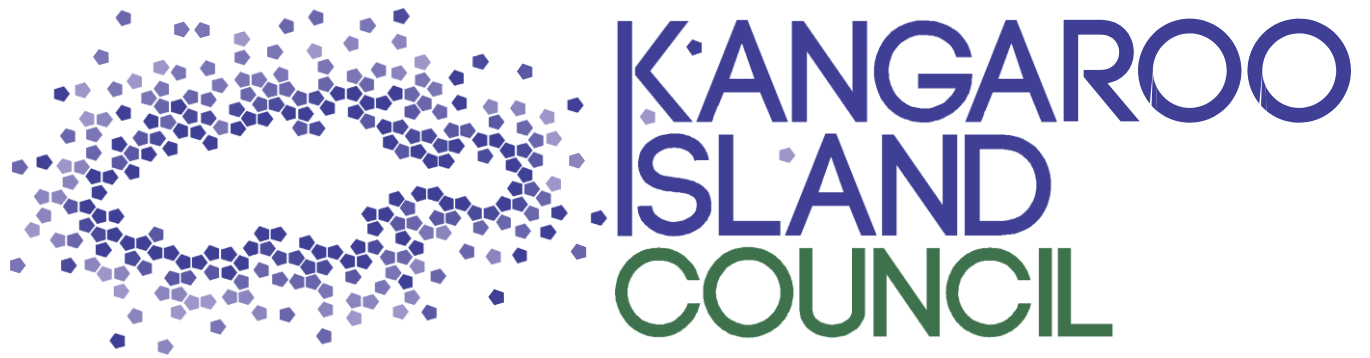




ANNUAL BUSINESS PLAN 2026 – 2027



Version	Status	Release Date
Version 1.0	Draft released for Council	29 June 2026
Version 1.0	Draft released for 21 days community consultation	2 July – 24 July 2026
Version 2.0	Endorsed by Council	30 July 2026

Questions?

Members of the community who have questions regarding the 2026-2027 Annual Budget, the 2026-2027 Annual Business Plan or seek further information about Council's finances, are encouraged to contact Council during business hours, or via email.

Contact details for Council

Contact Director Corporate Services
Phone: (08) 8553 4500
Email: kicouncil@kicouncil.sa.gov.au
Web: www.kangarooisland.sa.gov.au
Mail: Kangaroo Island Council, PO Box 121, KINGSCOTE SA 5223

Community consultation

The Kangaroo Island Council Annual Business Plan 2026-2027 will be open to public consultation for 21 days from 2 July 2026 to close of business on Friday 24 July 2026.

A report containing all submissions on the draft Annual Business Plan and Budget 2026-2027 will be presented to the Special Meeting of Council held on 30 July 2026.

Council is communicating the consultation period and opportunities to provide feedback on the draft 2026-2027 Annual Business Plan and Budget through advertisements in the local newspaper The Islander, on public notice boards, on Council's website and Facebook page. There will also be an opportunity to attend public consultation meetings to ask questions and submit questions in writing.

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Message from the Mayor

Welcome to the Kangaroo Island Council's 2026/27 Annual Business Plan and Budget (ABP).

This Plan outlines Council's priorities and proposed work program for the year ahead whilst prioritising Council's fiscal debt reduction, sustainability and repair strategy to ensure Council leads a strong and sustainable future for Kangaroo Island.

Kangaroo Island Council, along with all in our community continue to feel the impact of international affairs. We face ongoing difficulties and challenges in providing key services within a framework of escalating resourcing and financial pressure. This plan demonstrates Council's determination to meet these challenges head on and to demonstrate and provide clear and effective leadership through this difficult period.

The 2026/27 Plan builds on our long-term strategic priorities and reinforces Council's commitment to responsible financial management. It has been developed in line with the Community Strategic Plan 2024-2034 and aligns with our Long-Term Financial Plan 2021-2030, ensuring we retain our focus on sustainability and the Island's future.

Council is carefully managing expenditure and maintaining its strong focus on debt reduction. This plan continues Council's reform agenda and focuses on robust financial and debt reduction management practices that serve the best interests of the community. In the current financial environment, our focus is on maintaining core service delivery and ensuring any new investment is achievable within available resources and sustainable in the longer term.

The Plan supports and provides the framework within which Council will continue to pivot and respond to the impact of the unique global challenges we currently face and whilst there will be decisions and adjustments made to service levels during this period, our commitment to leadership and planning in support of our community remains steadfast.

Michael Pengilly



Mayor

Kangaroo Island Council



Message from the CEO

Ongoing Fiscal Responsibility



This Annual Business Plan marks an important point of renewal for Council as we move forward with clarity, discipline, and a strong commitment to long-term sustainability.

Over recent years, it has become clear—through both internal review and external assessment—that our financial position reflects the cumulative impact of historical settings, optimistic assumptions, and organisational practices that were not sufficiently aligned to long-term financial capacity. While these challenges are significant, they are not insurmountable. Importantly, we now have a clear understanding of the issues, and a structured, well-governed program of reform is firmly underway.

This Plan sets out a pragmatic and responsible path forward. It prioritises fiscal repair, the restoration of a sustainable operating position, and the disciplined retirement of debt over time. These are not simply corrective measures—they are foundational steps that will strengthen Council's resilience, protect essential services, and ensure we can meet our obligations to the community both now and into the future.

Encouragingly, the work already undertaken is delivering a meaningful shift in how Council operates. Stronger financial controls, improved reporting, clearer accountability, and tighter budget discipline are now embedded in our day-to-day decision-making. Our Long-Term Financial Plan is actively managed and regularly reviewed, ensuring that short-term decisions are aligned to long-term outcomes. At the same time, we are integrating our planning frameworks so that service levels, infrastructure needs, and financial capacity are considered together, not in isolation.

This reset also brings a renewed focus on what matters most. In the current environment, priority is rightly placed on essential services, public safety, regulatory obligations, and the core functions that our community depends on. While this necessarily limits discretionary expenditure in the short term, it ensures that Council operates within its means and rebuilds a sustainable platform for future investment and growth.

Importantly, this is a forward-looking Plan. The actions outlined are not about contraction—they are about creating a stronger, more resilient organisation capable of delivering consistent and reliable outcomes. As financial stability is restored, Council will be better positioned to respond to community aspirations, support local industry, and invest in the infrastructure and services that underpin the Island's future prosperity.

We approach this task with confidence. The direction is clear, the governance is stronger, and the organisation is better equipped than ever to deliver disciplined, transparent, and sustainable outcomes. With continued focus and collective effort, Council will emerge from this period of reform in a stronger position—financially sound, operationally capable, and well placed to serve the community over the long term.

A stylized, handwritten signature in dark ink, appearing to be 'Daryl Buckingham'.

Daryl Buckingham, Chief Executive Officer

Your Council

Elected Members

Our Elected Members are collectively responsible for strategy, decisions and policy making that add value to the future of Kangaroo Island, and the lives and livelihoods of the individuals, and the organisations and businesses that operate here.



Mayor Michael Pengilly
M 0419 030 564
E michael.pengilly@kicouncil.sa.gov.au



Deputy Mayor Richard Cotterill
M 0497 332 227
E richard.cotterill@kicouncil.sa.gov.au



Councillor Ken Liu
M 0428 322 005
E ken.liu@kicouncil.sa.gov.au



Councillor Sam Mumford
M 0427 595 156
E sam.mumford@kicouncil.sa.gov.au



Councillor Veronica Bates
M 0488 210 467
E veronica.bates@kicouncil.sa.gov.au



Councillor Shirley Pledge
M 0427 041 787
E shirley.pledge@kicouncil.sa.gov.au



Councillor Pat Austin
M 0424 199 987
E patricia.austin@kicouncil.sa.gov.au



Councillor Greg Miller
M 0419 338 139
E greg.miller@kicouncil.sa.gov.au



Councillor Bob Teasdale
M 0448 635 009
E bob.teasdale@kicouncil.sa.gov.au

The **role** of your Elected Members is:

- to act as a representative, informed and responsible decision-maker in the interests of its community;
- to provide and co-ordinate various public services and facilities and to develop its community and resources in a socially just and ecologically sustainable manner;
- to encourage and develop initiatives within its community for improving the quality of life of the community;
- to represent the interests of its community to the wider community.
- to exercise, perform and discharge the powers, functions and duties of local government under this and other Acts in relation to the area for which it is constituted.
- to act with integrity, to ensure positive and constructive working relationships within the council.

The **functions** of your Council include—

- to plan at the local and regional level for the development and future requirements of its area;
- to provide services and facilities that benefit its area, its ratepayers and residents, and visitors to its area;
- to determine the appropriate financial contribution to be made by ratepayers to the resources of the council;
- to provide for the welfare, well-being and interests of individuals and groups within its community;
- to take measures to protect its area from natural and other hazards and to mitigate the effects of such hazards;
- to manage, develop, protect, restore, enhance and conserve the environment in an ecologically sustainable manner, and to improve amenity;
- to provide infrastructure for its community and for development within its area (including infrastructure that helps to protect any part of the local or broader community from any hazard or other event, or that assists in the management of any area);
- to promote its area and to provide an attractive climate and locations for the development of business, commerce, industry and tourism;
- to establish or support organisations or programs that benefit people in its area or local government generally;
- to manage and, if appropriate, develop, public areas vested in, or occupied by, the council;
- to manage, improve and develop resources available to the council
- to undertake other functions and activities conferred in the Act.

Contact details for Executive Management Team

Daryl Buckingham Chief Executive Officer	M 0407 778 056	E daryl.buckingham@kicouncil.sa.gov.au
Roy Jones Director Corporate Services	M 0461 331 402	E roy.jones@kicouncil.sa.gov.au
Brett Freeland Director Works and Infrastructure	M 0417 011 653	E brett.freeland@kicouncil.sa.gov.au

Contact Details for Council

Telephone: (08) 8553 4500

Email: kicouncil@kicouncil.sa.gov.au

Web: www.kangarooisland.sa.gov.au

Mail: PO Box 121, KINGSCOTE SA 5223

Useful Definitions

Average general rate

The average general rate is calculated by dividing the total revenue from general rates by the number of rateable properties within the Council area.

Budget review

A quarterly process where Council reviews its income and expenditure against the approved budget to monitor performance and make any necessary adjustments.

Capital expenditure

Funds spent on acquiring or upgrading infrastructure and assets that deliver benefits beyond the current financial year.

Capital Works Program

A forward-looking schedule of Council's major asset renewals, upgrades or new infrastructure projects aligned with the Asset Management Plan and budget.

CPI

The Consumer Price Index (CPI) measures changes in the cost of a fixed 'basket' of goods and services over time. It is calculated by the Australian Bureau of Statistics based on the Household Expenditure Survey.

CWMS (Community Wastewater Management Scheme)

A Council-managed scheme providing wastewater services to connected townships. Properties capable of connecting are charged an annual fee to cover operational and capital costs.

Differential rate

The rate in the dollar applied to a property's capital value to determine the general rates payable. Different land use categories may attract differential rates.

Financial year (FY)

The 12-month period from 1 July to the following 30 June, used for Council's financial reporting and planning.

Fixed Charge

A fixed amount applied to all rateable properties to ensure that all ratepayers contribute equally to basic Council services, regardless of property value.

Growth

Improvements or developments made to a property, such as extensions, land divisions, or new buildings, which may increase the property's capital value.

Key financial indicators

A set of financial ratios used to assess Council's performance and long-term sustainability in areas such as income, debt, and asset management. These indicators help track how well Council is managing its finances and meeting its strategic objectives.

Key financial indicators include:

- **Operating Surplus Ratio**

Indicates the operating result as a percentage of total revenue (excluding the Landscape Levy). A positive ratio suggests that Council is raising sufficient revenue to cover its operating expenses.

- **Net Financial Liabilities Ratio**

Shows the size of Council's net financial liabilities compared to its total operating income. This ratio helps assess the Council's capacity to meet its financial obligations from its own revenue.

- **Asset Renewal Ratio**

Measures whether Council is renewing or replacing existing assets at the rate they are wearing out. It is calculated by comparing capital expenditure on renewals to the level proposed in Council's Asset Management Plans.

