratio.[27] This will be difficult to achieve, however, while the Council is undertaking significant expenditure on new/upgraded assets, such as the Walkerville Oval redevelopment and the 39 Smith Street development.[28] and requires the Council to evaluate its priorities and address the ongoing issue of low

23 Which includes the two major projects, namely refurbishment of the 39 Smith Street project for a recreation centre (with a $5 million grant from the State Government and $1.5 million budgeted by the Council) and the Walkerville Oval Redevelopment project (with a $9.5 million budget, including a grant of $4 million from the State Government).

24 The Council provided comments regarding the reasons for material amendments in their 2023-24 LTFP to accompany the data in the Template.

25 The Council's 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.

26 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'.

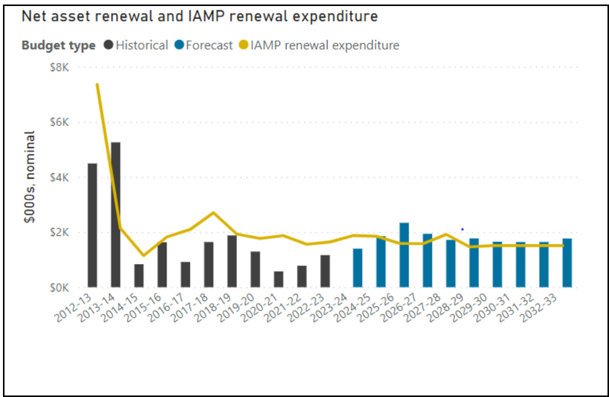
27 Although the Council might address the issue of asset renewals in its draft revised LTFP, an approved version was not available for the Commission to consider for this Advice.

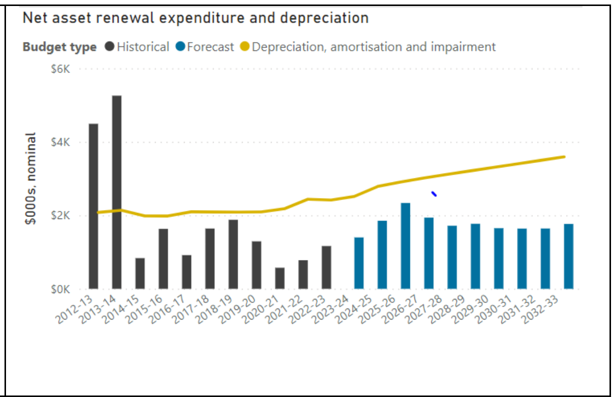
28 The Council previously advised in the meeting on 30 October 2023 that these two projects will be undertaken in 2023-24, which was incorporated into the budget and long-term financial plan, but according to the Special

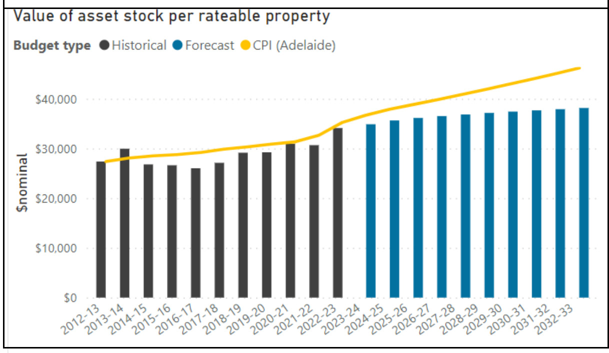
asset renewal expenditure relative to depreciation throughout the historical and the forecast periods. (See chart at below right).

