OFFICIAL

DCCP's current and projected financial position & performance – assessment & implications

Final Report – 23 March 2022

Addendum – 17 March 2023

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Glossary

ABS: Australian Bureau of Statistics

AMP: see IAMP

ARFR: Asset Renewal Funding Ratio

CoC: Cost of Capital (aka RoR: Rate of Return)

CWMS: Community Wastewater Management System

DCCP: District Council of Coober Pedy

ESC Act: *Essential Services Commission Act 2002*

ESCOSA: Essential Services Commission of South Australia

HFE: horizontal fiscal equalization

IAMP: Infrastructure and Asset Management Plan (aka AMP: Asset Management Plan)

LG: Local Government or local government

LGA of SA: Local Government Association of South Australia

LGFA: Local Government Finance Authority of South Australia

LTFP: Long-term Financial Plan

M: million

NFL: Net Financial Liabilities

NFLR: Net Financial Liabilities Ratio

OSR: Operating Surplus Ratio

pa: per annum

RAES: Remote Area Energy Supply

RoR: see CoC

LG Act: *Local Government Act 1999*

LG Fin Man Regs: Local Government Financial Management Regulations 2011

SA: South Australia or South Australian

WSE: water, sewer/CWMS and electricity

1. INTRODUCTION

This report has been prepared for the South Australian (SA) Office of Local Government by JAC Comrie Pty Ltd.[1] Key content is focused on and examines the current and future financial sustainability of the District Council of Coober Pedy (DCCP) and the associated implications. Arising recommended actions are listed in Appendix A. A copy of the brief for this report is included as Appendix B. The specific questions asked in the brief are listed in and responded to in Section 4 below.

Formal general and specific financial reporting requirements of councils under the South Australian *Local Government Act 1999* (LG Act) and the associated Local Government Financial Management Regulations 2011 (LG Fin Man Regs) are intended to facilitate ongoing financial sustainability by local governments and assist interested external parties to assess South Australian (SA) councils' financial performance. For example, councils are required to prepare financial statements, long-term financial plans and annual budgets with particular format and content generally in accord with Australian Accounting Standards. They are also required to report actual and projected results for three specific financial indicators. As a result, it is usually relatively straightforward to make reasonable assessments and reliable conclusions regarding a council's current and future financial sustainability. Unfortunately, that is not so in the case of DCCP's municipal activities. The reasons for this are discussed in Section 3 of this report. First though, Section 2 provides a brief overview of DCCP compared to some other SA councils.

2. HOW DIFFERENT IS DCCP AND HOW?

DCCP is different in many ways. It is located 850 kilometres north of Adelaide on the road to Alice Springs. The areas north of Port Augusta in South Australia are generally not incorporated into local government divisions. These areas typically do not have the population, capacity and need to support formal local government arrangements. The only exceptions are the Roxby Downs Council and DCCP (see Figure 1 below).

The Roxby Downs Council was established in 1982, in accordance with the *Roxby Downs (Indenture Ratification) Act 1982.* While this Act establishes the Roxby Downs Council as a council constituted under the LG Act, the Roxby Downs Council does not have an elected member body. It also has other specific arrangements, including external financial support from the State Government and BHP.

DCCP was formed in 1987. This followed a period where particular legislation passed in 1981[2] had provided the Coober Pedy Progress and Opal Miners Association with specific powers and responsibilities (presumably as a 'halfway house' to full local government). Prior to this date, it formed part of SA's unincorporated areas, and, accordingly, fell within the scope of the (then) Outback Areas Community Development Trust (now the Outback Communities Authority).

[1] JAC Comrie Pty Ltd is a consulting firm operated by John Comrie. It specialises in local government financial sustainability related work. John is a former head of the SA Office of Local Government and Local Government Association of SA. He has prepared guidelines and training courses on these topics for local governments in all Australian states. He has also formally been the Chairman of the audit committees of ten South Australian rural and regional councils.

[2] The Coober Pedy (Local Government Extension) Act 1981 - [Coober Pedy (Local Government Extension) Act (No 80 of 1981) (austlii.edu.au)](austlii.edu.au)

On January 24 2019, the Governor declared DCCP to be a defaulting council and appointed an administrator to administer the affairs of the Council. This was in response to an Ombudsman's report published in July 2018 that found significant failings regarding the Council's negotiation of a power purchasing agreement with EDL Pty Ltd. An Auditor-General examination of the Council published in December 2019 also found significant governance and financial management failures at the Council.

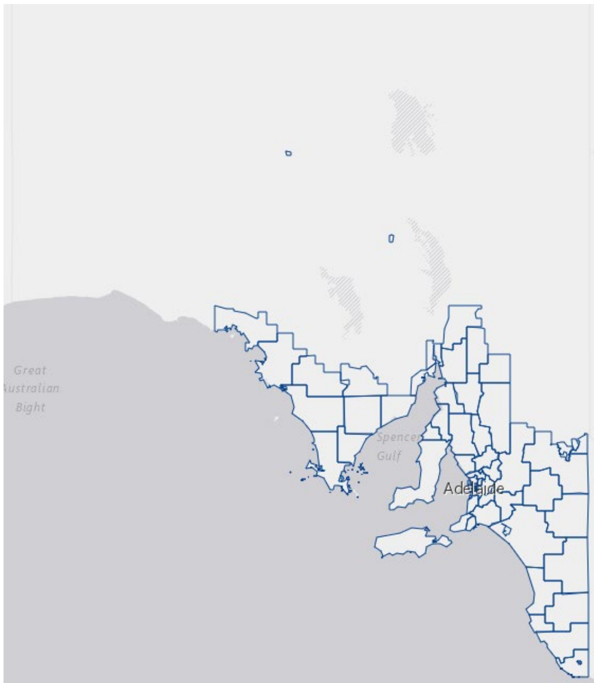

Figure 1: Map of South Australia showing boundaries of local government areas taken from Councils in Focus website. Coober Pedy and Roxby Downs are shown as the most and second most northern local government areas. Both are quite remote from all otherwise adjoining SA local government areas.

Set out in a. to f. below is a snapshot of DCCP related data relative to selected of the other 67 SA local governments. Unless otherwise specified it has been sourced from the publicly available 2019/20 South Australian Local Government Grants Commission's Database Reports.

a. Population and Land Area

There are many local governments in South Australia with small populations. All are outside the Adelaide metro area and many are relatively remote. There are 17 with a population of less than 3,000 people. DCCP is the 11th smallest. Significantly, all apart from DCCP have large land areas. Roxby Downs is also included below in Table 1 for comparative purposes.

Ranked by pop'n	Council Name	Population	Land Area (hectares)
1	Orroroo Carrieton	844	332,209
2	Elliston	1,011	671,309
3	Kimba	1,056	398,430
4	Karoonda East Murray	1,101	441,853
5	Franklin Harbor	1,304	279,293
6	Wudinna	1,307	539,354
7	Robe	1,472	109,325
8	Peterborough	1,668	302,013
9	Flinders Ranges	1,688	412,720
10	Cleve	1,780	501,935
11	Coober Pedy	1,820	7,769
12	Southern Mallee	2,089	570,970
13	Streaky Bay	2,204	631,936
14	Kingston	2,380	334,286
15	Barunga West	2,550	172,142
16	Tumby Bay	2,733	267,767
17	Mount Remarkable	2,913	350,930
24	Roxby Downs	3,948	11,052

Table 1: Local governments by lowest population and also showing land area. Source: LG Grants Commission 2019/20 Database Reports.

Note: Updated data covering Table 1 is provided at Item 1 in the Addendum to this document.

b. General Rate Revenue

For most councils, general rates are their largest controllable source of revenue. There are nine councils that reported very modest aggregate revenue from general rates in 2019/20. Of these nine, DCCP is the 5th smallest. The 10th smallest (Cleve) had general rates of $2.943 million (M).

Ranked by General Rate Revenue	Council Name	Revenue ($'000)
1	Orroroo Carrieton	1,032
2	Franklin Harbour	1,294
3	Karoonda East Murray	1,387
4	Peterborough	1,436
5	Coober Pedy	1,618
6	Kimba	1,651
7	Wudinna	1,860
8	Flinders Ranges	1,924
9	Elliston	2,209

Table 2: Local governments by lowest general rate revenue. Source: LG Grants Commission 2019/20 Database Reports.

Note: Updated data covering Table 2 is provided at Item 2 in the Addendum to this document.

c. Capital value of rateable properties

DCCP has the lowest aggregate capital value of properties of all SA councils. In large property markets the average capital value per property is generally likely to be correlated with ratepayer lifetime wealth (and therefore capacity to pay council rates and other local government user charges). Such relationships are likely though to be less reliably correlated in small, remote markets.

Ranked by aggregate capital value of rateable properties	Council Name	Capital value of rateable properties $M	Number of rateable properties	Average capital value of rateable properties $
1	Coober Pedy	139	1,583	87,677
2	Peterborough	197	1,680	116,972
3	Flinders Ranges	247	1,666	148,375
4	Orroroo Carrieton	255	1,294	197,054
5	Franklin Harbour	289	1,200	240,675
6	Kar East Murray	299	1,116	268,016
7	Kimba	325	896	363,049
8	Wudinna	337	1,062	316,953
9	Elliston	459	1,315	348,687
10	Roxby Downs	472	1,958	241,215

Table 3: Local governments ranked lowest aggregate capital value of rateable properties (all, not just residential). Source: LG Grants Commission 2019/20 Database Reports.

Note: Updated data covering Table 3 is provided at Item 3 in the Addendum to this document.

d. Comparable General Rates per Residential Property

DCCP has the 4th lowest general rates per rateable residential property. Note, to aid comparability of general rates across all councils, general rates shown in Table 4 below include any applicable waste charge applied by councils and exclude any applicable community wastewater management system (CWMS) charge. (All councils provide waste collection services [at least to most residential properties] but some charge explicitly for them and others don't. Not all councils provide CWMS services but those that do charge for them.)

Ranked by General Rate Revenue	Council Name	Rates per Resid Property ($)
1	Karoonda East Murray	799
2	Franklin Harbour	858
3	Peterborough	907
4	Coober Pedy	1,086
5	Port Adelaide Enfield	1,094
6	Barunga West	1,097
7	Grant	1,137
8	Orroroo Carrieton	1,168
9	Goyder	1,186
10	Wudinna	1,218

Table 4: Local governments by lowest rates per residential property. Source: LG Grants Commission 2019/20 Database Reports.[3]

Note: Updated data covering Table 4 is provided at Item 4 in the Addendum to this document.

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e. Comparative road lengths

Roads represent a large part of total costs for most councils. These costs include both their initial and rehabilitation/replacement capital costs and also their ongoing operating costs associated with maintenance and depreciation.

Many small rural councils are responsible for managing large road networks. This is not the case for DCCP. Only eighteen local governments have a smaller road network length to manage than DCCP. All of these are in the Adelaide metropolitan area except Roxby Downs, Port Lincoln, Mount Gambier, Victor Harbor and Robe.

f. Financial Assistance Grants

General Purpose Financial Assistance Grants can represent a large share of the revenue of rural councils with a small population and limited capacity to raise general rate revenue. These grants are provided under Commonwealth legislation. They are distributed on the basis of promoting horizontal fiscal equalization (HFE), i.e., trying to compensate to offset disadvantages in revenue raising capacity and costs compared with the average council. The size of the pool and a requirement that ensures that all councils receive an amount equivalent to at least 30% of the pool on a per capita basis means that insufficient monies are available to achieve full HFE. Nevertheless, the methodology does ensure that those councils that are most disadvantaged do proportionately receive a much larger share than others.

Council	Per head	Per rateable properties
Coober Pedy	454	522
Elliston	715	550
Flinders Ranges	698	708
Franklin Harbour	769	836
Karoonda East Murray	1,083	1,069
Kimba	940	1,108
Orroroo Carrieton	1,135	740
Peterborough	771	766
Wudinna	945	1,164

Table 5: 2021/22 General Purpose Financial Assistance Grant relative to various factors for selected councils. Operating Income and Operating Expenses were for 2019/20 (latest available). Source: SA LG Grants Commission.

Councils included in Table 5 were selected to replicate those in Table 2, i.e., those with the lowest rate revenue. Table 5 shows that on the basis of the General Purpose grant allocated in 2021/22, both per head and per rateable property, DCCP was assessed as having lower relative need for the provision of municipal services than all other selected councils.[4] That is, on the basis of DCCP's revenue raising capacity and expenditure needs, it was assessed as having relative lower needs for grant assistance to provide a similar level of services than these councils.

Note: A 2022/23 update has not been sourced. Relativities for these factors across the specified councils is unlikely to have materially varied. Further information is included at Item 5 in the Addendum to this document.

[4] The Financial Assistance Grant allocation methodology is based on municipal service delivery only. It does not have regard to DCCP WSE activity.

From the above data (a. to e.) it would be reasonable to conclude that DCCP is a small council in terms of population, area, general rate revenue and road lengths. That data does not however represent the whole picture. Some particular component responsibilities indicate that DCCP is much larger in some ways than is evident from the above information. For example:

i. Total Operating Revenue

DCCP has total operating revenue of $19.173M.[5] There are 33 local governments with less (including one metropolitan).