Landscape Levy

A levy collected by Council on behalf of the Kangaroo Island Landscape Board (under the Landscape South Australia Act 2019) to fund environmental management initiatives. The Levy is not set nor retained by Council.

Land use classification

A statewide property classification system maintained by the Valuer-General, which categorises land based on use (e.g. residential, commercial, industrial) and informs capital valuations.

Local Government Price Index

The Local Government Price Index (LGPI) tracks cost changes in goods and services purchased by South Australian councils. It reflects inflationary pressures specific to local government operations and includes both operating and capital expenditure.

Operating expenditure

The ongoing costs of running Council operations and delivering services to the community within the financial year.

Rate Capping

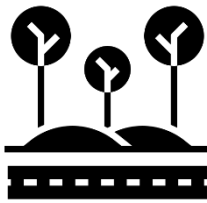
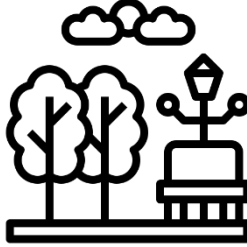
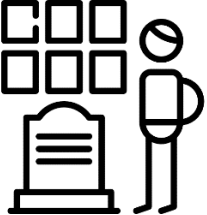
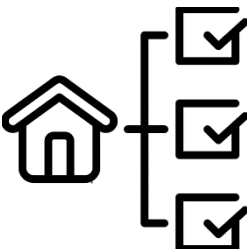
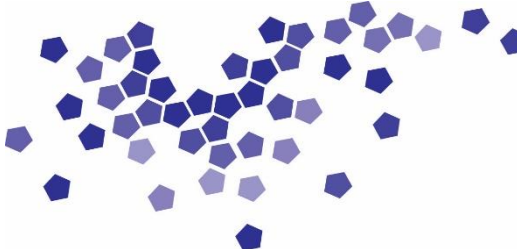
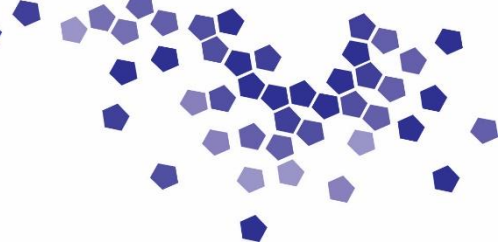
A policy mechanism to limit the increase in rates payable by a property to a fixed percentage compared to the previous year, unless the property classification or ownership has changed.

Total revenue

All income received by Council, including general rates (after rebates), service charges, user fees, and government grants.

Council Services

Kangaroo Island Council provides more than 70 services to our community on an annual basis. Below is a snapshot of the key services delivered by Council:

Customer Service 	Waste Management 	Community Development 	Stormwater Management 
Fire Prevention 	Library Services 	Airport 	Ovals and Playgrounds 
Dog and Cat Management 	Roadside Vegetation 	Boating Facilities 	Parks and Gardens 
Cemetery Management 	Development Assessment 	Property Management 	Road Management 
 YOUR COUNCIL Strategic planning Risk management Community engagement Financial planning Leadership Advocacy 			

Strategic Plan Framework

Vision

A confident and cohesive community supported to rebuild our unique Island environment, with a strengthening economy, led by Primary Production and Tourism.

Mission

To provide our community with leadership and support, and to deliver key Council services efficiently and effectively.

COMMUNITY STRATEGIC PLAN

2024-2034

THEME		STRATEGIES
 INFRASTRUCTURE Well maintained community infrastructure	1.1	Kangaroo Island has a safe and effective road network that is affordable for us as a community
	1.2	Communities that are well serviced with essential infrastructure
	1.3	The Council is actively managing the assets under its control
 COMMUNITY Communities and individuals are empowered to improve the quality of Island life	2.1	The Council engages with, supports and partners with the Community
	2.2	The Council's decisions consider the Island's liveability
	2.3	The Council supports a safe and resilient Island
 ECONOMY Build and support a strong and diverse economy	3.1	Plan for an economically sustainable future
	3.2	Collaborate with our community to create conditions that address both community and business needs
	3.3	Support economic development and employment opportunities
	3.4	Advocate for resources to optimise Island access, opportunities and affordability
 ENVIRONMENT Our environment is maintained, enhanced, and protected	4.1	Best practice waste management
	4.2	Proactively adapt to environmental change and keep pristine environment at fore of all decisions and processes
	4.3	Proactively manage the Council's statutory requirements for animal, land and vegetation management
	4.4	Support initiatives for a sustainable carbon neutral future
	4.5	A safe and sustainable built environment.
 ORGANISATION Leadership to deliver positive social, financial, and environmental outcomes	5.1	Our Council, community and business leaders work together effectively, and the Council is considered a valued partner
	5.2	The Council operates with efficient operations and continuous improvement
	5.3	The Council practises good governance

The 2026-2027 Annual Business Plan is guided by the Community Strategic Plan 2024-2034, Four Year Delivery Program 2024-2028 and Operational Plan 2026-2027.

Linking Council's Strategic Plans to the Budget

The Annual Business Plan 2026-27 is driven by core fiscal responsibility whilst also considering long term debt reduction and service level provisioning. It is aligned to the objectives and targets set in Council's strategic management documents and, our Infrastructure Asset Management Plans and Council's 2025/26-2035/36 Long Term Financial Plan (LTFP).

Asset Management Plans

The aim of Council's Asset Management Plans is to ensure that our assets, such as our roads, buildings, footpaths, playgrounds and marine facilities are maintained, renewed and replaced at the optimal rate, to enable us to extend their useful life and prevent them from deteriorating to unusable levels.

Long Term Financial Plan

Kangaroo Island Council remains committed to long- term financial planning and financial sustainability. The information contained within the LTFP is presented at a high level, it is not a detailed budget. Council uses the information within the LTFP to inform decision making of the Council, understand the level of financial and interest rate risk exposure, confirm adequacy of spending on assets and capital renewal, allow the ability to track performance against key financial ratios, and inform decisions around service levels and service provision.

The 2025/26–2035/36 Long Term Financial Plan (LTFP) projected operating income for 2026/27 of \$20.96 million. The 2026/27 Annual Business Plan and Budget provides for operating income of \$20.46 million, which is \$0.50 million lower than the LTFP forecast. This reduction mainly reflects lower expected revenue from grants, subsidies and contributions, as well as statutory income and user charges.

Operating expenditure for 2026/27 is also lower than forecast in the LTFP. The LTFP projected operating expenditure of \$26.1 million, compared with the budgeted amount of \$24.7 million. The reduction is mainly due to lower employee costs and lower materials, contracts and other expenses. Depreciation on infrastructure assets has also reduced by \$156,000, following asset revaluations undertaken in 2024/25.

Compared with the LTFP, Council's capital income is expected to be higher in 2026/27. Council has budgeted to receive \$4.42 million in capital income, compared with \$4.01 million forecast in the LTFP. This additional capital income will support Council's capital works program, for the renewal of capital assets, as well as road-related infrastructure works.

Importantly this additional revenue and budgeted expenditure allows the Council to progress capital works program, upgrading and renewing assets as well as road maintenance.

To view the Long-Term Financial Plan visit: www.kangarooisland.sa.gov.au/plans

Comparison Table

2026/27 Budget with 2025-2036 LTFP

	2026/27 BUDGET	LTFP FORECAST
Operating Income	\$20.46 M	\$20.96 M
Operating Expenses	\$24.70 M	\$26.10 M
Operating Surplus/(Deficit)	(\$4.24) M	(\$5.14) M
Non-Operating Income	\$4.42 M	\$4.01 M
Net Surplus/(Deficit)	\$185.9 K	(\$1.13) M

Note: Council will be updating its Long-Term Financial Plan to align with the recently adopted Community Strategic Plan 2024-2034 and Four-Year Delivery Program.

Annual Business Plan and Budget Alignment

Strategic Outcomes and Key Activities for 2026-2027

Infrastructure

Well maintained community infrastructure.

STRATEGIC GOAL	KEY ACTIVITIES FY26/27
1.1 ROADS Kangaroo Island has a safe and effective road network that is affordable for us as a community.	- Deliver the FY27 road renewal and maintenance program from IAMP including renewal of at least 35km of unsealed roads - Deliver the programmed sealed/ pavement program - Undertake programmed operational maintenance of road network through patrol grading, vegetation and traffic control programs
1.2 BUILT ENVIRONMENT Communities are well serviced with essential infrastructure	- Renew footpaths - Deliver planned Recreation and Open Space renewals including to boat ramps and support completion of the Brownlow Parklands Dog Park.
1.3 ASSETS Council is actively managing the assets under its control	Deliver the planned maintenance and capital renewal programs

Community

Communities and individuals are empowered to improve the quality of life on Kangaroo Island

STRATEGIC GOAL	KEY ACTIVITIES FY26/27
2.1 PARTNERSHIPS Council engages with, supports, and partners with the Community	- Continue Council's Community Grant scheme - Continued Council facilitation where appropriate and requested of key organisation and stakeholder information and contacts for the community.
2.2 LIVABILITY Council's decisions consider the Island's liveability	Work with the community to implement the Council's Disability Access and Inclusion Plan
2.3 RESILIENCE Council supports a safe and resilient Island	Pursue funding and partnerships for access, stormwater management and bushfire resilience works. (Deferred FY2026/27 – works contingent on external funding)

Economy

Build and support a strong and diverse economy

STRATEGIC GOAL	KEY ACTIVITIES FY26/27
3.1 SUSTAINABILITY Plan for an economically sustainable future	Facilitation and engagement with Masterplan development stakeholders through FY2026/27
3.2 COLLABORATION Collaborate with our community to create conditions that address both community and business needs	Work with community groups to negotiate, prepare and execute all outstanding leases by 30 June 2027.

3.3 ECONOMIC DEVELOPMENT Support economic development and employment opportunities	Investigate commercial opportunities at Kangaroo Island Airport – continued engagement by Council through FY26/27 with key airline, arts and business stakeholders.
3.4 ACCESS Advocate for resources to optimise Island access, opportunities and affordability.	Continued engagement by Council with key Federal and State Government representatives, stakeholders and service providers in relation to Island access opportunities.

Environment

Our environment is maintained, enhanced and protected

STRATEGIC GOAL	KEY ACTIVITIES FY26/27
4.1 WASTE MANAGEMENT Best practice waste management	Manage waste responsibly and fairly. Including reviewing waste collection policies and set charges to fully recover the cost of the service
4.2 CHANGING CLIMATE Proactively adapt to environmental change and keep pristine environment at fore of all decisions and processes	Progress priority actions from the Preparing KI Report and seek funding to deliver key priorities. (Partially deferred FY2026/27 – delivery subject to external grant funding)
4.3 ANIMAL AND LAND MANAGEMENT Proactively manage the Council's statutory requirements for animal, land and vegetation management.	- Meet our animal, land and fire-safety responsibilities - Manage dog and cat registrations and complaints - Maintain roadside vegetation, safe sight lines - Deliver the bushfire fuel reduction program
4.4 CARBON NEUTRALITY Support initiatives for a sustainable carbon neutral future.	Work with all levels of Government on achievable and sustainable carbon reduction targets and progress cost effective initiatives where a clear payback exists (Deferred – unfunded in FY2026/27)
4.5 RESILIENCE A safe and sustainable built environment	Process development applications and building inspections within statutory timeframes and monitor wastewater for new and existing development.