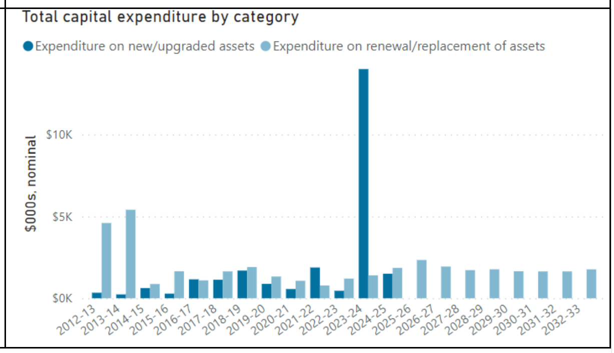
To align the average rate of consumption of its assets, as indicated by its depreciation expenses, and the annual spending on the renewal of its asset base over time, the Commission considers that it would be appropriate that the Council:

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.







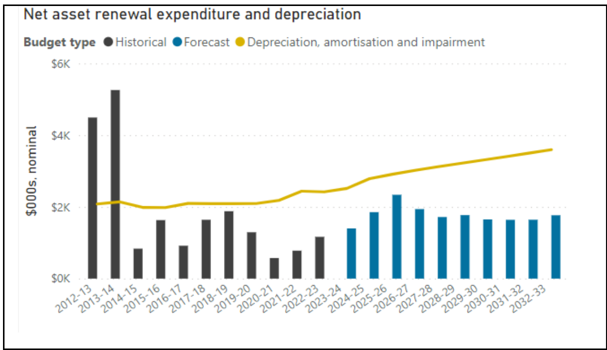


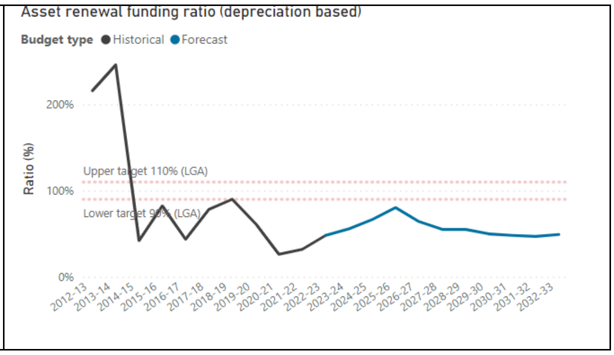
As seen above left, the low values of asset renewal are also impacting the value of asset stock per rateable property (see chart above left), which has declined, both in nominal and real terms, since 2014-15 and continues to decline in over the forecast period. When combined with the information in the charts for net asset renewal expenditure and depreciation (see chart above top right) and for total capital expenditure by category (see chart above at right), there has been a clear shift in the expenditure focus from new and upgraded assets to renewal and replacement of assets over the term of the LTFP, but that the total expenditure slows to such an extent over the forecast period, that the asset renewal funding – depreciation based ratio, declines as the value of asset stock per rateable property declines in real terms as seen in the chart above left.[29]

Council Meeting Agenda and Minutes for Monday 27 November 2023 and the letter from the Major of Walkerville to ratepayers 'Major Community Projects' dated 30 November 2023, that these and other projects have been put on hold pending the assessment of the Council's options.

29 During the meeting with the Commission on 30 October 2023, Council explained that the $15.5 million in new capital expenditure for the life of the plan relates to the major projects – the redevelopment of 39 Smith Street

The impact of the low levels of asset renewal is also shown in the chart below on the left, where historical asset renewal and expenditure lie below the values for depreciation, amortization and impairment from 2014-15 onwards and at the chart at right below, where the asset renewal funding ratio (depreciation based) remains below the lower LGA target from 2014-15 onwards and throughout the LTFP period.





The Council provided the Commission with its Asset Management Plan (revised) 2020-2030[30] and the 2023 Asset Management Plans for three asset classes (roads, footpaths and stormwater assets). The AMP 2020-2030 is structured to support the Council's asset management planning timeline[31] (see p 8) which is linked to a rolling 5-year Cap Ex Project Plan, which reviews, updates reforecasts for a separate asset group each year. The AMP figures are reviewed annually, with a full update being completed every 4 years, with the current 2023-2033 AMPs just completed in November 2023.