Note: Updated explanatory information on total operating revenue is provided at Item 6 in the Addendum to this document.

ii. Valuation of Assets

DCCP has total assets of $118.852M.[6] There are 19 councils with less (all being rural and regional). It sits in the mid-range of rural and regional councils in terms of total assets it is the responsible custodian of and to manage and deliver services from on behalf of its community. (Goyder is immediately below it (lesser value of assets) and Ceduna immediately above it (higher value of assets).

Note: Updated explanatory information on valuation of assets is provided at Item 7 in the Addendum to this document.

iii. Employee Operating Costs

DCCP has total employee costs classified as operating (i.e., not associated with capital works and therefore not capitalised) of $4.434M. There are 24 councils (all but one being rural or regional) with less.

DCCP's total operating revenue, value of assets and total employee costs seem surprising given the data (a. to e.) above. The explanation lies in the fact that in addition to the traditional municipal services that all local governments provide, DCCP also provides water, sewer/CWMS and electricity (WSE) services.

The table below highlights the scale of these WSE services relative to other (i.e., municipal) activity undertaken by DCCP in 2020/21.

Function	$'000 op ex	% op ex
Water	1,585	10.3
Wastewater	84	0.5
Electricity	7,414	48.0
Municipal[7]	6,360	41.2
Total	15,443	100

Table 6: DCCP operating expenses 2020/21 for water, sewer/CWMS and electricity relative to municipal activity. Source, note 11, DCCP 2020/21 financial statements.

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[5] Source: LG Grants Commission 2019/20 Database Reports.

[6] Source: LG Grants Commission 2019/20 Database Reports.

[7] For these purposes 'Municipal' has been determined as everything other than what is listed as Water, Wastewater or Electricity in Note 11. This issue is discussed further in Section 3 of this report.

Table 6 above shows that in 2020/21 DCCP reported that less than 50% of its operating expenses were of a municipal nature (i.e., weren't WSE services). It would be difficult to ascertain how this compares with other councils generally.[8] It is likely that 'municipal' activity would represent a much higher share of total operating expenses for all other local governments. A few rural councils provide very limited water supply services. Many provide CWMS services (a wastewater disposal and treatment service similar to a sewer service) but it is understood that no others have a role in provision of an electricity service (apart from Roxby Downs – see below).

Note: Updated data covering Table 6 and explanatory information on employee operating costs is provided at Items 8 and 9 in the Addendum to this document.

Two councils that do provide extensive CWMS services are Alexandrina and Mount Barker. In the case of both councils, CWMS operating expenses remain a relatively small share of their total operating expenses as shown in Table 7 below.

Council	$000 CWMS op ex	$'000 Total op ex	% CWMS-Sewer / op ex
Alexandrina	5,061	48,293	10.5%
Mount Barker	7,731	48,971	15.8%

Table 7: CWMS operating and total operating expenses, 2019/20. Source, Alexandrina figures are for year 2019/20 from its 2022-2031 long-term financial plan (p.50 & 52) and Mount Barker's are from Note 12(a) of its financial statements in its 2019/20 annual report (p.103).

Roxby Downs does provide extensive power & water operations. These activities represented 23.4% and 18.3% respectively of total operating expenses in 2020/21. In other words, municipal activity represented only 58.3% of total operating expenses that year.[9]

What the data overall shows is that whilst DCCP is one of the smallest SA local governments from a municipal (financial) and population perspective, its significant water and particularly electricity responsibilities mean that in aggregate it has financial responsibilities generally more consistent with a 'mid-tier' rural/regional local government. These inconsistencies are at the heart of Council's financial challenges. This is highlighted in Section 3.

3. DCCP's FOCUS ON FINANCIAL SUSTAINABILITY

3.1 Information Limitations

In recent years, DCCP has had considerable staff turnover. This has contributed to problems producing timely and reliable financial reports. The interpretation of financial reports has also been difficult due to many material one-off factors (both specific to DCCP and more generally across the local government sector). This has complicated assessments of annual and trend financial performance.

Council understandably has significant corporate overheads that need to be reasonably apportioned between municipal and WSE activities. These shared overheads were estimated at $586,000 in

[8] Such a split is not available in the Local Government Grants Commission database reports. It would be necessary to look at the notes supporting financial statements of individual councils to arrive at comparative relative estimates.

[9] see Note 12(a), p.28 financial statements, attached to 2020/21 Roxby Downs Annual Report.

2020.[10] No documentation was identified that specifies the basis and rationale for overhead allocation, and its treatment appears to have varied over time.

RECOMMENDATION No. 1: That Council develop and document an accounting policy specifying:

a) arrangements for the application of corporate overheads in calculating the cost of water, sewer and electricity (WSE) and municipal services; and
b) the basis of determining and levying overheads and their rate and rationale and it be reviewed by Council's audit committee before adoption.

The above factors may have affected the reported operating result for some years (for example depending on whether outlays were appropriately treated as expenses or capital works). There have been considerable challenges in preparing year-end audited financial statements in recent years but Council's financial statements for 2020/21 did receive an unqualified external auditor's report.[11]

Council has made extensive ongoing effort in recent years to improve the reliability of its financial reporting. It introduced a new chart of accounts at the commencement of 2020/21 and this has helped it to ascertain what the financial data is communicating. It has had various competent consultants engaged to assist it with financial reporting. It believes its recently adopted (February 2022) long-term financial plan (LTFP) is reasonably reliable (as far as forward financial plans can be) and a suitable basis for assessing likely future performance. It is certainly more reliable than projecting the future based on pre-2020/21 financial reports – an assessment of financial sustainability is necessarily a forward-looking assessment. For these reasons this report in assessing DCCP's financial sustainability focuses primarily on data in the above LTFP, however it is stressed that LTFP's typically project more optimistic medium to longer-term financial performance than often is realised.

Note: Updated explanatory information on DCCP's February 2022 LTFP is provided in Item 10 at the Addendum to this document.

3.2 Water, Sewer/CWMS and Electricity are Regulated Services

Council does not have autonomy to charge WSE service recipients whatever it may wish for these services. They are regulated services (as are the CWMS services widely provided by other councils). The service provider can only charge a price to recover reasonable costs incurred in service provision and generate a modest risk-adjusted return on the use of its own capital in provision of service-providing assets. It cannot base its prices on what the market will bear, thereby maximising profit as the service provider is not operating in a competitive market.

WSE services are regulated by the Essential Services Commission of South Australia (ESCOSA). ESCOSA is an independent body that exists to protect '*the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.*'[12] ESCOSA satisfies

[10] See DCCP's February 2020 LTFP v1.3, p.9.
[11] See Bentleys (Accountants), Nov 2021 DCCP Report of Audit Findings. Bentleys did however raise a number of concerns including a qualification regarding DCCP's internal controls and its 'going concern and sustainability'.
[12] ESC Act.

itself that prices are reasonable and may benchmark costs applied with similar elsewhere. There is also additional oversight of electricity costs. Electricity prices are subsidised by the State Government (through the Department for Energy and Mining's Remote Area Energy Supply (RAES) Scheme. This Scheme provides an ongoing funding allocation to DCCP to cover its direct costs and earn a risk-adjusted return on capital whilst charging customer tariffs based on the average domestic standing offers by electricity retailers supplying to the South Australian on-grid market.[13] (See Section 4.3 for further information).

Even if the *Essential Services Commission Act 2002* (ESC Act) and ESCOSA did not capture DCCP's WSE services, DCCP would be similarly constrained. For example, the LG Act requires that service rates and charges are not in excess of the long-run cost of the service.[14] Water-related services would also be constrained by the requirements of the National Water Initiative which also has similar requirements.

The critical point here is that WSE should not be a financial burden over time on DCCP, but neither can it be a source of excess profit. Council is able to recover only reasonable costs and generate a rate of return on use of its own capital in provision of services. This cost of capital (aka 'rate of return') is discussed more fully below.

3.3 Cost of capital/rate of return levied for WSE

The rationale in applying a cost of capital charge, whether at DCCP or elsewhere (e.g., other councils in determining appropriate CWMS services) often generates confusion. In providing a service, it is entirely reasonable that a service provider is allowed to earn a rate of return on the use of their own capital (for example, which may have been used to provide assets associated with the provision of the service). There would be a cost incurred in interest charges if a service provider borrowed money to provide a service. That same service provider incurs an opportunity cost if instead they use their own capital (the opportunity cost is the loss from not being able to use that capital elsewhere [invest it] and earn a rate of return from so doing).

Generally, the cost of capital (CoC) is applied on the value of the asset base of the entity, adjusted to net out debt - an entity is not allowed to earn an assumed rate of return on debt. This theoretically (on average over time) doesn't affect costs applied to determine prices and charges for if debt was used there would instead be interest charges incurred. The cost of capital is also not applied where the entity's assets were gifted to it by another party (e.g., a developer or another sphere of government), as it did not use its own resources to fund their provision.

There is some conjecture as to whether DCCP does or does not (and is allowed to) set prices to receive a rate of return on gifted assets. It is likely that at least some (and possibly a large share) of its WSE assets were gifted to it.

[13] See https://www.energymining.sa.gov.au/energy_and_technical_regulation/energy_supply/remote_area_energy_supply

[14] See LG Act S.155(5).

RECOMMENDATION No.2: That Council satisfy itself that the asset base upon which it generates a cost of capital is an appropriate base given the best available information regarding the extent to which assets were gifted to it.

DCCP's rate of return for water and electricity assets has been currently set at 3.84%.[15] In 2020 it reported that the *'value of the return of capital for water and electricity is approximately $814k per year.*[16] The quantum and rate applicable in other years wasn't identified but can be expected to be similar.

The above 3.84% is a real (not nominal) rate of return (it doesn't include a component to offset inflation as market rates typically do – this is because the assets that the CoC is applied against are regularly revalued to take account of the impact of inflation). It also includes a component for risk (a risk-free investment would receive a lower rate of return). The risk share of the cost of capital is not clear but is likely to be substantial (perhaps 50%).

Note: Updated explanatory information on DCCP's rate of return for water and electricity assets is provided in Item 11 at the Addendum to this document.

There are various risks associated with WSE assets and services. For example, assets might prematurely fail and consequentially not last as long as originally anticipated. As a result, whole of life annual costs would be higher than was historically assumed in determining best estimate fair charges (annual depreciation would have been higher if it had been known that the asset's useful life was going to be shorter than assumed).

The significance of the calculation of the CoC that the regulator allows in DCCP's charging decisions increases the reported revenue in its financial statements. On the other hand, the cost of this capital (effectively an opportunity cost) is not treated as an expense in its financial reports.[17] As a consequence, a regulated pricing 'breakeven' outcome will result in a financial statement reporting a net surplus (profit) equivalent to this CoC. This has important implications in assessing DCCP's financial sustainability performance. (See sections 3.5 and 4.2).

It is also important to note that revenue raised from CoC is WSE related. Whilst available cash-flow generated from this CoC could appropriately be applied (in the short-term) to meet any DCCP need, the revenue was raised to offset long-term expected costs (including opportunity cost of capital) related to WSE. If capital provided by WSE had originally been raised from municipal (i.e., other than WSE) activities, then it is reasonable that the COC (at least in part) could appropriately be utilised to help fund municipal activities. This is unlikely to be the case though (at least to any reasonable extent).

[15] See pps 31 & 33, DCCP Annual Business Plan and Budget, 2021/22.
[16] DCCP's February 2020 LTFP, p.9.
[17] This is because it does not result in a decrease in the entity's equity (e.g., it does not need to make a payment now or in future to another party or incur a decline in the value of its assets because of it) which is what is required to meet the definition of an expense.

There is much conjecture as to whether WSE CoC derived revenue should be available and utilised for DCCP municipal activities on a perpetual basis. There are at least three reasons why this should not be the case:

a) The capital utilised to acquire WSE assets (or at least much of them) probably was most likely not sourced from municipal activities;

b) The CoC that is levied includes a risk factor (perhaps 50%) as it might be needed (and should be available) to offset unexpected events that could otherwise jeopardise future WSE service levels or necessitate significant increases in charges; and

c) It has been suggested that, because DCCP is an isolated community, it follows that generally the people that enjoy WSE services are the same as those that (directly or indirectly) pay for the cost of municipal services (e.g., through rates). As such the argument goes that it doesn't really matter if the revenue raised from a WSE CoC component is utilised on an ongoing basis to fund municipal services.

   Such an argument is fallacious. Some people may pay low rates but be high users of WSE services. Others may pay high rates and utilise less than the average level of WSE services. Efficient use of services is dependent on accurate allocation of costs and for charges to be based on such costs. It is also generally more equitable. It also helps the service provider (of both municipal and regulated services) in deciding levels of services that are affordable (and acceptable to service recipients) on a long-run basis.

RECOMMENDATION No.3: That Council develop an explicit policy that clearly details the rationale as to whether the revenue raised through the levying of a cost of capital charge in determining water, sewer and electricity charges be applied to offset the cost of municipal services.