Organisation

Leadership to deliver positive, social, financial and environmental outcomes

STRATEGIC GOAL	KEY ACTIVITIES FY26/27
5.1 VALUED PARTNER Our Council, community and business leaders work together effectively, and the Council is considered a valued partner	- Develop and distribute a regular community newsletter (deferred FY2026/27) - Continue community engagement through Community Centre Working Group Committee. - Continued facilitation of relevant Forums such as Sea Transport Forum - Continued Council review and support for engagement and appointment by Elected Members, Executive and Officers to approved and endorsed community and organisational committees and Boards.
5.2 IMPROVEMENT Council operates with efficient operations and continuous improvement	- Ensure Long Term Financial Plan implementation addressing structural debt recovery - Ongoing identification of opportunities for continuous improvement and efficiency gains
5.3 GOVERNANCE The Council practises good governance	- Continued implementation of Internal Audit Action Plan - Undertake annual test of the Business Continuity Plan - Deliver ongoing Code of Conduct Public Interest Disclosure and Fraud and Corruption training to organisation

Measuring Overall Performance

To enable the Council and the community to assess the Council's performance over the 2026-27 financial year, performance reporting tools have been established for several activities including:

Council	Audit and Risk Committee	Organisation
• Works and Infrastructure status reports • CEO Performance Reports • Quarterly departmental reports • Quarterly strategic plan reports measuring the status of strategic actions • Quarterly Finance Reports - Key financial ratios – these indicators provide a ready assessment of financial performance and sustainability. • Infrastructure Asset Management Plans • Annual report • Long Term Financial Plans	• Corporate risk register • Internal Control Self-Assessment Tool • External and Internal audits of financial performance • Quarterly budget reviews measuring actual performance against budget • Major project reports outlining status of capital projects undertaken during the financial year • Treasury and debt management reports • Annual Performance Reports	• Incident and Injury reporting • Lost Time Injury (LTI) reporting • Staff satisfaction surveys • Grants Commission benchmarking • Corporate Health Group Reports • Local Government Mutual Risk Scheme & Fund Report • ESCOSA reporting to measure compliance with the Water Industries Act • Grants Commission returns.

Appendix B contains detailed information about the Council's performance against its Key Financial Ratios

KEY FINANCIAL RATIOS	FY2024/25 ACTUALS	FY2025/26 BUDGET	FY2026/27 PROPOSED
Operating Surplus / (Deficit) Ratio	(9.6%)	(31)%	(21)%
Net Financial Liabilities Ratio	86%	131%	110%
Asset Sustainability Ratio	54%	73%	107%

Looking Back 2025-26 Projects

The Council undertook many projects from the Infrastructure and Asset Management Plan with some of the highlights shown below:

Re-Sheeting - Boxer Road



Boxer Road was re-sheeted with crushed limestone material for a 3.3km section between the intersections of Springs Road and Gum Creek Road. This project included extensions to stormwater drainage infrastructure.

Footpaths – School Access Penneshaw School



New footpath and fencing was installed on Howard Drive, Penneshaw. This improved the safety of school access for Kangaroo Island Community Education - Penneshaw Campus. The project was partially funded via the Department for Infrastructure and Transport Way2Go Program.

Renewal Stokes Bay Toilet



The public toilets at Stokes Bay Toilet were refreshed with walls painted and flooring upgraded. This project was supported by the SA Tourism Commission's Kangaroo Island Cruise Tourism Development Grant.

Bridge Repairs – Gum Creek Road Bridge



Concrete remediation was conducted to repair defects to Gum Creek Bridge. These works will contribute to ensuring the longevity of the bridge.

Other works completed during 2025/26 include:

- Renewal of the playgrounds at Parndana and Vivonne Bay
- Unsealed road patrol grading and re-sheeting
- Unsealed roads – Re-sheeting of Gap Road, Moores Road and North Cape Road including stormwater culvert extensions.
- Fencing renewal and carpark reseal at Stokes Bay
- Penneshaw Sculpture Trail entrance
- Karatta Terrace upgrade to seal (Kohinoor to Addison Street)
- Renewal of stairs at Baudin Beach
- Renewal of steps from the tidal pool pontoons

Key budget influences



COUNCIL ASSETS

The Council has a considerable network of assets and each year they must determine how to best spend its funds to maintain, renew and upgrade these for the benefit of the community. These budget decisions are driven by the Infrastructure Asset Management Plan (IAMP) and the (LTFP) Long Term Financial Plan which are focused on maintaining and renewing the assets the Council already has before it builds new ones.



COUNCIL SERVICES

Kangaroo Island Council provides mandatory and discretionary services. There are only 6 mandatory services that Council must provide. It is mandatory for the Council to provide: town planning and building assessment, environmental health, fire prevention, dog and cat management, long term financial planning and strategic and business planning. Our Council is providing many other services beyond that which is legislated. These are things we know make a positive difference to our Community.



INFLATION

The rising inflation has had a significant impact on the availability of goods and services across all sectors. This together with delays in the global supply chain can hamper the Council's ability to deliver its projected projects and deliver levels of services in this year's budget.



DEBT MANAGEMENT

The Council is committed to managing and monitoring its finances and exposure to debt carefully and effectively. Fixed term borrowings are only used to fund capital projects with long-term benefits.



VISITATION

The Council has approximately 5,800 rateable properties and also welcomes more than 200,000 visitors to the Island each year. Kangaroo Island has become an established tourism destination however the revenue from our ratepayers does not cover the expenses of infrastructure required to keep up with the daily demand expectations of our visitors and the local resident community.



GRANT FUNDING

The ability for the Council to obtain external revenue to offset expenditure is critical to the organisation's ongoing financial viability. Proactively sourcing and acquiring external grant funding enables the Council to support our community, infrastructure investments and economic activity on Kangaroo Island.



COST OF LIVING

The expected increase in the cost of living that individuals are facing across Australia in 2026, combined with an expected increase in much of the capital land values across Kangaroo Island this financial year, will have an impact on household and business ability to pay their outgoings, including Council Rates. The Council is aware of this and provides options through hardship provisions, capping, rebates and payment arrangements.

Looking Forward

ESCOSA Sustainability Report

In February 2026 Council received the Essential Services Commission of South Australia (ESCOSA) sustainability report under the Local Government Advice Scheme, and as required under the Local Government Act 1999, s122(1h) & (6a) Council notes that this annual business plan is adopted with the amendment from the draft Annual Business Plan v1 document to include the ESCOSA Sustainability Report overview and Appendix C – ESCOSA – Local Government Advice Report.

To address the findings and recommendations of ESCOSA, Council has adopted various strategies that form the basis of this Annual Business Plan and Budget FY2026-2027, the basis of the Long Term Financial Management and Asset Management Plans that underpin the financial sustainability.

With the continued implementation of the strategies, Council will continue to closely monitor the financial position and with the aim to improve to achieve long term financial sustainability.

OVERVIEW

The Essential Services Commission finds Kangaroo Island Council's historical, current, and forecast financial performance **unsustainable**. This is based on cumulative historical and forecast operating deficits and lapses in financial governance, including an out-of-date Long-Term Financial Plan that has not been updated since June 2021. The Commission acknowledges that the Council has experienced governance and resourcing issues that have contributed to poor financial management. The Council's draft Long-Term Financial Plan shows cumulative operating deficits of \$45.0 million over 10 years, which would significantly exacerbate sustainability risks.

A fundamental change to the Council's strategic planning is required for it to be able to move towards financial sustainability. The Commission acknowledges that the Council has been improving its financial management framework to facilitate future improvements to the Council's financial position.

FINANCIAL PERFORMANCE



Past 10 years
Unsustainable



Current
Unsustainable



Projected
Unsustainable

RISKS IMPACTING SUSTAINABILITY

- ⚠ Potential non-compliance with its legislative and governance obligations with respect to its Strategic Management Plans.
- ⚠ Not periodically updating its asset valuations and not reflecting the financial implications of this in its annual budgets and Long-Term Financial Plans.
- ⚠ Financial liabilities exceeding prudential limits.
- ⚠ Inadequate stakeholder (or community) consultation on its financial strategies, options to address its structural operating deficits, community service levels, and capacity to pay higher rates.

FY2027 Budget

For FY2027 a review of property values by the Valuer-General has resulted in an average increase across most rating categories, except Primary Production on Kangaroo Island. Overall, valuations increased across residential, commercial and vacant land. However, significant devaluations resulted

in Primary Production. This decrease in primary production valuations resulted in overall valuation increase of just under 1%, reflecting an increase of \$26.531M Est (see table below). This reflects current market levels, particularly within residential and rural properties and is an important consideration in setting rates for the coming financial year.

Valuer General's proposed valuations for Kangaroo Island

LOCAL GOVERNMENT	FY2025/26 TOTAL	FY2026/27 TOTAL	VALUATION INCREASE/(DECREASE)
Residential	\$1,435,080,698	\$1,505,749,598	\$70,668,900
Commercial	\$130,839,571	\$154,301,674	\$23,462,103
Industrial	\$15,406,261	\$17,885,099	\$2,478,838
Primary Production	\$1,758,793,239	\$1,680,185,089	\$(78,608,150)
Vacant Land	\$199,371,500	\$208,133,500	\$8,762,000
Other	\$32,349,740	\$38,619,452	\$6,269,712
Council, Non-Rateable	\$132,640,131	\$126,138,488	\$(6,501,643)
Total	\$3,704,481,140	\$3,731,012,900	\$26,531,760

Rate increase The Council plans to deliver services that meet the needs of the community, the Island population and economic growth. To fund this, a general rate increase of 6.0% has been proposed for the 2026/27 Financial Year. Which will result in an increase of rates income from \$9.14M in 2026 to \$9.69M in 2027. Waste service charges The Council needs to fully recover costs for waste services, to ensure it is not using other revenue to subsidise the waste expenditure. A planned budget value from Fleurieu Regional Waste has been used to determine waste service charges. A waste treatment and disposal charge is applied to all rateable properties, while a collection charge is applied to properties where waste collection services are provided. Waste and Disposal charge have not increase in FY2027 and remain constant at \$301.00 for FY2027. Community Wastewater Management Schemes Community Wastewater Management Schemes (CWMS) Service charges are allocated to properties that have the capability to be connected to one of the CWMS schemes. To enable the maintenance of operations and expansion of the service the cost of the CWMS charge will increase by 12.5% per connection in 2027 with each connection \$872.10, reflecting an increase of \$95.60	Grant income Kangaroo Island Council relies heavily on State and Federal Government support by way of grant income to contribute to services as well as to undertake capital works. Federal Assistance Grants In FY2027 the Council expects to receive \$2.39M million in Federal Assistance Grants which are distributed via the State Grants Commission Funding Formula. Unsealed Roads Upgrade Program The Council again secured the commitment of the State Government to provide \$3.57M of funds for the period 2026-2027 and indexed annually with these funds the Council will deliver unsealed road upgrades and renewals. Borrowings Nil. Landscape Levy Kangaroo Island Council collects the Landscape Levy on behalf of the Landscape Board. In FY2027 the levy collected is \$499,405.
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Key budget assumptions

KEY DRIVERS	FY2026/27 DRAFT BUDGET
Consumer Price Index (Year to March 2026 – Adelaide)	4.9%
Local Government Price Index ¹ (Forecast FY 2027)	Recurrent – 4.2% Capital – 2.8%
Increase in average rates	Increase of total rates collected by 6.0% increase in average rate from \$1,590 to \$1,679
Increase in waste-water connection charges	To achieve full cost recovery waste-water connection charges increase by 12.5% to \$872.10
No Change in waste treatment and disposal charges	To achieve full cost recovery of waste management services including treatment and disposal and road-side collection
Increase in employment wages	Based on EBA conditions a minimum 3% increase in 2027 FY.
Depreciation	Based on useful life assumptions per asset class
Financial costs	Based on a combination of fixed and floating rate facilities held with Local Government Finance Authority

Summary budget FY2026/27

	FY2026 BUDGET \$	FY2027 BUDGET \$	YEAR ON YEAR CHANGE \$	YEAR ON YEAR CHANGE %
OPERATING BUDGET:				
Operating Revenue	19,955,513	20,463,934	508,421	2.5
Operating Expenses	24,439,587	24,700,754	261,167	01.1
OPERATING SURPLUS /DEFICIT	-4,484,074	-4,236,820	247,253	
Not operating items	5,663,023	4,422,773	-1,240,250	-21.9
NET SURPLUS/DEFICIT	1,178,949	185,953	-992,996	
CAPITAL BUDGET:				
Renewal/Replacement	5,177,085	7,412,900	2,235,815	43.2
New/Upgrade	430,000	-	430,000	-100.0
TOTAL CAPEX	5,607,085	7,412,900	1,805,815	

¹ The Local Government Price Index (LGPI) measures price movements faced by Local Government in South Australia in respect of their purchases of goods and services. As the mix of goods and services purchased by local councils is quite different from that typically consumed by households, overall price movements faced by local councils may differ markedly from those faced by households. Overall price movements indicated by the Consumer Price Index (CPI) - which measures changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households - may therefore not accurately reflect price movements faced by local councils. The South Australian Centre for Economic Studies sets the rate each year.