The 2023 asset class AMPs include a report on customer satisfaction levels (including customer requests by category), as well as a schedule for renewal and maintenance and upgrade of assets,[32] condition profiles by suburb and technical levels of service targets linked to current LTFP funding, along with a risk assessment to maintain service levels incorporated into an Improvement Plan.

The Council's planned renewal expenditure over the LTFP focuses upon transport assets, which includes sealed roads, unsealed roads, kerbs and gutters, and footpaths, which form which together form around 70 percent of their renewal expenditure.

Another issue that the Council should consider is the strong increase in depreciation relative to the levels of net asset renewal expenditure (see the chart above left). The data suggests that the level of net asset renewal expenditure has remained well below the level of depreciation from 2014-15 (the historic period) onwards, through to the end of the forecast period. Although the Council appears to be in a sustainable position in other respects, this data suggests that either asset life and depreciation schedules and/or asset values need to be reviewed and updated and coordinated with the next annual

and the Walkerville Oval and Bowling Club. A provision for new capital expenditure (partly offset by grant funding) will be included in the revised LTFP to (as the Council put it) 'more accurately reflect the future strategic direction of the Council.'
The Council advised that while there are no major projects included in the LTFP from the financial years 2025-26 onwards, it is envisioned that further major projects will be identified through the 10-year period as community needs and requirements change, and new opportunities appear. The Council's strategy is to have minimal debt and then act on strategic capital initiatives as and when the opportunities arise in line with the Council's strategic plans and the needs of the community.

30 The 2020-2030 Asset Management Plan was reviewed and updated and individual AMPs for the asset classes (roads, footpaths and stormwater assets) were approved in November 2023.

31 See Town of Walkerville *Asset Management Plan 2020-2030* p. 8.

32 The AMP covers 5 groups of assets, including transport, buildings, stormwater, open space and plant and equipment, with a replacement value of $158 million and fair value of $115 million.

budget and LTFP to present a realistic picture of Council asset values and depreciation schedules to develop an appropriate asset renewal and replacement plan.[33]

[33] Council advised the Commission that AMPs are currently out for consultation and that useful life benchmarks for some asset classes are on the conservative side and impacted annual depreciation.
The Commission notes that each council must undertake a revaluation of all material non-current assets in accordance with the requirements of the Australian Accounting Standard AASB 116, as stipulated in the *Local Government (Financial Management) Regulations 2011* Part 3 section 12.

D Current and projected rate levels

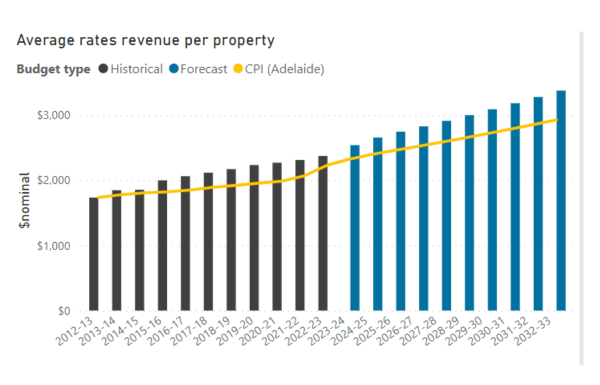
D.1 Historical rates growth

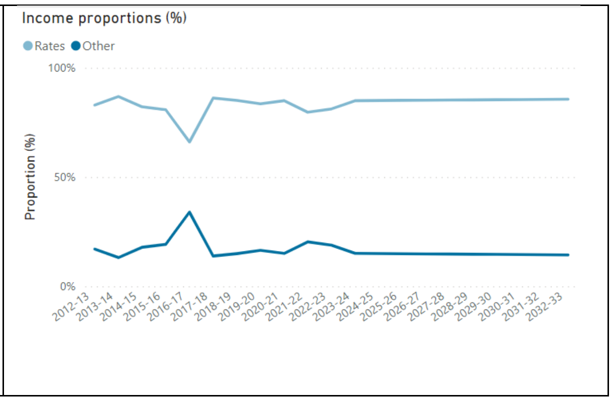
The Council's rate revenue per property has grown by an average of 3.2 percent or $64 per annum for each rateable property over the past 10 years,[34] to reach an estimated $2371.83 in 2022-23 (see the chart at left below). The annual growth in rate revenue per property has exceeded the average annual growth in inflation for the same period, which was an average 2.6 percent per annum.