3.4 What is and what is not municipal?

Table 6 in Section 2 indicated that 'municipal' activities represented only 41.2% of DCCP's operating expenses in 2020/21. In calculating this figure all operating expenses other than WSE were treated as 'municipal'. This was done because WSE are regulated services and Council does not have long-run discretion as to what to charge. It is required to ensure that charges are neither too little nor too much in order to ensure the ongoing long-run provision of the service and intergenerationally equitable charging of service recipients over time.

Everything else is considered municipal (even though DCCP doesn't treat it that way) as DCCP has discretion as to the range and level of service provided. To the extent that these municipal service costs is more than any associated revenue then the impact affects DCCP's financial sustainability. Ultimately it has implications for how much rates it has to charge and how much other costs (other than WSE) it can incur and the range and level of services it can provide. For example, if Council chooses to under-charge (or commercially wasn't able to charge) to raise sufficient revenue to offset long-run average airport operating costs it would either need to raise sufficient revenue from elsewhere (e.g. general rates) to offset this or, if not, understand that it will jeopardise its ability to maintain airport services or one or more other (not WSE) services.

DCCP's WSE services are regulated (and therefore independently reviewed by a body with expertise and experience in such matters). This provides a reasonable level of confidence regarding their allocation of costs. Similarly, given the improved level of confidence in aggregate reported operating expenses for DCCP from 2020/21 onwards, readers should have reasonable confidence about the above defined 'municipal' operating expenses from that date forward too.

Under the above suggested approach, revenue raised from recognising a CoC would effectively be retained within the accounts (both the aggregate DCCP statement of financial position and the balance sheet of WSE related activities (if such were prepared) and would have no advantageous impact on reporting of municipal activity.

Note the above suggested definition of 'municipal' expenses is not consistent with what DCCP has traditionally defined as 'municipal' expenses (see Section 3.5 below).

3.5 Holistic focus

What was particularly stark and surprising when attempting to assess DCCP's municipal financial performance and projections was the difficulty associated with trying to ascertain such information. This is partially attributable to its ongoing resourcing capacity constraints and staff turnover, however, there is more to the picture.

Council has typically only reported consolidated results and where a breakdown is shown, it often includes categories of expenditure such of 'Town' or 'Commercial'. 'Town' includes economic development, cultural activities and tourism and 'Commercial' includes childcare and airport as well as WSE. In fact, definitions of what is included in the stated categories were not able to be clearly identified from publicly available documents.

Similarly, no financial information on what this report identifies as 'municipal' performance was specifically reported. Municipal in Table 6 in this report came from Note 11 of DCCP's financial statements but effectively required the addition of the stated amounts for 'Governance', 'Administration', 'Community Services' and 'Works' or alternatively the subtraction of 'Water Supply', Wastewater' and 'Electricity Supply' from the total. DCCP's 2021/22 Annual Business Plan does provide more information in these regards than previous annual business plans and other public documents although information is still not as clear as is suggested desirable.

It is not unreasonable for a council to establish classification categories it deems appropriate for internal management monitoring and decision-making. Although not legislatively required to do so, it should clearly disclose financial performance for major regulated utilities relative to municipal performance. It is recognised that many other local governments also do not do enough in the context of CWMS financial reporting. In most cases however, CWMS would be a small share of such councils' total operating expenses. It is noted that both Alexandrina and Mount Barker prepare long-term financial plans showing separately performance for CWMS activity, and municipal activity exclusive of CWMS. Their level of regulated to non-regulated activity is much smaller than DCCP's (e.g., compare Tables 6 and 7).

For the first time, DCCP's LTFP adopted in February 2022 shows a projected forward income statement for each of water, sewer and electricity (and other categories such as "Town' and Commercial' – as a result 'Municipal' does not include all the items defined as 'Municipal' within this report).

As an example, the Council's latest LTFP shows the following:

District Council of Coober Pedy						
Total by Business Unit financial statement						
Financial Statement allocation	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Income Statement						
Town	(333,300)	(362,000)	(368,700)	(361,800)	(360,900)	(360,100)
Municipal	(111,800)	(187,700)	(225,500)	(180,800)	(174,300)	(166,000)
Commercial	292,800	446,950	394,100	496,600	505,600	513,200
Corporate	(100)	(9,700)	(2,000)	(3,000)	(3,800)	1,300
Kanku Breakaways	-	-	-	-	-	-
OPERATING SURPLUS / (DEFICIT)	(152,400)	(112,450)	(202,100)	(49,000)	(33,400)	(11,600)

Table 8: DCCP Reported Operating Results, p.14, DCCP, LTFP dated V3.0, Jan 2022.

The Commercial category in Table 8 above includes WSE but also includes other functions (e.g., airport and child-care) that are for the purposes of this report treated as municipal. Likewise for the purposes of this report activity in the category 'Town' above is suggested to be more appropriately classified as 'municipal'.

Note also that the above LTFP only reports projected financial sustainability indicator results on a consolidated basis (at Appendix E (p.26) of the LTFP). It similarly includes consolidated operating result and net financial liabilities ratio indicator projections shown graphically in the LTFP and this is reported below as Figure 2.

Note: The DCCP has not adopted an updated LTFP since the February 2022 version. Further information is included at Item 12 in the Addendum to this document.

RECOMMENDATION No.4: That when reporting proposed, actual and projected financial performance in its Annual Business Plan, budget reviews, long-term financial plan and end of year financial statements (in the case of the financial statements as supporting notes) DCCP separately report on each of water, sewer and electricity and then disclose all of the remainder separately as municipal.

Graph 1 – District Council of Coober Pedy Financial History and projected future

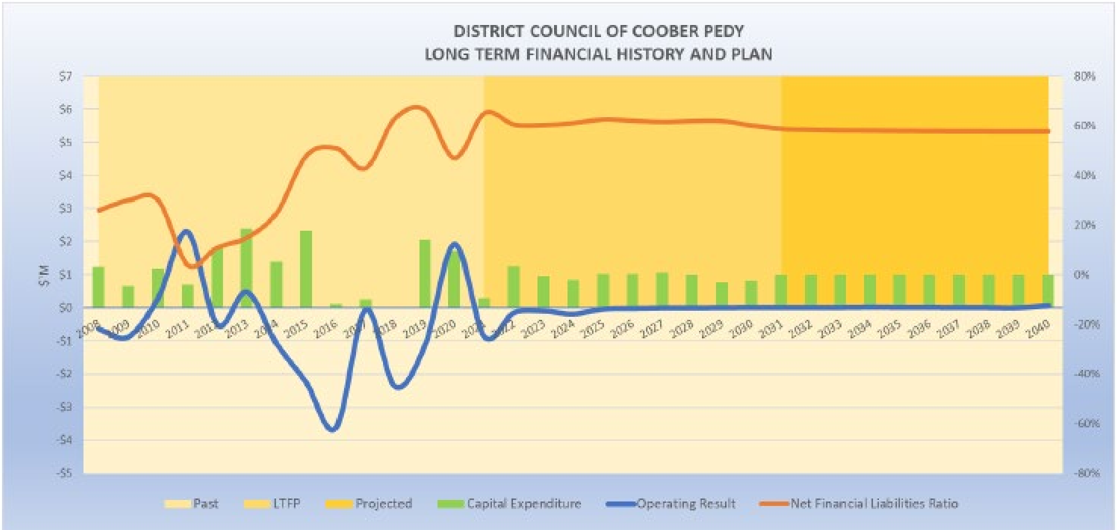

Figure 2: DCCP LTFP dated V3.0, Jan 2022, p.14, labelled Graph 1, DCCP Financial History and projected future.

Further information regarding DCCP financial sustainability indicator targets is discussed below in Section 3.6.

3.6 Key financial sustainability targets

Councils are required to report against three particular financial indicators in their LTFPs, Annual Budgets and Budget Reviews and end of year financial statements. The LGA, through its previous Financial Sustainability Program produced an Information Paper on the topic of the legislatively required financial indicators (Information Paper No.9) and suggested targets for them.[18] A brief discussion of those indicators and DCCP targets are discussed below.

a) The operating surplus ratio

This is the annual operating surplus (deficit) expressed as a percentage of operating income. The generally applicable suggested target is between 0 and 10%. This target is an underlying one (i.e., net of material one-off / abnormal events).

The operating surplus ratio (OSR) is by far the most important indicator. If a local government can maintain a small positive operating surplus on average over the medium-term, the current generation of ratepayers are paying an amount sufficient to offset the cost of services and that intergenerational equity is being maintained. If it does so in the longer-term it would typically mean that it can renew and replace assets as required to maintain service levels.

Organisations in a strong financial position may reasonably have an upper bound target lower than 10%. An upper bound target above 0% effectively provides a buffer for risk and uncertainty (e.g., premature asset renewal needs, high arrears etc).

[18] The author this report was the principal author of the initial LGA Financial Sustainability Information Paper, No 9, Financial Indicators.

DCCP has a target range of 0% to 3% for its consolidated overall financial results. This seems very low given its known financial challenges (e.g., repayment of debt arrears and renewal of failed water supply assets). It does not declare a separate target for the municipal result for this or any other indicator.

The critical problem with this target at DCCP is that the reported OSR is somewhat misleading. As reported above (Section 3.5) revenue is raised to offset Council's cost of capital for WSE but there is no expense recorded for the same. A 0% OSR consolidated result for example, if the WSE cost of capital was $814,000 pa (as reported in Section 3.3) and if WSE pricing was set to fully offset costs as allowed by the regulator then simplistically the accounting statement municipal deficit going forward would be approximately $800,000 pa and the municipal OSR would be approximately -19%.[19] In order to avoid a municipal operating deficit and assuming WSE pricing was set to fully offset regulator allowed costs then the lower bound target range of the long-run holistic operating surplus ratio should be approximately 5%.[20] (This ignores the need for a higher lower bound to offset consequences of past performance).

b) Net Financial Liabilities Ratio

The net financial liabilities (NFL) ratio is calculated by expressing net financial liabilities (estimate of what is owed to others [not just debt] less financial assets) at the end of a financial year as a percentage of operating income for the year.

LGA's Financial Information Paper No.9 recommends a target of between 0 and 100%. It states that a well-managed council could justify a higher level and that factors such as growth or CWMS responsibilities could also justify a higher figure.

DCCP's NFL Ratio target range is set at between 0 and 75%. This seems extraordinarily low given its WSE responsibilities. It is hard to see how the Council could intergenerationally equitably manage rating and charging and service provision with such a low upper ceiling.

It is likely that DCCP's debt averse target position is associated with its historically poor financial performance. In his 2018 report examining DCCP, the Auditor-General suggested the Council's financial performance was unsustainable and levels of debt excessive. This report will argue later (especially in Sections 4.2 and 4.7) that with possible and appropriate changes to achieve a reasonable OSR outcome those claims by the Auditor-General will not necessarily be valid in the future.

c) Asset Renewal Funding Ratio

This ratio measures capital expenditure on renewal or replacement of assets for a period, divided by the optimal level of such expenditure proposed in a council's Infrastructure and Asset Management Plan (IAMP, or AMP).

LGA's Financial Information Paper No.9 recommends a target of between 90 and 110% and DCCP applies the same targets. The LGA Financial Info Paper encourages councils to consider calculating this ratio on a rolling 3 or 5-year average to smooth out generally inconsequential (from an asset management perspective) peaks and troughs in capital outlays.

[19] This assumes municipal operating revenue is $4.353M (see Table 11).

[20] This assumes a CoC of $814,000 (as above) and consolidated operating income of $14.823M (see section 4.1).

The usefulness of results for the ARFR depends on having a reliable asset management plan (in fact required reporting of the ARFR should encourage councils to maintain up-to-date AMP's).

LGA Financial Info Paper No. 9 argues that if councils set appropriate targets for the above three indicators and achieve these targets (based on reliable financial and asset management data), they should maintain ongoing financial sustainability. There is little doubt that DCCP has not maintained reliable data historically (but that now seems to have been generally overcome). It needs to set and manage its decisions to achieve appropriate financial targets for these indicators.

d) Asset Sustainability Ratio

DCCP also reports performance applying the Asset Sustainability Ratio. This indicator compares asset renewal expenditure with depreciation. Councils were initially required to report their asset management performance for this ratio rather than the Asset Renewal Funding Ratio. This was because when financial indicator reporting was introduced most councils did not have asset management plans. It was always recognised that there could be appropriate significant swings in annual asset renewal expenditure need. Spending on asset renewal consistent with depreciation even over the medium or longer-term may not be optimal. When most councils had developed reasonably reliable and up-to-date AMP's the requirement to report performance for this ratio was discontinued. Experience has shown that this indicator is not a reliable indicator of performance.

RECOMMENDATION No.5: That Council review the financial indicators that it uses to report performance and the targets it sets for desired achievement and ensure through its revenue and expenditure decisions, that these targets are achieved (at least on average every 3 years) on an ongoing underlying basis. These targets also to be separately set and monitored for municipal and each of water, sewer and electricity activities.