Rates summary

Pursuant to Section 123 (2) (d & e) of the *Local Government Act 1999* and as stipulated in the Local Government (Financial Management) Regulations 2011 Part 2-6, Kangaroo Island Council's Annual Business Plan contains the necessary information relating to general rating.

Council rates are imposed on all rateable properties in the Council area in accordance with the provisions of the Local Government Act, 1999. Council is only able to provide the assets and services expected by the community through the levying and collection of rates, Council's principal source of revenue.

Differential Rates for each Rating Category

	INCOME FOR FY 2026	2025/2026 CENTS IN \$\$	INCOME FOR FY 2027	2026/2027 CENTS IN \$\$
Residential	\$3,832,336	0.2149	\$4,019,252	0.2081
Commercial	\$326,512	0.2278	\$413,507	0.2206
Industrial	\$50,453	0.2278	\$54,872	0.2206
Primary Production	\$3,658,957	0.2149	\$3,861,665	0.2081
Vacant	\$1,189,525	0.4298	\$1,256,242	0.4162
Other	\$82,129	0.2278	\$84,891	0.2206
TOTAL GENERAL RATE REVENUE	\$9,139,912		\$9,690,429	

Explaining Council's rates position

In the past year there has been an increase in the number of properties that require Council's services, and this is reflected in Council's rates position.

In FY2027 Council will not increase the fixed charge of \$340. The primary production and residential differentials have reached parity and require no further alignment in FY2027.

The overall rate revenue Council needs to collect in FY2027 to deliver services is \$9.69 million. This comprises of a 6% increase on the total general rates collected in FY2026 of \$9.14 million. The rate rise is applied as per the Valuer-General's valuation on individual properties which differ across land use codes and locations across Kangaroo Island.

For Financial Year 2026/2027 Council has removed rate capping.

Valuer-General and Council Rates

All land within the Council area, except for land specifically exempt, for example Crown Land and land owned by the Council, is considered subject to rates. The Council does not 'decide' on the valuation of properties on Kangaroo Island. Valuations are provided by Valuer-General (State Government). For FY2027 a review of property values by the Valuer-General has resulted in an average increase across most rating categories, except Primary Production on Kangaroo Island. Overall, valuations increased in residential, commercial and vacant land. However, significant devaluations resulted in Primary Production. This decrease in primary production valuations resulted in overall valuation increase of just under 1%, reflecting an increase of \$26.53M

A property owner may object to the valuation referred to in their rates notice by writing to the Valuer-General within 60 days after the date of service of the rate notice. The Council has no role in this process and the lodgement of an objection does not change the due date for payment. Objections should be forwarded to: State Valuation Office, 101 Grenfell Street, Adelaide SA 5000. Phone: 1300 653 345 or email: lsgobjections@sa.gov.au.

Rating and Rebate Policy

Kangaroo Island Council's Rating and Rebate Policy (available for download on council's website), which outlines the Council's direction for setting and collecting rates from the community, covers the following:

- Methods used to value land
- Business Impact Statement
- General rates
- Fixed charges
- Tenanted property
- KI Landscape Board Levy (formerly NRM)
- Payment of rates
- Remission and postponement of rates
- Sale of land for non-payment of rates
- Adoption of valuations
- Council's revenue raising powers
- Differential rates
- Service rates and charges
- Single farm enterprise
- Rate concessions
- Late payment of rates
- Rebate of rates
- Disclaimer

Payment terms:

The Council has determined that the payment of all rates can be either by full payment – due and payable by 3 September 2026 – or by quarterly instalments due and payable on the following dates:

- 1st payment 3 September 2026
- 2nd payment 3 December 2026
- 3rd payment 4 March 2027
- 4th payment 3 June 2027

Regional Landscape Levy

The Regional Landscape Levy, previously known as the Natural Resources Management (NRM) Levy, is a State Government tax. The Councils are required under the *Landscape South Australia Act 2019* to collect the levy on all rateable properties on behalf of the State Government.

The total amount will be payable to the Kangaroo Island Landscape Board less the amount prescribed under the *Landscape South Australia Act 2019* for establishment and collection costs.

The Landscape Levy is distributed evenly throughout the Council area with it imposed on each separate assessment of rateable land in the Council area increased by 1.0% from \$93.18, bringing the total charge to \$93.35 per assessment for FY2027.

Fixed charges:

The Council imposes a fixed charge of \$340 on each assessed property. A fixed charge is applied to ensure that all residents/owners contribute towards the provision of basic services at a reasonable level.

Waste Management Service Charge

The Waste Management Service Charge relates to the collection, treatment and disposal (including by recycling) of waste for the whole of Kangaroo Island. This charge is calculated and applied in accordance with the Fleurieu Regional Waste Authority Kerbside Collection and Waste Management Policy. For the FY 2027, the Waste collection fee will increase to \$129.00 from \$124.00 in the previous year. The waste treatment and disposal will remain unchanged at \$301.00 reflecting the underlying cost of service delivery.

The waste management services are determined as follows:

SERVICE CHARGE	WASTE TREATMENT AND DISPOSAL	WASTE COLLECTION
Applicable to:	All rateable properties	- Residential properties - Commercial properties - Industrial properties - Primary Production properties

Pursuant to Section 155 of the *Local Government Act, 1999* and Regulation 13 of the Local Government (General) Regulations, 2013, waste collection charges are applied to properties that are required to take their waste a distance to be collected. The Waste Collection charges are then charged based on the following tiered rates:

- Collection Charge Rate: Distance less than 500 metres 100%
- Collection Charge Rate: Distance less than 2 kilometres 75%
- Collection Charge Rate: Distance less than 5 kilometres 50%
- Collection Charge Rate: Distance over 5 kilometres 0%

Community Wastewater Management Scheme

The Council provides a Community Wastewater Management Scheme (CWMS) to most properties within the townships of Kingscote, Brownlow, Parndana, American River and Penneshaw, while also maintaining a service at Parndana East. The Council must cover the full cost of operating and maintaining the service, inclusive of interest payments on loans raised to upgrade the CWMS systems or to allow for the future capital replacement of the system. The on-going expansion and operation of the CWMS operations requires an increase of \$95.60, with the fee per property of \$872.10 in FY2027.

Summary of charges:

	ADOPTED FY2024	ADOPTED FY2025	ADOPTED FY2026	PROPOSED FY2027
Average rate increases (%)	6.0%	6.5%	4.0%	6.0%
Fixed rates charge (\$)	\$340	\$340	\$340	\$340
Minimum residential rate (\$)	N/A	N/A	N/A	N/A
CWMS fee per connection	\$679	\$699	\$776.50	\$872.10
Waste management charge – collection	\$124	\$124	\$124	\$129
Waste management charge – treatment and disposal	\$285	\$285	\$301	\$301
Regional Landscape Levy	\$86.75	\$91.43	\$93.18	\$93.35
Rate capping	6%	8%	6%	Nil
Average general rates	\$1,451	\$1,534	\$1,590	\$1,679

Further information about Council rates

Further information about rates including a number of frequently asked questions can be accessed on the Council's website at: www.kangarooisland.sa.gov.au/services/rates

Projects

Each year the Council has a range of options in relation to how it will spend money to ensure that its considerable network of assets is maintained to the standards expected by the community. These decisions relate to either renewing or upgrading its existing asset network and/or determining whether new assets are required to better provide the services required by the community.

The decisions made by the Council are informed by the Council's existing Asset Management Plans, its priorities as documented in its Strategic Plan and community feedback. Equally they are constrained by the outputs of the Long-Term Financial Plan and Council's desire to responsibly manage its levels of debt.

The following section presents a summary of the budgeted renewal projects, operating projects and capital projects that the Council is committed to undertaking in FY2027.

Renewal projects

	LINK TO STRATEGIC PLAN	GRANT FUNDING SECURED	PROJECT COST
Buildings and complexes	1.2, 1.3	-	
Recreation and open spaces	1.2, 1.3	-	\$325,900
Unsealed roads	1.1, 1.3	\$3,823,000	\$4,281,000
Sealed roads	1.1, 1.3	\$747,186	\$792,000
Plant & Equipment	1.2, 1.3	-	\$993,000
Stormwater and bridges	1.2, 1.3	-	\$165,000
CWMS	1.2, 1.3	-	\$160,000
Airport	1.2, 1.3	-	\$90,000
Other Transport (Carparks, Footpaths, Guardrails)	1.1, 1.3	-	\$406,000
TOTAL		\$4,570,186	\$7,212,900

Assets requiring renewal are identified from estimates of remaining life obtained from the asset register. Candidate proposals are inspected to verify accuracy of remaining life estimate and to develop a preliminary renewal estimate. Verified proposals are ranked by priority and available funds for scheduling into forward works programs.

The priority ranking criteria differs for each asset category. Scheduling of renewals must also consider availability of materials, plant and equipment required for all projects and if additional plant or equipment is needed to be hired.

The projects scheduled for 2026/27 include:

- Airport: Bitumen Seal Rectification
- Recreation and Open Spaces: Boat Ramp Renewals, Park Furniture (Parndana and Emu Bay)
- CWMS: Pump station Renewal (Kingscote), large pump replacements, and bi-annual CCTV assessments of underground infrastructure
- Unsealed Roads: Resheeting of portions of Mount Taylor Road and Crabbs Roads
- Sealed Roads: Town street reseals and pavement rehabilitation across at least six roads.
- Plant & Equipment: Renewal including water truck, light truck, smooth drum roller and forklift.
- Stormwater and Bridges: Repairs to bridges and girders as per Bridge Condition report
- Footpaths: Footpath renewals

Strategic Plan references

1.1 Kangaroo Island has a safe and effective road network that is affordable for us as a community

1.2 Communities are well serviced with essential infrastructure

1.3 Council is actively managing the assets under its control

New or upgrade capital projects

FY2027 Council will not undertake any new or upgrade capital projects.

Capital expenditure by asset type

Unsealed Roads	\$4,281,000
Sealed Roads	\$792,000
Plant	\$993,000
Recreation, and Open-Space	\$325,900
Buildings and Complexes	\$NIL
CWMS	\$160,000
Stormwater	\$165,000
Other Transport (Carparks, Footpaths, Guardrails)	\$406,000
Airport	\$90,000
TOTAL	\$7,212,900



The proposed FY2027 capital program totals \$7,212,900 of which \$4,570,186 is externally funded through Department for Infrastructure and Transport (DIT) and Roads to Recovery, leaving \$2,642,714 funded from Council's general revenue.