Over the same period, the number of rateable properties has grown by 1.4 percent, and over the past 5 years of this period, the rate of increase has slowed to 0.6 percent. This has resulted in an average growth in income from rates of 4.8 percent per annum for the period.

Rates were the Council's major source of Council income over the historic period and contributed over 80 percent to Council income. Given the nature of the rateable properties, and as the chart at right below shows, rates revenue is forecast to increase its hare further to contribute around 85 percent to total Council income over the forecast period.

The Commission notes that the Council has the second highest average rates for residential properties when compared to all other councils in South Australia,[35] but somewhat lower non-residential rates than the similar council average and the statewide average for the 5-year period through the 2019 - 2020 financial year.[36]





D.2 Proposed 2023-24 rate increases

The Council has budgeted for an average rate increase of 7.0 percent or $166 per property for its existing ratepayers in 2023-24.[37] This is higher than it anticipated charging for that year in its Annual Business Plan 2022-23, that is, a 3 percent average residential rate increase, and reflects higher short-term inflation (estimated by the Council at 7.75 percent for 2023-24).[38]

The council has also assumed that the growth in rateable properties will be minimal, continuing at 0.2 percent per annum for the long term, and will not be an important determinant in 2023-24 rates revenue.

Other than rates income which accounts for nearly 85 percent of income in 2023-24, user charges contribute 5.3 percent of income and statutory charges 3.1 percent of income. 'Grants, subsidies and

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34 From 2012-13 through 2022-23.

35 As per data provided by the SA Local Government Grants Commission for the 2021-22 Financial Year.

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

37 Based on the Council's draft 2024-33 Long Term Financial Plan and its Excel template (with the 2023-24 forecasts) provided to the Commission. The Commission has used $10.44 million (in 2023-24 budgeted rates revenue) compared to the 2022-23 unaudited 2022-23 estimates. Individual rate level changes might be higher or lower depending upon the rates category and property value.

38 See Town of Walkerville *Long Term Financial Plan 2023-2033* p. 8.

contributions' are estimated to contribute 5 percent to income in 2023-24 to finance redevelopment projects.

D.3 Projected further rate increases

Total average rates revenue per property is forecast to increase from an average of $2,371.83 per rateable property in 2022-23 to $3,374.52 in 2032-33, an increase of $1,002.69 or 42.3 percent above the average rates per rateable property at the start of the 10-year forecast period. Over the same period, the average rates per rateable property adjusted for inflation would be $2,925.09, which means that the Council plans to increase the rates per property by 20 percent above the inflation-adjusted value for 2022-23, or $449.43 per property. The result is not only that income from rates will continue to grow in real terms, but that the rates per property will also grow in real terms.

This is a significant increase in projected rates, especially when considering that the Council's rates are already the second highest in the state.

As a result of these planned rates increases, the percentage of the Council's total income contributions from ratepayers is projected to average around 85 percent over the forecast period, compared to a historical average of around 81 percent.

The Commission notes that the Council's draft LTFP identifies the risks associated with its assumptions, including both the cost-of-living pressures on ratepayers and the impact of inflation upon expenditure: 'Rate increases will be monitored in light of economic forecasts and the impact that those circumstances may have on the Council's ratepayers and their ability to pay.'[39]

D.4 Affordability risk

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,[40]
- 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.

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:

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.

[39] Town of Walkerville Long Term Financial Plan 2024-2033 p. 9.
Although the average income of Walkerville residents sits above the state average, this does not justify future rates increases above the forecast average rate of inflation.

[40] 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).

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