In summary, Section 3 has revealed that DCCP's financial sustainability focus has been on its overall (holistic) results and projections. It is understandable for an organisation to look at its consolidated financial information. However, the reality is that the scale and regulated arrangements associated with revenue-raising for DCCP's WSE activities mean that financial performance and projections for its municipal responsibilities have been disguised to all (including presumably DCCP's management). This has led to various municipal financial challenges that cannot be addressed by strong WSE financial performance (in fact the ongoing drain of poor municipal financial performance has become a drain on WSE financial and operational performance). These issues are discussed further in Sections 4.2, 4.3 and 4.4 below.

4. RESPONSES TO ISSUES RAISED IN THE BRIEF

Earlier sections of this report have attempted to provide an overview of DCCP's particular circumstances that need to be considered in assessing its financial performance. With that background, this section now offers responses to the specific questions in the consulting brief. The full consulting brief is attached as Appendix B. Questions identified in it have been paraphrased and listed in chronological order in the sub-sections below.

4.1 Issue 1 – Council's financial position and performance

An assessment of the Council's financial position and performance (based on data in the Council's 2020-21 financial statements and its adopted Long-term Financial Plan)

The Council has recently (Feb 2022) adopted an updated LTFP. This plan is the focus of comments in this section. It is based on (and reconcilable to) actual 2020/21 performance (which itself has been audited and is based on a revised chart of accounts and therefore for both reasons is considered more reliable than financial performance reports of previous years).

The LTFP seems to be a comprehensive and well-produced document with thorough and reasoned assumptions clearly stated. Many councils produce LTFPs that with the benefit of hindsight prove too optimistic. This plan seems relatively conservative by comparison, and key risks are well highlighted. Nevertheless, there is still a chance that future expenditure net of assumed revenue will be higher in future than assumed here.

Note: Updated explanatory information on the Council's financial position and performance is provided at Item 13 in the Addendum to this document.

In Section 3.6 the importance of focusing on three financial indicators was highlighted. Council's new LTFP reports its performance for these three indicators. This is shown below in Table 9.

Y/E 30 Jun	**22 budget**	**23 (Y1)**	**24 (Y2)**	**25 (Y3)**	**26 (Y4)**	**27 (Y5)**	**28 (Y6)**	**29 (Y7)**	**30 (Y8)**	**31 (Y9)**	**32 (Y10)**
OSR	-4%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%
$'000 underlying forecast Oper Surplus/(deficit)	-152.4	-99.7	-189.1	-36.0	-18.4	-4.8	-4.8	1.2	6.2	7.2	7.2
Underlying OSR	-1%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%	0%
NFL Ratio	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
ARFR	86%	71%	61%	17%	16%	153%	122%	110%	100%		

Table 9 DCCP budgeted and LTFP projected 'consolidated' results, all sourced from January 2022 Long-Term Financial Plan adopted February 2022.

1) The operating surplus ratio on face value looks lower than desirable but not excessively unreasonable. A more reliable picture of trend financial sustainability is always gained by looking at the underlying operating surplus ratio.

2) The actual $ value underlying operating surplus/(deficit) shows a small deficit in the early years and effectively a break-even result after that.

3) Each year, the underlying operating surplus ratio shows a 0% result (or very close thereto). It needs to be borne in mind what was said about the impact of the levied WSE cost of capital in Section 3.3. This cost of capital accounting impact improves the recorded Operating Surplus/(deficit).

   This assumed cost of capital of $814,000 means the Op Surplus/(Deficit) is improved by that amount and the OSR improved by about 5% (consolidated budgeted operating income in 2021/22 is $14.823M).[21]

4) The NFL Ratio is forecast to remain constant and at a modest level. Note, this doesn't incorporate the recent change in Australian Accounting Standards impact of recognising lease payments associated with electricity assets as a financial liability.

5) The asset renewal funding ratio averages 45% over the nine years shown (see Table 14 data). It is not a significant concern that the ratio varies from year to year. It is more of a concern that the LTFP accommodates less than 50% of what the AMP indicates is warranted (although the ARFR is approximately 100% if renewal of water assets is excluded). It is understood that this arises because of DCCP aggregate cash-flow constraints. The AMP adopted in early 2020 does not include data on expected renewal and replacement capital expenditure needs for 2030/31 or 2031/32.

A more detailed discussion of DCCP's projected financial sustainability is included in Section 4.2 below.

Note: Updated data covering Table 9 and explanatory information on the AMP is provided at Items 14 and 15 in the Addendum to this document.

4.2 Issue 2 – underlying operating deficit for municipal activities

an indication of the level of the Council's underlying operating deficit covering municipal activities under current policy settings

DCCP's LTFP provides a consolidated Statement of Financial Performance (aka Income Statement). It is reported in the LTFP as Appendix A. The LTFP also discloses the same statements for water, sewer and electricity (LTFP Appendices I, J and K). Subtracting the latter from the former enabled the preparation of a 'Municipal' Income Statement. It has been included in this report as Appendix C.

Data shown in Appendix C has been used to prepare Table 10 and the associated comments below.

Y/E 30 Jun	22 budget	23 (Y1)	24 (Y2)	25 (Y3)	26 (Y4)	27 (Y5)	28 (Y6)	29 (Y7)	30 (Y8)	31 (Y9)	32 (Y10)
OSR	-26%	-15%	-14%	-13%	-13%	-13%	-13%	-12%	-12%	-12%	-12%
$'000 underlying forecast Operating Surplus/(deficit)	(1,114)	(636)	(551)	(507)	(498)	(492)	(491)	(485)	(482)	(479)	(479)

Table 10 DCCP Budgeted and LTFP projected municipal results, sourced by calculations from January 2022 Long-Term Financial Plan adopted February 2022.

Note: Updated data covering Table 10 is provided at Item 16 in the Addendum to this document.

[21] Recent DCCP documents don't explicitly state cost of capital details. On p.9 of the 2020 LTFP an amount of $814,000 was specified. It is unlikely to have varied materially since then. See also Section 3.3 of this report.

1) The operating surplus ratio is significantly in deficit throughout the 11 years. It is essentially unchanged beyond 2021/22 with only some relatively minor one-off factors in the 2021/22 budget year.

This result is not surprising given the OSR result for consolidated DCCP in Table 9. Table 9 shows an effective break-even result which incorporates CoC revenue for WSE. Removing WSE must inevitably mean municipal activities are incurring an operating deficit.

It is stressed again that WSE are regulated activities. Council cannot increase its WSE financial performance result (improved efficiency and lower costs result in lower charges and subsidies, not increased surplus). Even if it could, it would not improve DCCP's municipal performance. The only way that DCCP could improve its municipal financial performance is by increasing municipal income and/or reducing municipal expenses on an ongoing basis.

Shown below in Table 11 is estimated Municipal Income for Year 1 (2022/23) of the LTFP.

Income	**$'000**
Rates	1,743
Statutory Charges	12
User charges	597
Grants, subsidies and contributions	1507
Investment Income	15
Reimbursements	186
Other	50
Total	**4,110**

Table 11 DCCP's operating income by nature and type for 2022/23, sourced by calculations from 2022 Long-Term Financial Plan adopted February 2022 (and included as Appendix C)

Table 11 shows that rates are DCCP's largest controllable source of municipal income. The possible practicality of increasing this source of income is discussed in Section 4.7. It should be noted that the LTFP (which has sensibly been produced in real (current) values shows little material variation in real terms for the years thereafter.

It is not possible to prepare a similar table to Table 11 for operating expenses as municipal expenses are credited with labour on-costs and overheads for WSE and these are not broken down by expense nature and type categories.

Note: Updated data covering Table 11 is provided at Item 17 in the Addendum to this document.

2) The actual $ value operating surplus/(deficit) hovers at about a deficit of $500,000 in each year of the LTFP. It is assumed that this deficit would have been somewhat closer to the WSE cost of capital (estimated at say $800,000 pa – see section 3.3). The difference is unclear. Perhaps there are with timing lags and abnormal items. Perhaps also a different CoC is assumed in some years.

3) No material one-off factors have been identified in the LTFP and an underlying OSR has therefore not been calculated.

4) The NFL Ratio is unable to be calculated as the LTFP does not include statements of financial position for any WSE categories. Given the comments in Section 4.1 concerning the consolidated NFL ratio there should be no concerns regarding the municipal NFLR.

5) The asset renewal funding ratio is unable to be calculated for municipal activities. Whilst it is possible to ascertain from the AMP identified warranted renewal and replacement capital expenditure by municipal and WSE categories, a breakdown of actual proposed renewal/replacement expenditure by category is not provided in the LTFP.

The bulk of identified forecast renewal/replacement capital expenditure in the AMP is for the water system. Municipal asset renewal needs are relatively modest. However, on a stand-alone basis DCCP would still struggle to fully accommodate this going forward given its minimal available cash-flow and the projected large ongoing operating deficit.

It would be helpful for internal management and external transparency for DCCP financial reports to separately and distinctly account for municipal and each of its WSE responsibilities. Each should be managed as separate business units. This could involve establishing a subsidiary (perhaps just one) to manage WSE activities (as per Section 42 of the Local Government Act). Subsidiaries do incur additional administrative costs and DCCP should carefully consider whether establishing a subsidiary is warranted relative to less formal 'business unit' arrangements. Regardless, distinct financial reports for municipal and each WSE activity should be prepared.

In summary, whilst data is not as fully available as is warranted, it is obvious that DCCP 'municipal' is in a very precarious financial position. Council needs to take action as soon as possible to address this by significantly increasing municipal revenue and/or decreasing municipal expenses. Failure to quickly plot and achieve a path to financial sustainability will seriously jeopardise municipal service levels in the near future. To help it monitor municipal financial performance, it needs to revise the format of its financial reports (including its ABP & LTFP) to clearly highlight its municipal results. DCCP should manage its municipal and each of its WSE responsibilities as separate business units.

RECOMMENDATION No.6: DCCP manage its water, sewer and electricity activities as separate 'business units' (as far as practically feasible) including giving consideration to formally establishing one or more subsidiaries for their oversight.

4.3 Issue 3: capacity to borrow from LGFA & repay EDL debt

Provide any comments on whether the achievement of ongoing operating break-even results covering both commercial and municipal activities (excluding any return on assets) would be sufficient to repay outstanding EDL debt within 5 years as well satisfying any concerns held by the LGFA about the Council's finances

Currently, DCCP (as at the end of Dec 2021) owes approximately $1.3M to EDL. Arrears can fluctuate significantly between periods and appear to generally hover between $1M and $2M. Monthly invoices from EDL are typically between $500,000 and $600,000. DCCP pays some of the outstanding arrears balance when cash-flow permits and fails to make payments in other periods.

This initial debt arose several years ago when DCCP had a dispute with EDL and withheld payment for some time. Since then, payments by DCCP have lagged the quantum necessary to clear the monthly outstanding balance of arrears. The arrears appear to presently attract a penalty interest rate of about 3.93% pa which is higher than the current (at 10 Feb 2022) LGFA cash advance debenture rate of 2.05% pa. Based on arrears of $1.3M DCCP would save about $24,000 pa if it could obtain a loan from LGFA to repay EDL arrears.

LGFA is unlikely to lend additional funds to DCCP unless DCCP can convince it that the Council is making firm progress to operate municipal activities in an ongoing financially sustainable manner (and LGFA has made this point known to DCCP over several years).

Council's recently adopted LTFP does not accommodate the payment of this debt; in fact EDL arrears appear to be assumed to be $1.8M at each year-end of the LTFP. The year-end cash-flow statement in the LTFP forecasts that DCCP would not have sufficient cash to clear this debt over the next ten-year period. That is of course based on DCCP LTFP expenditure plans. It could for example, repay the debt if it spent a correspondingly lesser amount on asset renewal. This is shown in Table 12 below. However, it needs to be recognised that the current LTFP already allows less capital expenditure for asset renewal than is recommended in Council's adopted AMP.

Y/E 30 Jun	**22 budget**	**23 (Y1)**	**24 (Y2)**	**25 (Y3)**	**26 (Y4)**	**27 (Y5)**	**28 (Y6)**	**29 (Y7)**	**30 (Y8)**	**31 (Y9)**	**32 (Y10)**
$'000 Forecast cash at period end	698	624	527	539	620	565	565	811	1002	1041	1080
$'000 Proposed expenditure on asset renewal	1092	961	850	1035	1022	1071	1016	776	836	989	989

Table 12 DCCP Budgeted and LTFP projected year-end cash and proposed annual asset renewal expenditure, sourced from January 2022 Long-Term Financial Plan adopted February 2022.

DCCP advises that*; 'Approximately 50% of electricity income is received from user charges, and the other 50% is from the State.'*[22] It indicates that 2021/22 electricity operating income is expected to be $7.983M of which grants, subsidies and contributions make up $3.450M.[23]

It should be borne in mind that the State Government, through its annual subsidy (RAES) payment to DCCP has continuously provided sufficient subsidy funds to enable DCCP to use this and revenue from charges to allow it to meet all debts due to EDL approximately as and when they fell due. The arrears that were initially withheld during DCCP's dispute with EDL were effectively implicitly consumed in providing municipal services due to DCCP's large ongoing municipal deficit.