Sources of Income and Expenditure

Income Rates Income levied under Section 7 of the <i>Local Government Act 1999</i>. Council’s Rating and Rebate Policy contains comprehensive information relating to valuations and other information relating to each rate and charge levied, including purposes and rates in the dollar. Rates income includes service charges for waste collection, treatment, disposal, and community wastewater management schemes activities. State Government Statutory Charges Fees and charges set by regulation and collected by Council on behalf of the State Government for regulatory functions such as assessment of development applications, or penalties for non-compliance with a regulatory requirement. Revenue is generally offset against the cost of the service. However, changes to the Planning Code mean that Development Application (DA) are lodged electronically. User charges set by Council Charges for Council’s fee-based facilities and services are listed in the Schedule of Fees and Charges and can be found at www.kangarooisland.sa.gov.au. Grants, Subsidies and Contributions Council aims to secure as much grant funding as possible from other levels of government. Major projects of wider state benefit are usually joint-funded in partnership with State Government and/or other relevant parties. Investment Income This reflects income from financial investments or loans to community groups. It includes interest received from LGFA and banks, and interest received on loans to community groups. Reimbursements Amounts received as payment for work done by the Council acting as an agent or service provider for other government bodies and property owners, organisations and individuals. Other income Income not classified elsewhere.	Expenditure Employee expenses All forms of consideration given by Council in exchange for service rendered by employees or for the termination of employment. Materials, Contracts and other expenses All expenses that are not employee costs, financial costs, depreciation, amortisation or impairment costs. Finance costs The costs of financing Council’s activities through borrowings or other types of financial accommodation. Depreciation, amortisation and impairment Relates to infrastructure property, plant and equipment to which the Council has title. 
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APPENDIX A – FINANCIAL STATEMENTS

Income Statement

	FY2026 BUDGET \$	FY2027 BUDGET \$
Rates Revenue	13,661,278	14,574,449
Statutory Charges	326,304	314,598
User Charges	1,587,240	1,361,758
Grants, Subsidies and Contributions - Operational	3,027,738	3,022,738
Grants, Subsidies and Contributions - Capital	1,237,948	1,077,186
Investment Income	43,415	47,915
Reimbursements	43,403	36,790
Other Income	28,188	28,500
Net Gain – Equity Accounted Council Businesses	-	-
TOTAL INCOME	19,955,513	20,463,934
Employee Costs	7,592,269	7,638,566
Less: Capitalised and distributed costs (E)	(500,000)	(500,000)
Net Employee Costs	7,092,269	7,138,566
Materials, Contracts and Other Expenses	10,170,980	10,405,069
Less: Capitalised and Distributed Costs (M)	(500,000)	(500,000)
Net Material Costs	9,670,980	9,905,069
Depreciation, Amortisation and Impairment	7,208,646	7,215,445
Finance Costs	467,692	441,675
Net Loss – Equity Accounted Council Businesses	-	-
TOTAL EXPENSES	24,439,587	24,700,754
OPERATING SURPLUS / DEFICIT	(4,484,074)	(4,236,820)
Asset Disposal and Fair Value Adjustments	87,273	87,273
Amounts Received Specifically for New or Upgraded Assets	5,575,750	4,335,500
Net Surplus / (Deficit)	1,178,949	185,953
Changes in Revaluation	5,977,660	-
TOTAL COMPREHENSIVE INCOME	7,156,609	185,953

1. Income

Rates

Changes in rates revenue in 2026/27 are due to changes in:

- The Valuer General's property valuations rising on average by 1% across Kangaroo Island.
- The vacant land differential remains at 200%

Statutory Charges

- Are Fees and charges set by regulation, collected by Council for regulatory functions including Freedom of Information Requests.
- Many local government fees and charges that are set by State Government statute are updated as part of the Department of Treasury and Finance's annual indexation process.
- In the FY2027 Council expect an increase in incomes collected from rates searches/property transactions, building inspections, planning fees & dog registrations.

User Charges

- Charges for Council's fee-based services seek to recover costs of services provided.
- Fees and charges for FY2027 had a CPI increase applied. Factors such as strategic alignment and ease of administrative application are considered when setting charges.
- The final FY2027 fees and charges document will be endorsed by Council at the Special Council meeting held on 30 July 2026.

Grants, subsidies and Contributions

- Funding from government or other relevant parties.
- Operating Grants included in the FY2027 budget are based on Actual FY2026 Financial Assistance Grant & Roads to Recovery grant contribution levels.

Investment Income

- Income from financial investments or loans to community groups.
- The FY2027 budget is based on the actual income received for FY2026.

Reimbursements

- Amounts received as payment for work done by the Council acting as an agent for other government bodies, property owners and individuals.
- Includes private works and considers completion of the DIT and SA Water contract projects.
- Ongoing works will be in line with our private works policy.

Other Income

Income not classified elsewhere. The FY2027 budget includes any employment subsidies payable for trainee or apprenticeship schemes.

2. Expenses

Employee Costs

The increase in employee cost expenditure can be explained by several factors related to 59+ Full Time Equivalent roles at Council including

- Allowance for replacement of vacant positions – including any changes in salary to attract and retain suitably qualified and skilled staff
- Allows for minor change in positions, or grades of employment.
- A greater concentration of employee time on maintenance of existing assets rather than on building new assets aligns with the allocation of all staff to conducting the operating and maintenance activities of Council.

Materials, Contracts and Other Expenses

These have increased in the FY2027 budget.

- Although it is built on last year's actual costs a large portion of the increase from FY2026 budget is attributable to the increase in capital related costs inflationary pressures and impact on localised inflation due to remote area.
- Provision has also been made to accommodate a number of required contracted expenditures including; mid-term training for Elected Members, implementation of Integrated Planning and Reporting and work for Digital Transformation.

Depreciation and Finance Costs

Depreciation and Finance costs are based on last year's audited actuals and valuations received from external valuers. The council has seen an increase in depreciation expenses due to on-going valuations of infrastructure assets.

Finance costs have slightly reduced compared to last FY due to council developing a loan reduction strategy and associated costs. However, this is heavily dependent on external interest rates.

Cash Flow Statement

	FY2026 BUDGET \$	FY2027 BUDGET \$
Operating Receipts	19,568,390	20,181,669
Investment Receipts	43,415	47,232
Operating Payments for Suppliers and Employees	(13,714,661)	(16,004,930)
Finance Payments	(467,692)	(634,692)
NET CASH PROVIDED BY (OR USED IN) OPERATING ACTIVITIES	5,429,525	3,589,279
Amounts Received Specifically for New / Upgrade Assets	5,063,250	4,315,056
Grants utilised for capital purposes	1,237,948	1,077,186
Sale of Replaced Assets	291,575	291,575
Sale of Surplus Assets	-	-
Expenditure on Renewal / Replacement of Assets	(7,195,866)	(7,412,900)
Expenditure on New / Upgraded Assets	(2,357,888)	-
NET CASH PROVIDED BY (OR USED IN) INVESTING ACTIVITIES	(2,960,981)	(1,729,083)
Proceeds from Borrowings	-	-
Repayment of Borrowings	(1,228,384)	(1,310,363)
NET CASH PROVIDED BY (OR USED) IN FINANCING ACTIVITIES	(1,228,384)	(1,310,363)
NET INCREASE (DECREASE) IN CASH HELD	1,240,160	586,000
Cash and Cash Equivalents and the Beginning of Period	138,735	275,776
CASH AND CASH EQUIVALENTS AND THE END OF PERIOD	150,511	850,000

Statement of Changes in Equity

	FY 2026 BUDGET \$	FY 2027 BUDGET \$
ACCUMULATED SURPLUS		
Balance at the end of previous reporting period	30,358,813	30,438,580
Net result for the year	1,178,949	185,953
Transfers from other reserves	-	-
BALANCE AT THE END OF THE PERIOD	31,537,762	30,624,533
Balance at the end of previous reporting period	483,469,063	428,354,660
Gain (Loss) on Revaluation of I, PP&E	5,977,660	0
BALANCE AT THE END OF THE PERIOD	489,446,723	428,354,660
Balance at the end of previous reporting period	9,406,867	9,017,000
Transfer from Accumulated Surplus	-	(512,500)
BALANCE AT THE END OF THE PERIOD	9,406,867	8,504,500
TOTAL EQUITY AT END OF REPORTING PERIOD	530,391,352	467,483,693

Uniform Presentation of Finances FY 2027

	FY2026 BUDGET \$	FY2027 BUDGET \$
Income	19,955,512	20,463,934
Less Expenses	24,439,587	24,700,755
OPERATING SURPLUS/DEFICIT	(4,484,075)	(4,236,821)
Less: Grants, subsidies and contributions – Capital	(1,237,938)	(1,077,186)
Adjusted Operating Surplus / (Deficit)	(5,722,023)	(5,314,006)
Capital Expenditure on renewal and replacement of Existing Assets	(5,177,085)	(7,412,900)
add back Depreciation, Amortisation and Impairment	7,208,646	7,215,445
add back Grants, subsidies and contributions – Capital Renewal	3,921,037	5,412,692
add back Proceeds from Sale of Replaced Assets	87,273	291,575
	6,039,871	5,506,812
Capital Expenditure on New and Upgraded Assets	(430,000)	-
add back Amounts Received Specifically for New and Upgraded Assets	430,000	-
BALANCE AT THE END OF PERIOD	-	-
NET LENDING /(BORROWING) FOR FINANCIAL YEAR	317,848	192,806

Uniform Presentation of Finances FY 2027

	FY2026 BUDGET \$	FY2027 BUDGET \$
Income		
Rates	13,661,278	14,574,449
Statutory Charges	326,304	314,598
User Charges	1,571,240	1,361,758
Grants, Subsidies and Contributions - operating	3,027,738	3,022,738
Grants, Subsidies and Contributions - capital	1,237,948	1,077,186
Investment Income	43,415	47,915
Reimbursements	43,903	36,790
Other Income	43,687	28,500
Total Income	19,955,512	20,463,934
Expenses		
Employee Costs	7,092,269	7,138,566
Materials, Contracts & Other Expenses	9,670,980	9,905,069
Depreciation, Amortisation & Impairment	7,208,646	7,215,445
Finance Costs	467,692	441,675
Less Expenses	24,439,587	24,700,755
OPERATING SURPLUS/DEFICIT	(4,484,075)	(4,236,821)
Less: Grants, subsidies and contributions – Capital	(1,237,938)	(1,077,186)
Adjusted Operating Surplus / (Deficit)	(5,722,023)	(5,314,007)
Capital Expenditure on renewal and replacement of Existing Assets	(5,177,085)	(7,412,900)
add back Depreciation, Amortisation and Impairment	7,208,646	7,215,445
add back Grants, subsidies and contributions – Capital Renewal	3,921,037	5,412,242
add back Proceeds from Sale of Replaced Assets	87,273	87,273
	6,039,871	5,506,362
Capital Expenditure on New and Upgraded Assets	(430,000)	-
add back Amounts Received Specifically for New and Upgraded Assets	430,000	-
BALANCE AT THE END OF PERIOD	-	-
NET LENDING /(BORROWING) FOR FINANCIAL YEAR	317,848	192,355

Financial Indicators

Estimates for the Council's Operating Surplus Ratio, Net Financial Liabilities Ratio and Asset Sustainability Ratio for **2026-27** budget are set out below in a manner consistent with the note in the Model Financial Statements entitled "*Financial Indicators*".

	ACTUAL 2025	BUDGET 2026	BUDGET 2027
Operating Surplus Ratio	-9.6%	-31%	-21%
Net Financial Liabilities Ratio	86%	131%	110%
Asset Renewal Ratio	54%	73%	107%

Achieving an operating surplus annually is challenging for Kangaroo Island Council, largely due to the high value of assets held, in particular over 1,362 kms of road, together with bridges, kerbs and footpaths valued at in excess of \$491M. With total depreciation of \$7.21M and general rates revenue of \$9.69M Council is reliant on grants to support the necessary revenue required to deliver the services expected of a local government. The operating revenue expected to be received by Council in 2026-27 is not sufficient to fund any capital expenditure and this is represented by both our operating position and the **Operating Surplus Ratio**.

For Council to improve its Operating Surplus Ratio, Council needs to increase its Own Source Revenue

The **Net Financial Liabilities Ratio** sits above the upper target of 100%. The Council's capacity to meet its financial obligations from operating revenue is strengthening as existing facilities continue to be repaid and Council is considering for no new borrowing for the FY 2027. Council has developed measures to improve this ratio as part of its long term financial plan strategy.

The projected **Asset Renewal Ratio** of 107% for 2026-27 reflects planned renewal expenditure of \$7,212,900 measured against the \$6,936,000 planned renewal in the adopted Infrastructure & Asset Management Plan (Chapter 1, Appendix A), placing renewal slightly ahead of plan and within Council's adopted target range of 90%–110%. The modest increase above the adopted baseline is not cost escalation but reflects renewals confirmed since adoption — principally externally-funded works, including the continuing DPTI unsealed roads contribution and Roads to Recovery funding. The ratio is accordingly contingent on the continued receipt of the DPTI contribution, which is monitored as the most significant sensitivity to Council's asset sustainability position.