The fact that DCCP has not made this legally due payment to a private sector entity for an essential service that it has received sufficient income to offset must generate concern for DCCP, the local government sector and the State Government. DCCP has effectively treated monthly arrears as a floating overdraft. The current situation is a blight on the otherwise generally high standards of financial management and corporate and civic ethical responsibility of SA local governments. Steps should be made to explore the means of promptly clearing arrears. This would probably require convincing LGFA that it is in the interest of everyone for it to extend a further loan to DCCP. DCCP itself would need to make significant firm improvements for LGFA to agree to this.

[22] See February 2022 LTFP, p.10, Section 4.6

[23] See February 2022 LTFP, p.31, Appendix I

The State Government currently makes five payments per annum to DCCP under its RAES Scheme arrangements. It is understood that informally it insists on DCCP applying such funds when received to pay down EDL arrears. This happens but outstanding arrears can still rise in between RAES payment periods if DCCP does not make monthly due payments to EDL.

RECOMMENDATION No. 7: That DCCP, LGA of SA, LGFA and State Government representatives meet with a view to agreeing arrangements for DCCP to fully repay its arrears to EDL as soon as possible.

DCCP also has various loans taken out with the LGFA. These are as shown in Table 13 below.

Loan Reference No.	Type	End Date	Current Bal (S)
41472	Credit Foncier	15 Jun 2022	13,170
46414	Credit Foncier	15 Sep 2024	33,188
60409	Cash Advance	15 Mar 2022	3,500,000 (at max)
60247	Cash Advance	15 Mar 2022	4,300,000 (at max)

Table 13: DCCP outstanding loans with LGFA, source; statement provided by LGFA.

DCCP's current LTFP assumes that the existing two small credit foncier loans will be repaid on time. LGFA cash advance loans can be repaid and redrawn during the loan period as the borrower prefers. (Both currently have a balance at their limit maximum.) DCCP's current LTFP makes no provision to repay the cash advance debentures. It assumes that they will be rolled over as they have been previously (2 or 3 times by LGFA for increasingly short-term periods, they were last rolled over in August last year[24]).

The LGFA has in recent years tightened and more clearly formulised its lending criteria. It now places emphasis on a council demonstrating it can maintain a position of operating in a financially sustainable manner over the longer-term (as evidenced in a council's LTFP) and is committed to so doing (e.g., past performance reasonably follows previous LTFP projections). If the LGFA is prepared to roll over the DCCP cash advance debentures further in future, it is likely to place more stringent conditions on DCCP. DCCP would become almost immediately insolvent if rollover of the loans was not approved. The key reason that DCCP recently updated its LTFP (Feb 2022) and most previously did so two years ago is because LGFA had insisted on up to date such documents in order to consider rolling over these current loans.

Note: Updated data covering Table 13 and explanatory information is provided at Items 18-21 in the Addendum to this document.

[24] It is understood that LGFA has recently approved the loans being rolled over for a further 6-month period and expects financial improvement by DCCP during this period.

4.4 Issue 4: asset management projected performance

Assess whether the Council has reliable data on all of its assets systematically recorded in a manner which enables sound asset management decision making. Provide any comments on the rigour of the Council's Infrastructure and Asset Management Plan and whether it is in sync with the Long-term Financial Plan

Good asset management planning depends on having good accounting records. This includes the identification and listing of all assets in the asset register (including appropriate levels of componentisation of complex assets) and the assignment to each of them reasonably reliable estimates of remaining useful lives, fair value (generally current replacement cost after allowing for depreciation) and regular revaluation (generally at least every 5 years).

From experience, most councils could do better in the above regards. However, it is a question of what is reasonable (and cost-effective) and material relative to the time and costs involved. For example, the remaining useful life of long-lived assets, particularly in the first-half of their lives must always be an estimate. Inevitably, external stakeholders must rely on external auditors' assessment of the accounting records of assets.

DCCP has previously had difficulty in convincing an external auditor to provide an unqualified opinion as to the reliability of its financial statements in recent years. An unqualified opinion was provided in 2020/21 indicating that considerable progress has been made and the auditor (the firm of which is well-respected and experienced in local government financial reporting) was satisfied as to DCCP's asset and accounting records.[25] As such there is no reason to suggest that DCCP does not have all of its material assets systematically recorded in a manner which enables sound asset management decision making.

Note: Updated explanatory information on the 2021/22 audit opinion is provided at Item 22 in the Addendum to this document.

Pleasingly DCCP has an up-to-date (in terms of legislative requirements) asset management plan that covers all major categories of its assets. Not all councils could say that. It was adopted in February 2020.

The Asset Management Plan has been prepared using the Institute of Public Works Engineering Australasia's NAMs.Plus format and tools (an approach that I am supportive of).[26] NAMs.Plus for example relies on asset register recorded information regarding asset replacement cost and remaining useful lives of existing assets. As such it prompts the review and revision of such data when considering renewal and replacement needs. (My experience is that many councils do not revise asset useful lives as actively as warranted for local circumstances).

DCCP's asset management plan includes a breakdown of proposed asset renewal by the function/activity it relates to. This is shown in Table 14. Table 14 also includes asset renewal accommodated in the LTFP.

[25] As highlighted in a footnote in Section 3.1, the auditor (Bentleys) did however raise other matters of concern.
[26] I have continued to do work for IPWEA over the past 16 years.

Y/E 30 Jun	22	23 (Y1)	24 (Y2)	25 (Y3)	26 (Y4)	27 (Y5)	28 (Y6)	29 (Y7)	30 (Y8)	31 (Y9)	32 (Y10)
Electricity $’000	146	50	294	11	-	-	-	-	-		
Transport $’000	566	566	566	566	566	566	566	566	566		
Water $’000	40	25	120	5250	5250	15	150	20	150		
Wastewater $’000	-	-	-	-	-	-	-	-	-		
Buildings $’000	50	-	-	-	-	-	-	-	-		
Plant $’000	470	720	420	120	470	120	120	120	120		
Total $’000	1272	1361	1400	5947	6286	701	836	706	836		
LTFP asset renewal exp $’000	1092	961	850	1035	1022	1071	1016	776	836	989	989

Table 14 DCCP projected capital renewal and replacement expenditure by asset class and LTFP proposed annual asset renewal expenditure, sourced from Table 5.2 of AMP and current Long-Term Financial Plan.

Table 14 shows high levels of asset renewal of water related assets planned for 2024/25 and 2025/26 totalling $10.5M.

Interestingly, DCCP’s AMP states at the start (p.2) that; ‘*Our present, funding levels are sufficient to continue to provide existing services at current levels in the long term*.’ This is surely debatable, particularly having regard to current water supply problems and the fact that the latest LTFP is only able to accommodate 42% of AMP proposed asset renewal levels. (The ARFR is approximately 100% if replacement of water assets is excluded.)

The key issue in preparing an asset management plan is not to include in expenditure projections what is desired in terms of asset renewal but what is affordable in terms of maintaining a financially sustainable long-term financial plan. Inevitably this will involve trade-offs to both the content of the AMP and the LTFP. In doing so it is important that the AMP highlight the risk likelihood and consequences (e.g., impact on levels of service and risk of failure) of spending less than is considered technically desirable. DCCP’s current AMP doesn’t do this.

It is understood that DCCP recognises the merit of undertaking a review of its AMP in the near future and has indicated it is committed to so doing.

RECOMMENDATION No.8: That DCCP’s asset management plan and long-term financial plan be revised to ensure that proposed asset renewal expenditure in both documents is identical and up-to-date and reasonably reliable based on best estimates.

4.5 Issue 5: risk management

Assess whether the Council has an adequate risk management policy in place covering issues such as identifying, analysing and evaluating risk, developing and implementing risk management plans and monitoring and reviewing risk management plans and practices

DCCP has a ‘Risk Management Policy and Framework’ document. It is dated 2013 and appears to be closely based on a standard template developed and promoted by the Local Government Association’s Local Government Risk Services. I was advised that DCCP does not have or maintain a Risk Register.

There was no evidence of formal consideration of risk in the meetings of Council’s ‘Audit Committee’ in either 2020 or 2021. Council’s Audit Committee considered a work program at its April 2020 meeting that included*; 'Receive and review report on Risk Register project' including Draft Risk Management Plan'* and *'Receive and review report on Strategic Risks'* at its August and November 2020 scheduled meetings. No record was able to be identified in the subsequent minutes of 2020 that such reports were ever considered by the Audit Committee (and no record of further reporting against the work program was carried out in 2020 or 2021).

Interestingly Council's recently updated LTFP consciously articulates key risks associated with the realisation of the plan's financial projections including their likelihood and consequence. This looked to have been well considered and was claimed to have been carried out in accord with the above 'Risk Management Policy and Framework' document and hopefully is an indication of Council's intention to more formally identify and manage risks organisation-wide.

RECOMMENDATION No.9: That DCCP develop a risk register and it be regularly updated as warranted and be monitored and reviewed at least annually by its audit committee.

4.6 Issue 6: audit committee review of asset management

Assess whether the Council's Audit Committee explicitly reviews information on asset management planning and achievement

Council has an audit committee that met reasonably regularly in 2020 and 2021 (5 times in 2020 and 4 times in 2021). It is clear though that it has not been able to do all that the SA LG Act expects an audit committee to do. DCCP acknowledges this and suggests that this is a consequence of workload and resource constraints. This is understandable in the circumstances. The Chair of Council's audit committee (a respected person with sound technical skills and extensive relevant local government experience) has indicated that the focus of the audit committee's efforts has been on the organisation generating external financial statements acceptable to its auditor (i.e., audited without qualification). This priority is understandable and has now been achieved.

As highlighted in Section 4.5, in early 2020 an audit committee agenda report listed the committee's work program and proposed timing for resolution. This program was not comprehensive but did cover key issues. No mention of the work program was mentioned in agenda or minutes again until March 2021 where it was acknowledged that the work program had not been reported against for many meetings because of other workload priorities. There was no resolution at the time and the matter was not touched on again in the three subsequent meetings in 2021. From discussions with the Administrator and Audit Committee Chairperson it is clear that Council recognises the importance (for both internal performance monitoring and actions and external accountability) of having and reporting against an updated work program at each audit committee meeting. Steps are now being taken to ensure that this occurs.

Other parts of this report have highlighted the importance of all councils having a reliable and up-to-date LTFP. Legislation requires LTFP's to be reviewed and updated annually.[27] It is disappointing that DCCP did not review its LTFP for 2 years between February 2020 and February 2022. No evidence was found in the audit committee's minutes that it raised any concerns regarding this.

[27] LG Act, Section 122(4)(a).

The audit committee was consulted on the content of the 2020 AMP and 2020 and 2022 LTFP before they were subsequently adopted with some additional information included in an agenda report.[28]

RECOMMENDATION No. 10: That DCCP's audit committee develop a work program that addresses all legislatively supported and other warranted as appropriate responsibilities and that it monitor this program at each of its meetings. This work program should be included in each audit committee meeting agenda and the meeting minutes record the outcome of the committee's review of same.

4.7 Issue 7: sale of assets and revised rating strategy

Provide recommendations on potential actions to address any issues identified, which may include the potential sale of assets, or the application of a revised rating strategy

Recommendations wherever considered appropriate have been included in this report at the most relevant point of related discussion. They are all identically reprinted in Appendix A. The issue above also includes two very important other issues, the sale of assets and DCCP's rating strategy. These are discussed separately below.

1) The Sale of Assets

Most councils have some assets that could potentially be disposed of. They typically include land and buildings and plant. In the overall context of councils' general asset holdings and operating results, their disposal will usually make very little ongoing difference in its financial circumstances (but can deliver significant one-off cash-flow). With the possible exception of its water supply service, it is assumed that that is also the case at DCCP and consequently has not been broadly investigated.

The possible sale of the water supply assets (and transfer of the operational function to another party) does warrant some comments. Council has expended considerable efforts to date (and proposes further in future) to explore the merits of sale of this function whether to the private sector or to SA Water.

Whoever ultimately has responsibility for Council's current water function will effectively be required to meet the regulator's charging requirements. Effectively DCCP cannot charge more than a fair price that recovers costs and a stipulated return on assets. In the case of SA Water, it is assumed that its pricing for water services at Coober Pedy would be unchanged from that that applies elsewhere (a common Statewide pricing policy).

Irrespective of whether the function was transferred to SA Water or another party, the new entity would presumably weigh up the initial and ongoing forecast capital and operating costs it would need to incur (and risks) relative to income it could expect to receive. Such a calculation would help it determine what (if anything) it was willing to pay DCCP to assume this responsibility

[28] See DCCP Audit Committee agenda of 6 December 2019

(effectively to purchase this expected ongoing net income stream). In this analysis the current written down 'book value' (even if reliable for accounting purposes) would have no relevance to the amount that a party was willing to pay.[29] (The vast majority of Council's assets are infrastructure and these are currently appropriately valued on a replacement cost basis rather than on their commercial market value.[30])

There has been talk that politically a future State Government could require SA Water to take over DCCP's current water responsibilities. Even if this occurred it is likely that the above would still hold. It is understood that SA Water was recently instructed to assume Tea Tree Gully Council's CWMS assets and function. It is further understood that the assets will be transferred to SA Water for a 'peppercorn' (presumably because it will cost SA Water more than it receives in charges from providing the service).

Even if the water assets were sold for an attractive quantum, there may still be another issue. As a regulated asset it is hard to understand the logic of the quantum from any such sale transferring to DCCP 'municipal'. It is unlikely that DCCP 'municipal' contributed much if any of the original capital that established the scheme. Surely service recipients could argue that if the asset does indeed now have material net worth that net worth has arisen either because of their contributions over time or because the assets were originally gifted (and intended therefore for the benefit of water supply service recipients). As such it seems hard to understand why DCCP 'municipal' should receive a windfall – particularly if a private firm assumed responsibilities and sought to price at a level that enabled it to recover the amount it paid to DCCP.

The investigation of the possible water supply sale has dragged on for considerable time. It may take considerably longer to resolve. In the meantime, the financial position of DCCP municipal becomes ever more perilous. It is recognised that sale of the water supply function in line with DCCP's aspirations may provide significant relief to DCCP municipal's financial circumstances but possibly not enough to ensure ongoing financial sustainability without other major municipal related reforms. Any interest generated on revenue from the 'sale price' (if retained by DCCP 'municipal') or saved from expenses by repaying debt where possible may not be sufficient to more than offset the annual ongoing deficit of more than $0.5M pa.[31]

The sale if it occurred would also mean that some DCCP overheads that are relatively fixed in at least the short-term would not be able to be recovered from water activities. These water related overheads are currently estimated by DCCP to be of the order of $0.5Mpa. How much of these

[29] DCCP's 2020/21 annual financial statements, note 11 says water & wastewater are valued at $10.8M and $1.5M respectively.

[30] Refer Note 6, DCCP's 2020/21 Financial Statements.

[31] DCCP's Feb 2022 LTFP says: p.14 that modelling undertaken by Council has demonstrated that the loss of the Water Business for compensation equal to the value of water assets would result in a significant deterioration to Council's financial position. Table 13 shows DCCP has outstanding LGFA CAD loans totalling $7.8M. The interest payment on these is currently 2.05%pa. Paying these off would currently save $160,000 per annum. DCCP needs at least $0.5M more per annum (ideally considerably more) to be financially sustainable. Paying off say $1.8M arrears from EDL at say 3.93%pa would save $70,000pa. LGFA's best rate on investments is currently 2.45% for a 3-year term (including estimated bonus). $11.02M invested at 2.45% would generate $270,000. Thus, to be $0.5M pa better off DCCP would currently need an additional lump sum of say $20.6M. If it had such funds, it would presumably also face pressure to expend at least some of such a quantum on other asset renewal/maintenance and service level matters.

costs could be quickly reduced is unclear but DCCP would presumably need to reduce some staffing and administrative costs (part-persons would not always be practical to save or retain on an ongoing basis). DCCP municipal costs would rise (at least in the short-term).

RECOMMENDATION No. 11: That given DCCP's current financial position and the uncertainty of the possible future sale of its water function, it base its long-term financial plan and asset management plan, on having ongoing responsibility for the water function until it becomes otherwise certain and that it set its budget and financial strategies based on these documents.

2) Application of a revised rating strategy

The SA LG Act provides a relatively wide range of choices as to the methodology of a council's rating arrangements. Commencing in 2020/21 DCCP introduced a revised rating system. This system is based on;

a) A single rate in the dollar (i.e., no differential rates and presumably rating based on the capital value of properties);

b) No fixed charge (and assumed no minimum rate);

c) Transition from the previous system over a number of years with a cap of 10% on individual rate increases.

LGA Financial Sustainability Information Paper No. 20 provides an overview of local government rating provisions and theory including discussion on policy considerations.[32] It generally argues in favour of application of a fixed charge but also acknowledges that the right mix of tools and the extent of their application needs to have regard to each council's circumstances (e.g., community and property character and population mix) which can vary widely.

There is often considerable popular debate as regards whether a council is high or low rating. Confusion often arises. All other things being equal a council with higher property values will have a lower rate in the dollar compared with one with lower property values. Similarly, a council with considerable commercial or primary production property might have lower average rates than one without.

Whilst not a perfect indicator and that may generate some anomalies, it is my experience that the best comparative available measure of a council's relative rates is obtained by looking at the average quantum of rates per residential property. Table 4 in Section 2 of this report showed the average residential rates for a small group of councils with the lowest residential rates. DCCP was 4th on this list.[33]

Earlier discussions suggested that DCCP municipal has an ongoing deficit of approximately say $500,000 pa (see Table 10). Table 11 showed that DCCP expects that rates will be $1.743M or 42% of expected operating revenue of $4.110M in 2022/23. Based on this information rates would need to increase by say about 30% to break-even or about 40% (both in real terms) to achieve an ongoing operating surplus ratio of 5%.

[32] The author of this report was also the principal author of that paper.
[33] As highlighted in more detail in a footnote to Table 4 care needs to be taken in relying on Table 4 data. Past experience suggests it is not always as accurate as it could be.

Is it reasonable to assume that a significant increase in DCCP general rates is affordable? The 2019/20 LGGC Database Reports (Report 6) suggested that Statewide average residential rates were $1,616, i.e., 49% more than DCCP's $1,086.

The ABS personal median income data by local government area shows that DCCP had a median income of $46,754 per person in 2018/19 (latest available) which was 6.3% lower than the SA average of $49,888 (or expressed in reverse, the SA average median income was 6.7% more than DCCP's). Whilst obviously more research would be warranted it does suggest on face value that there is scope for real increases in DCCP average residential rates payable.

Of course, just because a council area has relatively low-income levels, it doesn't follow that it should necessarily have low rates. It should only have low rates in such circumstances if municipal service levels that ratepayers want and are prepared to pay the net cost of what can be provided with low rates. Whether it has high services or low services a council's level of services need to be provided on an ongoing financially sustainable basis. If DCCP concludes that its community cannot bear real rate increases then it needs to identify ways to reduce operating costs on an ongoing basis to achieve financial sustainability. It also needs to be recognised that DCCP's annual Financial Assistance Grant has been determined on a basis that takes into account (as far as the total pool of available funds and minimum per capita constraints allow) its lower capacity to pay rates and the higher cost of service provision.

Note: Updated explanatory information on the DCCP's ongoing operating deficit, affordability of general rates and ABS personal median income data is provided at Items 23- 25 in the Addendum to this document.

RECOMMENDATION No.12: That Council consider the capacity for real increases in general rates or reductions in operating costs as a means to eliminate its municipal operating deficit.

5. SUMMARY AND CONCLUSIONS

DCCP is a mid-level SA council in financial aggregate because of its WSE responsibilities but very small in municipal only terms. If carefully managed this should mean that overheads associated with WSE activities can advantageously realise considerable economies of scale and intangible benefits for DCCP. If not, it could result in a municipal cost structure that DCCP cannot afford. Sadly, the past outcome appears to suggest more of the latter than the former.

DCCP has had significant governance, financial management, asset management and staff turnover challenges in recent years, many of which it has been progressively getting on top of. It does however still have considerable municipal financial performance challenges that it needs to progress.

Council is allowed to set fees for its WSE roles to recover fair costs but not to make excess profits to cross-subsidise municipal activities. The net cash-flow (which is not the same as profit) from these WSE activities has effectively propped up municipal activities for some years. As would be expected from the above, LTFP projections suggest effectively that without actions to improve municipal financial performance this is at best a holding pattern.

DCCP's most immediate major problems are the payment of its EDL debt (currently $1.3M but assumed long-run to average about $1.8M) and the need to spend large amounts renewing and replacing failing (particularly water-supply related) assets. Its current asset management plan envisages high levels of asset renewal of water related assets planned for 2024/25 and 2025/26 totalling $10.5M. Its recently updated LTFP appears to make no provision for this renewal/replacement.

Its current LTFP, which is based on no real increase in municipal rates, proposes to spend significantly on asset renewal ($9.545M) over the next 10 years (beginning from 2022/23) but if it does so it would not be able to repay the EDL loan over this period. Steps need to be considered to repay this debt earlier. The proposed $9.545M of asset renewal is only though 45% of what its current AMP suggests is warranted in the next 8 years (although about 100% excluding water asset renewal). Council needs to produce a new AMP that is affordable and consistent with a new LTFP that is financially sustainable both overall and for municipal activities.

The regulated price arrangements for WSE services mean that if DCCP had been reliably monitoring costs (including condition & remaining useful life of water assets etc.) it should have never got into this position. It has effectively received the funds (a combination of service charges and State subsidy) sufficient to pay EDL and undertake necessary asset management and renewal. It's effectively used that money instead to prop up municipal activities. By not maintaining reliable financial records (now since generally resolved) and producing financial reports for each of WSE separate from municipal, it hasn't necessarily explicitly realized that municipal responsibilities have incurred a significant ongoing major annual operating deficit. Using funds as necessary to maintain municipal expenses and service levels has led to the current EDL arrears and water-related asset management problems.

DCCP will need to reduce municipal operating expenses (e.g., staff costs) and or increase municipal operating revenue (probably rates) significantly in order to be financially sustainable. It needs to act to reasonably progress this outcome as soon as possible. Doing so would help realise additional cash which could be applied to needed asset renewal. Even so it is likely still to need to borrow more for this purpose (and possibly to repay EDL). The LGFA's policy these days is generally to insist that a council will maintain (and improve as necessary) its financial sustainability over a 10-year period in order to consider lending to it. DCCP is likely to need to introduce considerable actions that demonstrate it will achieve satisfactory financial performance in future before LGFA would be willing to consider making available additional loan funds.

There are undoubtedly significant financial challenges ahead. There is though no reason to consider that these challenges are any less insurmountable than those that many other SA councils have wrestled successfully with over the past 20-years to achieve ongoing financial sustainability. The success of these other councils indicates that a similar path can be traversed by Coober Pedy.

APPENDIX A

RECOMMENDATIONS

1. That Council develop and document an accounting policy specifying:
   a) arrangements for the application of corporate overheads in calculating the cost of water, sewer and electricity (WSE) and municipal services, and
   b) the basis of determining and levying overheads and their rate and rationale and it be reviewed by Council's audit committee before adoption.
2. That Council satisfy itself that the asset base upon which it generates a cost of capital is an appropriate base given the best available information regarding which assets were gifted to it.
3. That Council develop an explicit policy that clearly details the rationale as to whether the revenue raised through the levying of a cost of capital charge in determining water, sewer and electricity charges be applied to offset the cost of municipal services or not.
4. That when reporting proposed, actual and projected financial performance in its Annual Business Plan, budget reviews, long-term financial plan and end of year financial statements (in the case of the financial statements as supporting notes) DCCP separately report on each of water, sewer and electricity and then disclose all of the remainder separately as municipal.
5. That Council review the financial indicators that it uses to report performance and the targets it sets for desired achievement and ensure through its revenue and expenditure decisions, that these targets are achieved (at least on average every 3 years) on an ongoing underlying basis. These targets also to be separately set and monitored for municipal and each of water, sewer and electricity activities.
6. DCCP manage its water, sewer and electricity activities as separate 'business units' (as far as practically feasible) including giving consideration to formally establishing one or more subsidiaries for their oversight.
7. That DCCP, LGA of SA, LGFA and State Government representatives meet with a view to agreeing arrangements for DCCP to fully repay its arrears to EDL as soon as possible.
8. That DCCP's asset management plan and long-term financial plan be revised to ensure that proposed asset renewal expenditure in both documents is identical and up-to-date and reasonably reliable based on best estimates.
9. That DCCP develop a risk register and it be regularly updated as warranted and be monitored and reviewed at least annually by its audit committee.
10. That DCCP's audit committee develop a work program that addresses all legislatively supported and other warranted as appropriate responsibilities and that it monitor this program at each of its meetings. This work program should be included in each audit committee meeting agenda and the meeting minutes record the outcome of the committee's review of same.
11. That given DCCP's current financial position and the uncertainty of the possible future sale of its water function, it base its long-term financial plan and asset management plan, on having ongoing responsibility for the water function until it becomes otherwise certain and that it set its budget and financial strategies based on these documents.
12. That Council consider the capacity for real increases in general rates or reductions in operating costs as a means to eliminate its municipal operating deficit.

APPENDIX B

CONSULTING BRIEF

1) Undertake an assessment of the Council’s financial position and performance (based on data in the Council’s 2020-21 financial statements and its adopted Long-term Financial Plan)

2) Assuming that all future financial transactions (including any return on assets) associated with the Council's commercial activities (i.e. electricity, water, airport, child-care) are kept separate from its municipal activities, and assuming that operating revenue (excluding any return on assets) from commercial activities at least matches operating expenses, provide an indication of the level of the Council's underlying operating deficit covering municipal activities under current policy settings.

3) Provide any comments on whether the achievement of ongoing operating break-even results covering both commercial and municipal activities (excluding any return on assets) would be sufficient to repay outstanding EDL debt within 5 years as well satisfying any concerns held by the LGFA about the Council's finances.