As the Council continues to develop and refine our infrastructure asset management plans and become more sophisticated in real time reporting, the alignment of operating and capital expenditure in our annual budgets on asset renewal will be better informed and our asset sustainability ratio can be expected to continue improving.



Advice

Local Government Advice

Kangaroo Island Council

February 2026

Enquiries concerning this advice should be addressed to:

Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001

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

Kangaroo Island Council

AT A GLANCE

OVERVIEW

The Essential Services Commission finds Kangaroo Island Council's historical, current, and forecast financial performance **unsustainable**. This is based on cumulative historical and forecast operating deficits and lapses in financial governance, including an out-of-date Long-Term Financial Plan that has not been updated since June 2021. The Commission acknowledges that the Council has experienced governance and resourcing issues that have contributed to poor financial management. The Council's draft Long-Term Financial Plan shows cumulative operating deficits of \$45.0 million over 10 years, which would significantly exacerbate sustainability risks.

A fundamental change to the Council's strategic planning is required for it to be able to move towards financial sustainability. The Commission acknowledges that the Council has been improving its financial management framework to facilitate future improvements to the Council's financial position.

FINANCIAL PERFORMANCE



Past 10 years
Unsustainable



Current
Unsustainable



Projected
Unsustainable

RISKS IMPACTING SUSTAINABILITY

- ⚠️ Potential non-compliance with its legislative and governance obligations with respect to its Strategic Management Plans.
- ⚠️ Not periodically updating its asset valuations and not reflecting the financial implications of this in its annual budgets and Long-Term Financial Plans.
- ⚠️ Financial liabilities exceeding prudential limits.
- ⚠️ Inadequate stakeholder (or community) consultation on its financial strategies, options to address its structural operating deficits, community service levels, and capacity to pay higher rates.

KEY FACTS

- ▶ Population in 2024 was **5,167** residents
- ▶ The Council covers **4,400.9** square kilometres
- ▶ **5,740** rateable properties in 2024-25
- ▶ **\$22.2 million** of income in 2024-25
- ▶ Value of infrastructure, property, plant and equipment assets held in 2024-25 equals **\$481.0 million**

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1 Executive summary

1.1 Summary of observations

The Essential Services Commission (**Commission**) finds the Kangaroo Island Council's (**Council**) past, current, and projected financial performance and position **unsustainable**. Over the 10 years to 2023-24, the Council has generally run operating deficits. The Council has provided to the Commission a 'Draft Working Document – Long-Term Financial Plan 2025/26 – 2035/36' that, if implemented, would provide for a cumulative operating deficit of \$45.1 million over the 10-year Forecast Period, compounding the Council's already weak financial position. The Commission acknowledges that the Council continues to revise that plan, however, in the Commission's view a fundamental shift is required, as distinct from incremental change.

The Council has not maintained its strategic plans as required by the *Local Government Act 1999* and applicable *Local Government (Financial Management) Regulations 2011*. Specifically, the Council has not annually reviewed or updated its Long-Term Financial Plan since June 2021. The time between financial planning reviews (and lapses in associated governance practices) represents a material risk to the Council's financial sustainability.

The Commission acknowledges that the Council's management team is working to improve its financial management and governance practices, in part through the implementation of an integrated planning and reporting framework and reviewing and consulting on the Long-Term Financial Plan. The Council's Asset Management Plans appear more current and were last updated in December 2024. The Council plans to prioritise infrastructure renewals over the construction of new assets.

Over the past decade, the Council has delivered mainly operating deficits and its Net Financial Liabilities Ratio has been under pressure, indicating difficulty at times in servicing debt. In the Commission's view, the forecast continuing operating deficits, increasing debt and high Net Financial Liabilities Ratio indicate that fundamental change is necessary.

Of immediate concern, the Council may have an impaired ability to fully service its debt, renew its assets, or fund routine and emergency expenditures, in the absence of securing further external funding, raising rates and/or reducing services to the community.

1.2 Summary of Recommendations

The Commission encourages the Council to improve its strategic planning and governance practices and acknowledges the Council's steps to consult with its stakeholders and adopt a revised Long-Term Financial Plan in 2026. Further, the Commission acknowledges the Council's recent review of asset management plans, to inform its asset renewal requirements.

The Commission recommends that the Council develop a two-stage plan over the next five years to enable it to establish the foundations on which it can operate sustainably:

Over the next one to two years:

1. **Develop** a (multi-decade) strategy to bring the Council to a sustainable financial position, including the following elements as appropriate:
 - ▶ **Reviewing** the operating cost structure, in particular 'materials, contracts and other expenses' and employee costs to identify any savings.
 - ▶ **Developing** a rating policy that, combined with cost constraint, supports the Council's transition to sustainability, noting that rates are relatively low and that the Council is in an unsustainable and deteriorating financial position.

- ▶ **Consulting** with the community regarding service levels, to identify opportunities for operating and capital savings.
- ▶ **Bringing** all asset valuations, condition assessments and assessments of useful lives up to date, to inform asset management decision-making and depreciation charges.
- ▶ **Considering** any opportunities to divest assets.
- ▶ **Developing** a plan to reduce debt, including by strategic partial deferral of asset renewal and replacement, if necessary, to improve the Council's prudential risk profile and reduce debt servicing.
- ▶ **Avoiding** any capital expenditure on new and upgraded assets, unless already committed or essential to the community.

Ongoing activities

2. **Consider** obtaining independent expert financial advice to ensure the development of financial risk measures and targets are appropriate, with respect to forecast borrowings.
3. **Ensure** Long-Term Financial Plans are informed by current and accurate financial information from Infrastructure and Asset Management Plans.
4. **Annually index** asset values and depreciation charges between formal revaluations (in accordance with the relevant accounting standards) and ensure Long-Term Financial Plans, annual budgets and annual financial statements adequately reflect asset values and depreciation.

2 About the advice

2.1 Background

The State Parliament has tasked the Essential Services Commission (**Commission**), South Australia's independent economic regulator and advisory body, to provide advice on material changes proposed by local councils in relation to elements of their Strategic Management Plans (**SMP**), and on the proposed revenue sources, including rates, which underpin those plans.¹

A primary purpose of the Local Government Advice Scheme (**Advice** or **the Scheme**) is to support councils to make financially sustainable strategic decisions in their annual business plans and budgets, in the context of their Long-Term Financial Plans (**LTFP**) and Infrastructure and Asset Management Plans (**IAMP**).² IAMPs are commonly referred to as Asset Management Plans (**AMP**). The LTFP and the IAMP are both required as part of a council's SMP.³ Financial sustainability encompasses intergenerational equity,⁴ program (service level) and rates stability in this context.⁵ The other main purpose is for the Commission to consider ratepayer contributions in the context of all revenue sources, as outlined in the LTFP.⁶ In addition, the Commission has discretion to provide advice on any other aspect of a council's LTFP or IAMP it considers appropriate, having regard to the circumstances of that council.⁷

The first cycle of the scheme extends over four years from 2022-23 to 2025-26. The Commission has selected 19 councils for advice in the fourth year (2025-26) of the Scheme, including the Kangaroo Island Council (**Council**).

This report provides the Local Government Advice for the Council in 2025-26.

The Council is obliged under the *Local Government Act 1999* (**LG Act**) to publish this advice and its response, if applicable, in its 2026-27 Annual Business Plan (including any draft Annual Business Plan) and in subsequent plans until the next cycle of the Scheme.⁸ Decision-making remains in the control of the Council.

The Commission thanks the Council for meeting with Commission staff and for providing information to assist the Commission in preparing this advice.

2.2 The Commission's approach

In providing its Advice to the Council, the Commission has followed the approach it previously explained in the Framework and Approach – Final Report (**F&A**).⁹

¹ Amendments to the LG Act (s122(1c) to (1k) and (9)) specify the responsibilities for the Commission and local councils for the Local Government Scheme Advice. The Commission must provide advice to each council in accordance with the matters outlined in s122(1e), (1f) and (1g).

² Commonly referred to as Asset Management Plans (**AMP**).

³ The objectives of the advice with reference to a council's LTFP and IAMPs are presented under LG Act, s122(1g). LG Act s122(1) specifies the requirements of a council's SMP, including the LTFP and IAMP.

⁴ 'Intergenerational equity' relates to fairly sharing services and the revenue generated to fund the services between current and future ratepayers.

⁵ Commission, *Framework and Approach – Final Report*, August 2022, pp. 2-3, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

⁶ LG Act s122(1f)(a) and (1g)(a)(ii).

⁷ LG Act s122(1f)(b) and (1g)(b).

⁸ LG Act s122(1h).

⁹ Commission, *Framework and Approach – Final Report*, August 2022, available at www.escosa.sa.gov.au/advice/advice-to-local-government.

The Commission has considered the Council's SMP documents (set out in the box below), with a particular focus on its performance and outlook against three financial indicators: the Operating Surplus Ratio (**OSR**), the Net Financial Liabilities Ratio (**NFLR**) and the Asset Renewal Funding Ratio (**ARFR**).¹⁰ Analysis of these three indicators captures financial and service sustainability, cost control and affordability risk.¹¹

The Commission reviews 10 years of historical data, being the years 2014-15 to 2023-24 (**Historical Period**) the "current year" 2024-25 and 10 forecast years, being 2025-26 to 2034-35 (**Forecast Period**).

Table 1: Strategic management documents referred to

- ▶ Draft Working Document – Long-Term Financial Plan 2025/26 – 2035/36 (November 2025)
- ▶ Annual Business Plan, 2025-26 (July 2025)
- ▶ Infrastructure and Asset Management Plan (General Statements), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Airport), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Buildings and Complexes), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Community Wastewater Management Schemes), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Plant and Equipment), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Recreation and Open Space), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Stormwater), 2024-2034 (December 2024)
- ▶ Infrastructure and Asset Management Plan (Roads), 2024-2034 (December 2024)
- ▶ Long-Term Financial Plan, 2021 to 2030 (June 2021)

Given that the Commission must, in providing its advice, have regard to the objective of councils maintaining and implementing their IAMPs and LTFPs,¹² it has also considered the Council's performance in that context. Findings regarding the content of the Council's AMP, and the alignment between its LTFP and AMPs,¹³ are discussed in Section 5.

The Commission has also reviewed the template provided by the Council, including its 2025-26 LTFP forecasts for 2025-26 to 2034-35, historical financial data, the number of rateable properties and

¹⁰ The three financial indicators are specified in the Local Government (Financial Management) Regulations 2011. Since 2011, each council has been required to include these three indicators in its plans, annual budget, mid-year budget review and annual financial statements. Councils can adopt their own target range for each ratio, but the Commission is guided by the Local Government Association (**LGA**) target ranges, which were established and agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

¹¹ The F&A listed 29 analytical questions that the Commission has considered in assessing the Council's performance against these indicators to determine affordability, cost control and other sustainability risks.

¹² LG Act s122(1g)(a)(i).

¹³ As required under s122(1b) of the LG Act.

Council staff (Full Time Equivalent or **FTE**) numbers from 2014-15 onwards.¹⁴ The charts and tables in the Advice are primarily sourced from these datasets. In addition, the Commission has reviewed the Council's audit committee reports, and other public information, as appropriate.

The Commission has reported estimates in nominal terms to identify 'real' rather than 'inflationary' effects. In the charts, the Consumer Price Index (**CPI**) line for the Historical Period is calculated as the compound annual growth rate in the CPI (Adelaide) series from 2014-15 to 2023-24, being 2.9 percent.¹⁵ Each financial year is the average of the four quarterly results. The CPI for the Forecast Period is calculated as the compound annual growth rate in the CPI (Australia) series from 2025-26 based on the Reserve Bank of Australia (RBA) (Australia-wide) inflation forecasts to the December 2027 quarter, and the midpoint of the RBA target range (2.5 percent) thereafter, yielding an average inflation rate for the Forecast Period of 2.5 percent. Similarly, for the current year 2024-25, we have observed a CPI (Adelaide) of 2.4 percent.