4) Assess whether the Council has reliable data on all of its assets systematically recorded in a manner which enables sound asset management decision making. Provide any comments on the rigour of the Council's Infrastructure and Asset Management Plan and whether it is in sync with the Long-term Financial Plan.

5) Assess whether the Council has an adequate risk management policy in place covering issues such as:
   - Identifying, analysing and evaluating risk
   - Developing and implementing risk management plans
   - Monitoring and reviewing risk management plans and practices.

6) Assess whether the Council's Audit Committee explicitly reviews information on asset management planning and achievement.

7) Provide recommendations on potential actions to address any issues identified, which may include the potential sale of assets, or the application of a revised rating strategy.

APPENDIX C

District Council of Coober Pedy
LTFP Consolidated financial statement - No Electricity, Water or CWMS

	2022 Budget	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Income											
Rates	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600	1,743,600
Statutory charges	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500	11,500
User charges	668,600	597,100	525,600	525,600	525,600	525,600	525,600	525,600	525,600	525,600	525,600
Grants, subsidies and contributions	1,673,600	1,506,850	1,360,100	1,360,100	1,360,100	1,360,100	1,360,100	1,360,100	1,360,100	1,360,100	1,360,100
Investment income	19,900	15,000	13,000	13,000	15,000	14,000	14,000	20,000	25,000	26,000	26,000
Reimbursements	186,400	186,400	186,400	186,400	186,400	186,400	186,400	186,400	186,400	186,400	186,400
Other income	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Internal Income	-	-	-	-	-	-	-	-	-	-	-
Total Income	4,353,600	4,110,450	3,890,200	3,890,200	3,892,200	3,891,200	3,891,200	3,897,200	3,902,200	3,903,200	3,903,200
Expenses											
Employee costs	3,463,100	3,320,950	3,130,100	3,004,800	2,997,500	2,990,200	2,990,200	2,990,200	2,990,200	2,990,200	2,990,200
Materials, contracts & other expenses	2,562,600	2,128,500	2,095,000	2,107,100	2,099,800	2,092,500	2,092,500	2,092,500	2,092,500	2,092,500	2,092,500
Depreciation, amortisation & impairment	570,200	507,150	504,300	510,000	510,000	510,000	510,000	510,000	510,000	510,000	510,000
Finance costs	172,900	179,300	175,800	172,200	171,200	171,200	171,200	171,200	171,200	171,200	171,200
Total Expenses	6,768,800	6,135,900	5,905,200	5,794,100	5,778,500	5,763,900	5,763,900	5,763,900	5,763,900	5,763,900	5,763,900
Electicity	211,700	207,700	203,700	203,700	203,700	203,700	203,700	203,700	203,700	203,700	203,700
Water	97,500	96,500	95,500	95,500	95,500	95,500	95,500	95,500	95,500	95,500	95,500
Plant Hire	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)	(114,800)
Labour oncosts	(445,400)	(445,400)	(449,500)	(449,500)	(449,500)	(449,500)	(449,500)	(449,500)	(449,500)	(449,500)	(449,500)
Overheads	(1,050,400)	(1,133,700)	(1,198,500)	(1,132,300)	(1,123,300)	(1,115,700)	(1,116,900)	(1,117,100)	(1,114,600)	(1,116,600)	(1,117,100)
Total Internal	(1,301,400)	(1,389,700)	(1,463,600)	(1,397,400)	(1,388,400)	(1,380,800)	(1,382,000)	(1,382,200)	(1,379,700)	(1,381,700)	(1,382,200)
OPERATING SURPLUS / (DEFICIT)	(1,113,800)	(635,750)	(551,400)	(506,500)	(497,900)	(491,900)	(490,700)	(484,500)	(482,000)	(479,000)	(478,500)
Asset Disposals and Fair Value Adjustments	-	50,000	-	100,000	100,000	-	-	-	-	-	-
Amounts Specifically received for new or upgraded assets	220,000	-	-	-	-	-	-	-	-	-	-
NET SURPLUS / (DEFICIT)	(893,800)	(585,750)	(551,400)	(406,500)	(397,900)	(491,900)	(490,700)	(484,500)	(482,000)	(479,000)	(478,500)

APPENDIX D

REFERENCES

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ADDENDUM

UPDATE AS AT MARCH 2023 TO DCCP FINANCIAL POSITION & PERFORMANCE REPORT OF MARCH 2022

The District Council of Coober Pedy (DCCP) has endured significant ongoing financial challenges in recent years. Almost twelve months ago (23 March 2022) I completed the report *'DCCP's current and projected financial position & performance – assessment & implications'* for the South Australian Office of Local Government. That same agency has recently asked me to review DCCP financial developments in the interim period. Updated information and any relevant commentary follow below.[34]

All material tables and financial data presented in the March 2022 report have been reviewed. Summary comments and an assessment of the remaining relevance of the recommendations contained in the original report are briefly discussed at the conclusion of this report.

1. Page 3 – Point 2.a. Population and Land Area

Update of Table 1: Local government by lowest population and also showing land area. Source LG Grants Commission 2019/20 Database Reports.

Coober Pedy's population relative to other councils has slipped slightly. It has moved from the 11th smallest council to the 10th.

Table Local government by lowest population and also showing land area. Source LG Grants Commission 2020/21 Database Reports

Ranked by Pop'n	Council Name	Population	Land Are (hectares)
1	Orroroo Carrieton	839	332,209
2	Elliston	1,004	671,199
3	Kimba	1,041	398,430
4	Karoonda East Murray	1,095	441,851
5	Wudinna	1,299	539,334
6	Franklin Harbour	1,309	279,293
7	Robe	1,496	109,325
8	Peterborough	1,650	302,013
9	Flinders Ranges	1,701	412,716
10	Coober Pedy	1,775	7,769
11	Cleve	1,785	501,935
12	Southern Mallee	2,064	570,969
13	Streaky Bay	2,226	632,067
14	Kingston	2,397	334,289
15	Barunga West	2,571	172,138
16	Tumby Bay	2,756	267,767
17	Mount Remarkable	2,908	350,930
18	Ceduna	3,401	548,995
19	Roxby Downs	3,853	11,052

[34] I have been assisted in the preparation of this report by Ms Michele Bennetts. Michele is the Managing Director of the consulting firm lgiQ. It specialises in providing financial support services to particularly rural local governments including ongoing regular accounting and financial reporting services to DCCP.

2. Page 3 – Point 2.b. General Rate Revenue

Update of Table 2: Local Governments by lowest general rate Revenue. Source LG Grants Commission 2019/20 Database Reports.

Coober Pedy has maintained its ranking as the 5th smallest general rate revenue generating council.

Table: Local government by lowest general rate revenue. Source LG Grants Commission 2020/21 Database Reports.

Ranked by General rate Revenue	Council Name	General Rate Revenue ($'000)
1	Orroroo Carrieton	1,061
2	Franklin Harbour	1,356
3	Peterborough	1,480
4	Karoonda East Murray	1,491
5	Coober Pedy	1,628
6	Kimba	1,692
7	Wudinna	1,896
8	Flinders Ranges	1,921
9	Elliston	2,266

3. Page 4 – Point 2.c. Capital Value of rateable properties

Update of Table 3: Local Governments ranked by lowest aggregate value of rateable properties (all, not just residential). Source LG Grants Commission 2019/20 Database Reports.

Coober Pedy maintained its ranking with the lowest aggregate capital value of properties of all SA councils.

Table: Local Governments ranked by lowest aggregate value of rateable properties (all, not just residential). Source LG Grants Commission 2020/21 Database Reports.

Ranked by aggregate capital value of rateable properties	Council Name	Capital value of rateable properties $M	Number of rateable properties	Average capital value of rateable properties $
1	Coober Pedy	140	1,585	88,328
2	Peterborough	205	1,686	121,590
3	Flinders Ranges	256	1,677	152,654
4	Orroroo Carrieton	271	1,292	209,752
5	Franklin Harbour	289	1,217	237,469
6	Karoonda East Murray	325	1,120	290,179
7	Kimba	361	908	397,577
8	Wudinna	374	1,062	352,166
9	Roxby Downs	473	1,986	238,167
10	Elliston	522	1,321	395,155

4. Page 4 – Point 2.d. Comparable General Rates per Residential Property

Update of Table 4: Local Governments by lowest rates per residential property. Source LG Grants Commission 2019/20 Database Reports.

Coober Pedy dropped in its ranking from the 4th to the 7th lowest general rates per rateable residential property.

Table: Local Governments by lowest rates per residential property. Source LG Grants Commission 2020/21 Database Reports.

Ranked by General Rate Revenue per Resid Property	Council Name	Rates per Resid Property ($)
1	Southern Mallee	327[35]
2	Franklin Harbour	875
3	Karoonda East Murray	880
4	Peterborough	943
5	Barunga West	1075
6	Port Adelaide Enfield	1087
7	Coober Pedy	1147
8	Grant	1150
9	Loxton Waikerie	1157
10	Orroroo Carrieton	1185

5. Page 5 – Point 2 f – Financial Assistance Grants

The March 2022 report contained at Table 5 information showing General Purpose Financial Assistance Grants for DCCP and other small local governments for 2021/22 relative to their population and rateable properties. Information to provide a 2022/23 update has not been attempted to be sourced. Relativities for these factors and across the specified councils is unlikely to have materially varied.

6. Page 6 – Point 2 i. Total Operating Revenue

DCCP's operating revenue in 2020/21 was $13.9M as per the LG Grants Commission 2020/21 Database reports. There are 21 councils with less (with none being metropolitan). This compares with $19.2M in 2019/20 (LG Grants Commission 2019/20 Database reports) when there were 33 councils with less.

DCCP's income in 2019/20 was unusually high including one-off income items related to additional grants received for disaster recovery and user charges received from a contractor using Council staff and equipment to carry out these works. The 2020/21 information is more typical of an average year.

[35] The LG Grants Commission 2020/21 Database Reports showed Southern Mallee average rates per residential property at $327. That figure is presumably incorrect.

7. Page 6 – Point 2 ii. Valuation of Assets

DCCP's total assets as at the end of 2020/21 was $121.4M as per the LG Grants Commission 2020/21 Database reports. There are 19 councils with less (all being rural and regional). (Northern Areas is immediately below it (lesser value of assets) and Adelaide Plains immediately above it (higher value of assets).

As at the end of 2019/20 DCCP's total assets were $118.9M (LG Grants Commission 2019/20 Database reports) when there were 33 councils with less.

8. Page 6 – Point 2 iii. Employee Operating Costs

DCCP has total employee costs classified as operating (i.e., not associated with capital works and therefore not capitalised) of $3.981M. as per the LG Grants Commission 2020/21 Database reports. There are 21 councils (all but one being rural and regional) with less.

In 2019/20 DCCP's employee operating costs were $4.434M (LG Grants Commission 2019/20 Database reports) when there were 24 councils with less.

9. Page 6 – Table 6: DCCP operating expenses 2020/21 for water, sewer/CWMS and electricity relative to municipal activity.

Update of Table 6: DCCP operating expenses 2020/21 for water, sewer/CWMS and electricity relative to municipal activity. (Source, note 11, DCCP 2020/21 financial statements.)

Table: DCCP Operating Expenses 2021/22 for water, sewer/CWMS and electricity relative to municipal activity. Source, note 10, DCCP 2021/22 financial statements.

Function	$'000 op ex	% op ex
Water	1,563	9.3%
Wastewater	130	0.8%
Electricity	7,906	47.1%
Municipal	7,190	42.8%
Total	16,789	100.0%

In 2020/21 Municipal represented 41.2% of total DCCP operating expenses.

10. Page 8 – DCCP's February 2022 LTFP

The LTFP adopted by DCCP in February 2022 planned for an underlying $152,400 operating deficit in 2021/22 followed by an underlying $99,650 deficit in 2022/23. (This did not include leasing transactions related to EDL.)

DCCP subsequently incurred an underlying deficit of $420,646 in 2021/22. Its 2022/23 Annual Business Plan adopted post the above LTFP subsequently budgeted for an underlying deficit for the year of $585,600.

11. Page 10 – DCCP's rate of return for water and electricity assets.

DCCP in its 2022/23 Annual Business Plan (ABP) set a 3.84% rate of return for its electricity assets and 5% for its water and CWMS assets.

To calculate DCCP's 2022/23 Budget (as advised by DCCP) an amount of $682,015 was included for the value of the return of capital on water, CWMS and electricity.

In the March 2022 report it was advised that the 2021/22 ABP stated that for that year DCCP applied a rate of return of 3.84% for both water/wastewater and electricity assets.

It should be noted that water use can vary significantly between years (and relative to the base on which annual budgets are set) depending on seasonal conditions. As a consequence, actual annual financial performance can vary widely between years and with the annual budget.

12. Page 13 – Table 8: DCCP Long-Term Financial Plan (LTFP) Operating Result by Business Unit

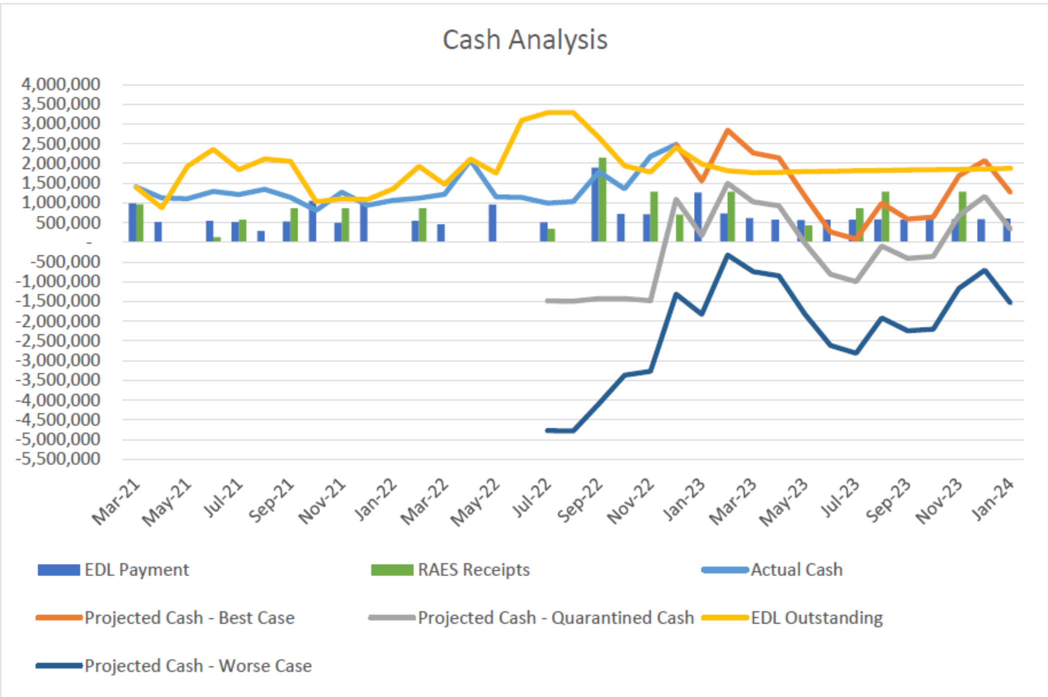
DCCP has not adopted an updated LTFP since the February 2022 version upon which data in the March 2022 report was based. It has recently prepared (but not adopted) an updated LTFP.

13. Page 17 - 4.1 Issue 1 – Council's financial position and performance

DCCP's 2021/22 actual result and 2022/23 Annual Business Plan do not reflect the intended path set out by the adopted LTFP with both communicating worsening financial results and cash balances.

This is highlighted in the updated table at **Point 14** below.

At the DCCP Audit and Risk Committee meeting of 31 January 2023 cash projections were provided highlighting a best-case scenario of zero cash in July 2023, which was theoretically negative$1M after taking in account grant funds and other quarantined cash. A graph from the relevant report to that meeting is shown below.



14. Page 17 - Table 9: DCCP budgeted and LTFP projected 'consolidated' results, all sourced from January 2022 Long-Term Financial Plan adopted February 2022.

Table 9 DCCP budgeted and LTFP projected 'consolidated' results updated to include the 21/22 actual result and 2022/23 budgeted result.

Table: DCCP Actual, Budgeted and LTFP projected 'consolidated' results sourced from January 2022 LTFP adopted February 22, Annual Financial Statements 2021/22 and Annual Business Plan 2022/23

Y/E 30 Jun	22 Actual	23 Budget	24 (Y2)	25 (Y3)	26 (Y4)	27 (Y5)	28 (Y6)	29 (Y7)	30 (Y8)	31 (Y9)	32 (Y10)
OSR	-10%	-10%	-1%	0%	0%	0%	0%	0%	0%	0%	0%
$'000 underlying forecast Oper Surplus/(deficit)	-1,068	-586	-189.1	-36	-18.4	-4.8	-4.8	1.2	6.2	7.2	7.2
Underlying OSR	-7%	-3%	-1%	0%	0%	0%	0%	0%	0%	0%	0%
NFL Ratio	68%	51%	60%	60%	60%	60%	60%	60%	60%	60%	60%
ARFR	26%	21%	61%	17%	16%	153%	122%	110%	100%		

In the March 2022 report the consolidated projected operating surplus ratio for 21/22 was -1% and for 22/23 also -1%.

Given that the actual 21/22 and projected 22/23 figures are now materially worse than forecast a year ago there must be considerable doubt that the previously forecast improved performance beyond 22/23 as shown above will be achieved without change in strategic direction decision-making.

It is worth highlighting that the 2022/23 budget assumes $320,000 less depreciation for this period than was assumed in the March 2022 report due to all water and CWMS assets now being classed as held for resale and therefore not being depreciated.

15. Page 18- Item 4.1 Point 5) Updated AMP

While DCCP has not adopted a new AMP it does have a draft version which was considered by the Council's Audit Committee at its December 2022 meeting.

Table: DCCP draft renewal/replacement expenditure Source: DCCP Audit and Risk Committee Minutes and Agenda 8 December 2022.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Transport	276,267	276,267	276,267	276,267	276,267	276,267	276,267	276,267	276,267	276,267
Airport	-	-	-	-	-	-	-	-	-	-
Buildings	387,525	-	35,984	97,500	-	-	-	39,707	-	59,540
Plant	-	261,712	98,962	162,690	451,379	378,580	478,897	602,888	561,492	425,993
Stormwater	-	-	-	-	-	-	-	-	-	-
Electricity	170,600	170,600	170,600	120,600	120,600	137,600	120,600	306,600	231,800	120,600
Water	610,627	5,390	982,835	52,606	108,350	541,397	-	374,982	51,744	67,375
CWMS	-	-	-	32,340	-	32,340	-	-	18,865	-
Programmed	1,445,019	713,969	1,564,648	742,003	956,596	1,366,184	875,764	1,600,444	1,140,168	949,775

Notably, the updated draft asset management plan proposes considerable additional renewal/replacement capital expenditure. Whether this can be accommodated is unclear. It certainly can't be without a large increase in revenue and or decrease in other expenditure. The LTFP accommodated less than 50% of the forecast asset renewal/replacement needs identified in the most recently adopted (Feb 20) asset management plan.

16. Page 18 – Table 10 DCCP Budgeted and LTFP projected municipal results, sourced by calculations from January 2022 Long-Term Financial Plan adopted February 2022

Table 10 DCCP Budgeted and LTFP projected municipal results has been updated below to include the 2021/22 actual result and 2022/23 budgeted result.

In the March 2022 report Table 10 showed a forecast Operating Surplus Result of -26% for 21/22 and -15% in 22/23. All other figures are unchanged in the table below but are surely now likely to turn out to be actually worse without further material changes in direction.

Table: DCCP Actual, Budgeted and LTFP projected municipal results sourced by calculations from DCCP Commercial results for the month of December as detailed in the Commercial Activities Committee meeting 14 February 2023 and the 2022 Long-Term Financial Plan adopted February 2022.

Y/E 30 Jun	**22 Actual**	**23 Budget**	**24 (Y2)**	**25 (Y3)**	**26 (Y4)**	**27 (Y5)**	**28 (Y6)**	**29 (Y7)**	**30 (Y8)**	**31 (Y9)**	**32 (Y10)**
OSR	-21%	-38%	-14%	-13%	-13%	-13%	-13%	-12%	-12%	-12%	-12%
$'000 underlying forecast Operating Surplus/(Deficit)	-857	-1674	-551	-507	-498	-492	-491	-485	-482	-479	-479

17. Page 19 – Table 11 DCCP's operating income by nature and type for 2022/23,

Table 11 in the March 2022 report was sourced by calculations from the 2022 Long-Term Financial Plan adopted in February 2022 (and included there as Appendix C).
The 2022/23 Annual Business Plan included the following amounts:

Table: DCCP's Municipal operating income by nature and type for 2022/23, sourced from internal budget documentation for the 2022/23 DCCP budget supplied by DCCP

Income	**$'000**
Rates	1,816
Statutory Charges	15
User Charges	994
Grants, subsidies and contributions	1,795
Investment income	-
Reimbursements	162
Other income	227
Total	**5,009**

Table 11 in the March 2022 report showed a total of $4.11M. The largest increase above is for User Charges up from $0.597M, followed by Grants, subsidies and contributions up from $1.507M.

18. Page 20 – Section 4.3 Issue 3: capacity to borrow from LGFA & repay EDL debt EDL Debt

At the end of February 2023 DCCP owed $1.42M to EDL. The March 22 report advised that the balance was $1.3M as at December 21 and the outstanding balance averaged about $1.8M. DCCP had affectively utilised the debt as an overdraft repaying some arrears when its circumstances permitted and allowing arrears to grow when it had urgent need for funds. The end of month balance arrears continues to fluctuate between $1.4M and $1.8M with monthly invoices between $550,000 and $650,000.

Arrears currently attract a penalty interest rate of 6.8%, compared to the current LGFA cash advance debenture rate of 5.3% as at 27 Feb 2023. LGFA does not currently offer DCCP a CAD. Instead, it has provided a short-term fixed interest rate loan at 4.35%.

The rate charged on the EDL arrears will rise by approximately 0.25% following the Reserve Bank's recent March 2023 cash rate increase. DCCP's current LGFA loan expires in May 2023. It was taken out in Sept 2022 (conversion of the then existing CAD loans). It might rise to approximately 5.3% based on current market rates if renewed. That estimated rate has regard to movements in market interest rates since September 2022.[36]

19. Page 21 – Section 4.3 Issue 3: Proportion of Electricity Income from user charges and grants

In the March 2022 report it was stated that 'Approximately 50% of electricity income is received from user charges, and the other 50% is from the State'. In the 2022/23 budget approximately 40% of electricity income was to be received from user charges and 60% from the state. This variation was due to the eligible subsidy increasing as a consequence of cost increase (including fuel, contract costs and administrative overheads) in excess of the benchmark user charge.

20. Page 22 – Section 4.3 Issue 3: capacity to borrow from LGFA & repay EDL debt Table 13 DCCP Outstanding Loans with the LGFA

Table 13 DCCP Outstanding Loans with the LGFA updated to the most recent balances at the time of this addendum.

Table: DCCP outstanding loans with LGFA as at 27/2/2023, statement from LGFA portal

Loan Reference No.	Type	End Date	Current Bal (S)
Deb 57	Credit Foncier	15-Sep-24	144,792
Deb 66-EXTENT	Interest Only	15-May-23	7,700,000 (at max)

The current outstanding loan balance does not differ materially from that advised in the March 2022 report.

21. Page 22 – Section 4.3 Issue 3: capacity to borrow from LGFA & repay EDL debt Short Term maturation of cash advance debentures

The LGFA continues to only offer DCCP a short-term maturation on its interest only borrowing of $7.7M. The most recent of these was a slight increase from 6 to 8 months maturing in May 2023.

[36] As advised by LGFA CEO in email of 8 Mar 2023.

22. Page 23 – Section 4.4 Issue 4: asset management projected performance Audit Opinion

In 2021/22 DCCP received an unqualified audit opinion however the auditor did again make a qualification regarding internal controls and identified an emphasis of matter regarding council's "going concern". See Bentleys (Accountants), Nov 2022 DCCP Report of Audit Findings presented at the Special Council meeting held 29 November 2022.

23. Page 28 – Ongoing deficit amount and rate increase needed

While the adopted LTFP 2022/23 to 2031/32 showed an underlying municipal deficit of approximately $500,000 per annum, recent results and budgets are not achieving this with increased reliance on return on assets from the water, sewer/CWMS & electricity (WSE) assets. The March 2022 report raised possible concerns as to the reasonableness of such rate of return income.

24. Page 29 - Affordability of General Rates

The 2020/21 LGGC Database Reports (Report 6) shows that Statewide average residential rates were $1,633, i.e., 42% more than DCCP's $1,147 (49% more in the March 2022 report).

25. Page 29 – ABS personal median income data

The ABS personal median income data by local government area shows that DCCP had a median income of $44,155 per person in 2019/20 (latest available) which was 12.4% lower than the SA average of $50,440 (or expressed in reverse, the SA average median income was 14.2% more than DCCP's).

It is of worth noting that DCCP's residents' personal median income dropped by $2,599 or 5.6% compared with the previous 12 months. The state average increased by $552 or 1.1% over the same period. In other words, it appears that the relative ability to pay council rates and charges has decreased slightly for DCCP residents and ratepayers.

Summary Conclusions

From the data above it would appear that DCCP's financial performance and position has not improved at the rates that the Council was forecasting when the March 2022 report was prepared. In fact, it has deteriorated further. Whether this is due to lack of commitment to progressing financial improvement reforms or further unforeseen adverse events is not clear although I am not aware of any of the latter.

No attempt has been made to assess to what extent the recommendations contained in the March 2022 report have been addressed. To the extent that they may have been embraced actions appear to not yet have realised financial performance improvement. I have no reason to believe that any of the recommendations made in the March 2022 report were not, and are still not, appropriate.

John Comrie

JAC Comrie Pty Ltd

17 Mar 2023