Finally, in formulating this Advice, the Commission has had regard to all discussions and engagement with the Council, including the face-to-face onsite meeting at the Council offices and the individual circumstances of the Council, including:

- ▶ its location as a Rural Agricultural: Large and Very Large council
- ▶ its income level (\$22.2 million in 2024-25¹⁶), and
- ▶ the size of its rates base (around 5,740 ratepayers in 2024-25¹⁷).

Throughout this Advice, the Commission has identified several key points and assigned the following risk category to those points:

Legend:  Low-risk  Moderate-risk  High-risk

¹⁴ Sourced from the Local Government Grants Commission (including data reported by the Office of the Valuer-General) and the Council's data. The Council's estimates for the 2024-25 financial year, relied on at the time of preparing this advice, were audited.

¹⁵ The assumed CPI for the Historical Period is 2.9 percent, being the compound annual growth rate in the CPI (Adelaide) series from 2014-15 to 2023-24. Source: [Consumer Price Index, Australia, June Quarter 2024 | Australian Bureau of Statistics](#).

¹⁶ Based on the Council's financial reporting template provided to the Commission.

¹⁷ Based on the Council's financial reporting template provided to the Commission.

3 Council profile

The Council is classified by the Commission as an 'Rural Agricultural: Large and Very Large' council and is one of nineteen in this category in South Australia.¹⁸ It covers an area of 4,400.9 square kilometres, has an estimated resident population of 5,167 (at 30 June 2024),¹⁹ and approximately 5,740 rateable properties (at 1 January 2025).²⁰

The Council area is located 110 kilometres south-west of Adelaide and is Australia's third largest island with access via sea and air transport. Kangaroo Island Council was formed in 1996 after the amalgamation of the District Council of Dudley and the District Council of Kingscote.

Figure 1: Council Area



The Council region has the following attributes:

- ▶ forecast rateable property growth of 1.0 percent per annum²¹
- ▶ population density of 1.2 persons per square kilometre²²
- ▶ 1,411 kilometres of sealed and unsealed roads, of which 80.8 percent are unsealed roads²³
- ▶ employment sectors mainly in agriculture, forestry and fishing (21.2 percent), accommodation and food services (10.7 percent), and health care and social assistance (9.3 percent),²⁴ and
- ▶ a median population age of 51.0 years.²⁵

¹⁸ Commission, *Fact Sheet - Local Government Advice Scheme – Schedule of Councils*, May 2023, available at <https://www.escosa.sa.gov.au/ArticleDocuments/21947/20240731-Advice-ScheduleOfCouncils-FactSheet.pdf.aspx?Embed=Y>.

¹⁹ Refer to Australian Bureau of Statistics, *Data by region*, available at <https://dbr.abs.gov.au/region.html?lga&rgn=42750>.

²⁰ Based on the Council's Financial Reporting template provided to the Commission.

²¹ Based on the Council's Financial Reporting template provided to the Commission.

²² Refer to Australian Bureau of Statistics, *Data by region*, available at <https://dbr.abs.gov.au/region.html?lga&rgn=42750>.

²³ Refer to the Department of Infrastructure and Transport - Local Government Grants Commission, *2023-24 Database Reports*, available at <https://www.dit.sa.gov.au/local-government/grants-commission/publications#database>.

²⁴ Refer to Australian Bureau of Statistics, *Data by region*, available at <https://dbr.abs.gov.au/region.html?lga&rgn=42750>.

²⁵ Refer to Australian Bureau of Statistics, *Data by region*, available at <https://dbr.abs.gov.au/region.html?lga&rgn=42750>.

4 Material plan amendments in 2025-26

The Council's previous LTFP was adopted in June 2021, and since that time the Council has not undertaken annual reviews of its LTFP nor undertaken a comprehensive review,²⁶ as required under Section 122(4)(a) and (b) of the LG Act. Related to this, the Council has not regularly issued a report from the Chief Executive Officer on the sustainability of the Council's long-term financial performance and position, and there is no evidence that the Council's Audit and Risk Committee has reviewed the LTFP. These requirements are also referred to in sections 122(4a) and 126(4) of the LG Act.

The Council has advised the Commission²⁷ that it is in the early stages of preparing a comprehensive LTFP and, in November 2025, provided to the Commission an endorsed '*Draft Working Document – LTFP 2025/26-2035/36*' and draft LTFP forecasts.²⁸ The Council intends to complete its LTFP update following further stakeholder and community engagement in 2026.

The delay in preparing and adopting a LTFP has impacted the Commission's ability to prepare this Advice, and the Council's ability to make long-term strategic decisions. It would not be informative for the Commission to compare incomplete financial forecasts (provided in November 2025) with the previous LTFP (adopted in June 2021).

The LG Act provides that a council must review its LTFP on an annual basis (section 122 (4)(a)) and must provide to the designated authority (the Commission), on or before 30 September in the relevant year, material amendments to plans relative to the previous plans (and other matters). Further, the LTFP must cover a period of at least 10 years. The Council's delay in preparing the LTFP, and the four-year gap since its plan was last reviewed, raises questions about its compliance with the LG Act.

4.1 Key points



The Council has not provided a complete or current LTFP to the Commission and the most recent LTFP is over four years old. As such, the Commission has not been able to assess whether material amendments have been made to it.



The Council's draft LTFP forecast (provided in November 2025) does not address the long-term structural operating deficits or its financial risks.



The Council has advised that it is taking steps to improve financial sustainability through a comprehensive review of its LTFP (including evaluation of options), and development of an Integrated Planning and Reporting framework.

4.2 General observations on the LTFP

The Council's strategic planning deficiencies²⁹ have given rise to a material risk to financial sustainability, particularly in its ability to make long-term strategic financial decisions on infrastructure investment, community service levels, debt serviceability, and adequacy of income sources (among

²⁶ Councils are required to undertake a comprehensive review of SMPs (including LTFPs) within two years of a general election of the council (see section 122(4)(b) of the LG Act). General elections were last held for SA Councils on 12 November 2022.

²⁷ Kangaroo Island Council, *Emails and discussions with the Commission*, between August to December 2025.

²⁸ Also see Kangaroo Island Council, *Special Council Meeting Agenda – 27 November 2025, Item 2.2 Long Term Financial Plan 2025/26 to 2035/36*, pp. 236-239, available at https://www.kangarooisland.sa.gov.au/_data/assets/pdf_file/0033/1904577/Special-Council-Agenda-2025-11-27.pdf.

²⁹ The Council's auditors, as part of the 2024-25 audit, have identified lapses in internal control including preparation and review of the LTFP.

other things). These matters have been acknowledged by the Council's leadership team, which is considering a range of fiscal repair strategies or options, in part through a comprehensive review of the LTFP and the development of an Integrated Planning and Reporting framework.³⁰ The Council has noted a number of options in addressing its structural operating deficits, including, but not limited to:³¹

- ▶ Increasing rates
- ▶ Identifying other income sources
- ▶ Realising efficiencies / savings from service level reviews
- ▶ Reviewing AMPs and accuracy of depreciation estimates
- ▶ Deferring or cancelling new projects
- ▶ Limiting the services provided

The Council's draft LTFP forecasts show average operating deficits of \$4.5 million per annum (in the Forecast Period). These deficits are materially higher than what was previously projected in the Council's June 2021 LTFP, which averaged \$1.8 million per annum (between 2025-26 and 2029-30), and demonstrates the need for the Council to regularly review its long-term financial projections.

4.3 Other Matters

The Commission commends the actions of the new leadership team which is seeking to improve the Council's operating procedures and financial management under difficult operating conditions, some of which are unique to an island council. The Commission notes that the Council may need to consider bolstering internal resources or engage advisors to improve its strategic and financial planning.

Of immediate concern is the Council's current unsustainable financial position. In 2024-25, it incurred a deficit of \$1.8 million and at year end, it had a cash balance of \$0.3 million and total borrowings of \$8.9 million. This could result in the Council being unable to fully service its debt, renew its assets, or fund routine and emergency expenditures. The Council must take immediate action to plan for and implement improved financial sustainability.

The Commission also notes that the Council's external auditors provided a qualified opinion for 2024-25 on the Council's internal controls, largely due to non-compliance relating to the preparation of its LTFP, budget reviews, and financial reports.³² The Commission notes the Council is seeking to improve its financial controls and governance, and has pro-actively discussed its fiscal situation and concerns with representatives of the Office of Local Government, Local Government Finance Authority and the Commission.

³⁰ Kangaroo Island Council, *Media Release: Building a Sustainable Financial Future for Kangaroo Island*, 29 April 2025, available at <https://www.kangarooisland.sa.gov.au/notice-board/news-and-notices/latest-news/media-release-building-a-sustainable-financial-future-for-kangaroo-island>.

³¹ See Kangaroo Island Council, *Special Council Meeting Agenda – 27 November 2025, Item 2.2 Long Term Financial Plan 2025/26 to 2035/36*, pp. 236-239, available at https://www.kangarooisland.sa.gov.au/_data/assets/pdf_file/0033/1904577/Special-Council-Agenda-2025-11-27.pdf.

³² Kangaroo Island Council, *Annual Report 2024-25, Auditors Report – Internal Control*, pp. 112 to 113, available at <https://www.kangarooisland.sa.gov.au/council/publications-and-documents/publications/annualreports>.

5 Financial sustainability

5.1 Operating performance

5.1.1 Key points

-  The Council has not updated its LTFP since 2021 and its draft LTFP provides for a cumulative deficit of \$45 million over 10 years, which is untenable.
-  The Council has reported operating deficits in six of the 10 years in the Historical Period, with OSR averaging negative 5.2 percent, or an accumulated deficit of \$9.4 million.
-  In the Forecast Period, the OSR averages negative 19.1 percent, or an average operating deficit of \$4.5 million per annum, however this is based on a draft LTFP and incomplete financial information.

The Council has a history of mainly delivering operating deficits. Based on the Council's draft LTFP, that deficit position is forecast to materially worsen over the Forecast Period, with 10-year cumulative deficits totalling \$45.1 million (see Figure 2) as well as material increases in debt, growing from \$8.9 million in 2024-25 to \$19.4 million in 2034-35.

The Commission's analysis is based on the Council's draft LTFP, which represents an early-stage review of the LTFP and is a work in progress. Updated capital expenditure and depreciation estimates are yet to be incorporated. Noting that the Council is still working on its plan, the Commission observes that the plan does not seem to be internally consistent in some respects – for example, it is not clear how the Council would fund its cumulative deficit.

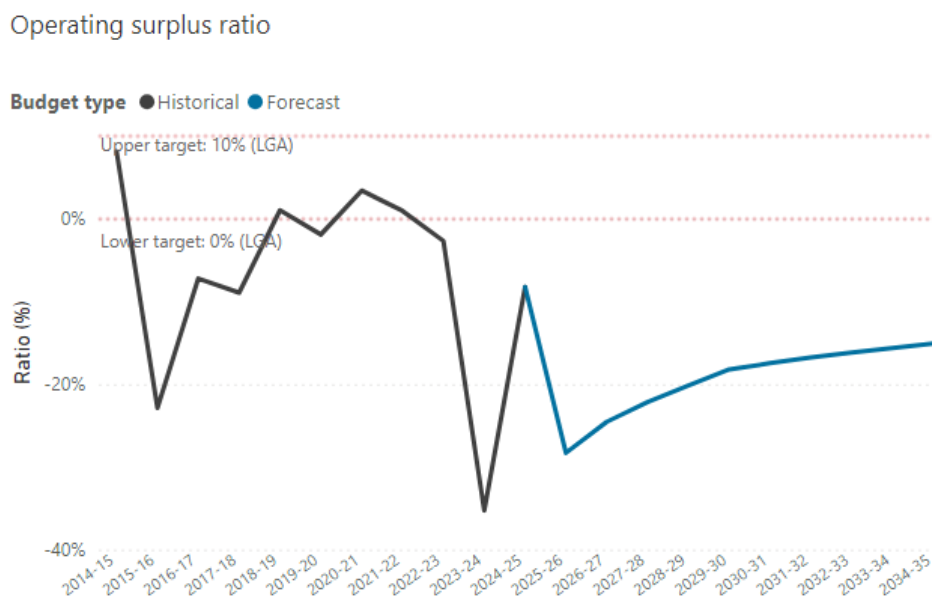
In the Commission's view, the Council must not proceed with a plan that would deliver such a materially unsustainable result. For the Council to develop any prospect of sustainability, it will be necessary to undertake a fundamental review of the Council's financial position and strategy in consultation with ratepayers, to develop a multi-decade strategy addressing all aspects of financial and asset management. This would include the following elements, as provided for in our recommendations:

- ▶ Reviewing the operating cost structure, in particular 'materials, contracts and other expenses' and employee costs to identify any savings.
- ▶ Developing a rating policy that, combined with cost constraint, supports the Council's transition to sustainability, noting that rates are relatively low and that the Council is in an unsustainable and deteriorating financial position.
- ▶ Consulting with the community regarding service levels, to identify opportunities for operating and capital savings.
- ▶ Bringing all asset valuations, condition assessments and assessments of useful lives up to date, with the necessary technical advice, to inform asset management decision-making and depreciation charges.
- ▶ Considering any opportunities to divest assets.
- ▶ Developing a plan to reduce debt, including by strategic partial deferral of asset renewal and replacement, if necessary, to improve the Council's prudential risk profile and reduce debt servicing costs.

- ▶ Avoiding any capital expenditure on new and upgraded assets, unless already committed, essential to the community, or externally funded.

5.1.2 Operating Surplus Ratio

Figure 2: Operating surplus ratio – historical and forecast



- ▶ As shown in Figure 2, over the Historical Period the Council mainly incurred operating deficits, cumulatively \$9.4 million, and the Council's OSR³³ averaged negative 5.2 percent, indicating significant financial sustainability risks.
- ▶ For the Forecast Period, the performance significantly worsens, with the draft LTFP providing for a cumulative 10-year operating deficit of \$45.1 million.

5.1.3 Income and expenses

5.1.3.1 Over the Historical Period:

- ▶ Rates income grew at a CAGR of 4.3 percent.
- ▶ Total operating expenses grew by a CAGR of 3.2 percent per annum.
- ▶ Total operating expenses (on a per property basis) increased at a CAGR of 2.7 percent.

5.1.3.2 Over the Forecast Period (Draft LTFP):

The Council's draft LTFP provides for:

³³ The operating surplus ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income. The general target is to achieve, on average over time, an operating surplus ratio of between zero and 10.0 percent (Local Government Association of South Australia, *Financial Sustainability Information Paper 9 - Financial Indicators*, November 2024 (LGA SA Financial Indicators Paper), p. 8), available at [financial_sustainability_information_paper_9.pdf](#).

- ▶ Total operating income to increase by a CAGR of 3.4 percent, including rates income increases of 3.7 percent per annum (rates are discussed in Section 6), compared with forecast average annual CPI of 2.5 percent.
- ▶ Total operating expenses to increase by a CAGR of 2.1 percent per annum, which is lower than forecast average inflation of 2.5 percent, and 1.1 percent lower than the growth that the Council has experienced in the Historical Period. The Council has not shown how it can contain growth in costs to this level, indicating further risk to the operating result.
- ▶ Total operating expenses (on a per property basis) are forecast to increase by a CAGR of 1.1 percent per annum, also reflecting a CAGR growth in the number of rateable properties of 1.0 percent per annum.

5.1.4 Commission's recommendations on operating performance

The Commission acknowledges that the Council's draft LTFP forecasts are subject to further review and the current draft LTFP has limited utility at this point. The Council has stated it is committed to developing a strong and sustainable financial strategy, implementing a comprehensive financial plan with best-practice accounting standards, and delivering performance-based IAMPs.³⁴ The Council also states it is committed to deferring non-essential or unanticipated expenditure, and continuing a strong debt reduction program. The Commission supports this approach.

The Commission recommends that the Council:

Over the next one to two years:

1. **Develop** a (multi-decade) strategy to bring the Council to a sustainable financial position, including the following elements as appropriate:
 - ▶ **Reviewing** of the operating cost structure, in particular 'materials, contracts and other expenses' and employee costs to identify any savings.
 - ▶ **Developing** a rating policy that, combined with cost constraint, supports the Council's transition to sustainability, noting that rates are relatively low and that the Council is in an unsustainable and deteriorating financial position.
 - ▶ **Consulting** with the community regarding service levels, to identify opportunities for operating and capital savings.
 - ▶ **Bringing** all asset valuations, condition assessments and assessments of useful lives up to date, to inform asset management decision-making and depreciation charges.
 - ▶ **Considering** any opportunities to divest assets.
 - ▶ **Developing** a plan to reduce debt, including by strategic partial deferral of asset renewal and replacement, if necessary, to improve the Council's prudential risk profile and reduce debt servicing.
 - ▶ **Avoiding** any capital expenditure on new and upgraded assets, unless already committed or essential to the community.

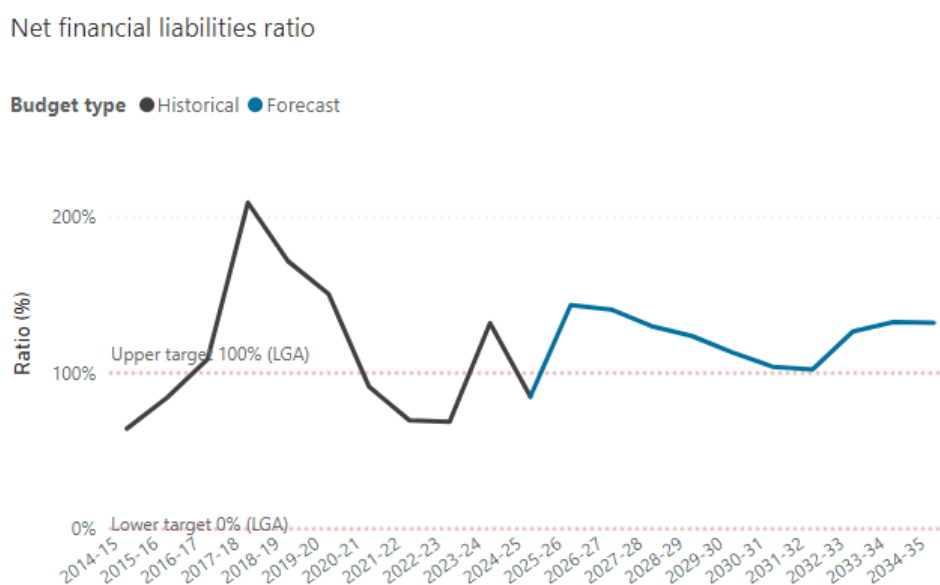
³⁴ Kangaroo Island Council, *Media Release: Building a Sustainable Financial Future for Kangaroo Island*, 29 April 2025, available at <https://www.kangarooisland.sa.gov.au/notice-board/news-and-notices/latest-news/media-release-building-a-sustainable-financial-future-for-kangaroo-island>.

5.2 Net financial liabilities

5.2.1 Key points

- The Council exceeded the upper end of the suggested LGA target³⁵ range for the NFLR (of 100.0 percent) in five of the 10 years in the Historical Period, indicating high financial risks.
- ▲ The Council borrowings in its draft LTFP are projected to increase from \$8.9 million (2024-25) to \$19.4 million (2034-35), resulting in a NFLR consistently above the suggested target range.
- The Council's low cash reserves and high debt could result in it not being able to fund unexpected payments or address emergencies over the Forecast Period if this issue is not addressed.

Figure 3: Net financial liabilities ratio – historical and forecast



The NFLR³⁶ is an indication of a council's capacity to service its debt, measuring total operating income relative to net financial liabilities. The Council exceeded the suggested LGA limit for the NFLR in five of the 10 years in the Historical Period, which was primarily driven by high debt. The draft LTFP provides for the NFLR to worsen over the Forecast Period.

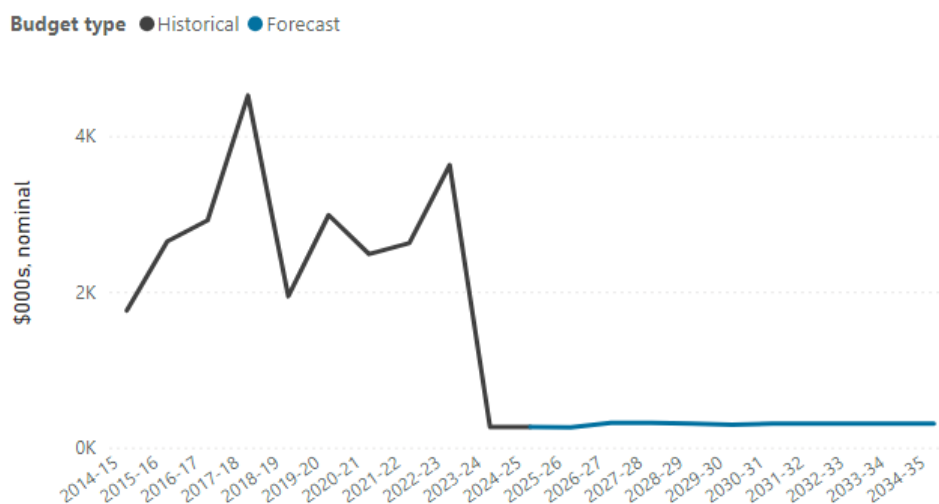
³⁵ The suggested LGA target range is between zero and 100.0 percent of total operating income, but possibly higher in some circumstances (see LGA SA Financial Indicators Paper, pp. 7-8).

³⁶ The net financial liabilities ratio is defined as: Net financial liabilities ÷ Total operating income. This ratio measures the extent to which a council's total operating income covers, or otherwise, its net financial liabilities. The suggested LGA target range is between zero and 100.0 percent of total operating income, but possibly higher in some circumstances (see LGA SA Financial Indicators Paper, pp. 7-8).

This represents a high financial risk for the Council. While the Commission recognises that recovery from the 2020 bush fires³⁷ adversely impacted the NFLR, it is important for the Council to take urgent steps to address this risk.

Figure 4: Cash and cash equivalents at year end – historical and forecast

Cash and cash equivalents



The Council's cash balances were \$0.3 million in 2024-25 and have been forecast to remain at that level throughout the Forecast Period. This contrasts with much higher cash balances in the Historical Period (averaging \$2.6 million).

5.2.2 The Commission's recommendations on financial liabilities

The Council's draft LTFP provides for continuing operating deficits, increasing debt, and low cash balances that exacerbate the unsustainable financial position, placing the Council at risk of not being able to fund routine and emergency expenditure.

The Commission recommends that the Council:

2. **Consider** obtaining independent expert financial advice to ensure the development of financial risk measures and targets are appropriate, with respect to forecast borrowings.

5.3 Asset renewals expenditure

5.3.1 Key points



The Council's gross ARFR for the Historical Period averages 84.8 percent, indicating that its asset renewal and replacement program has been under-funded relative to the requirements of the IAMPs.

³⁷ In 2019-20, the bushfires burned almost 50 percent of the island's land area and were considered the largest fires in the island's recorded history, claiming two lives, destroying 87 homes, 60,000 head of livestock, and wildlife, including an estimated 80 percent of the koala population. The Council and other organisations have made significant progress in rebuilding infrastructure and restoring natural habitats.



IAMPs were last updated in December 2024. The Council appears to periodically undertake asset condition assessment and independent asset valuations; and plans to fully fund asset renewal requirements through the Forecast Period.



The Council has not incorporated or fully considered the financial implications of its IAMPs with in its draft LTFP.



The Council needs to improve its practises of regularly reviewing asset revaluation assumptions and accounting for indexation in its LTFPs.

Several of the Council's IAMPs were adopted in December 2024: an overarching IAMP and individual IAMPs for the Airport, Buildings and Complexes, Community Wastewater Management Schemes, Plant and Equipment, Recreation Open Space, Stormwater, and Roads. The Council plans to incorporate revised estimates for capital renewal expenditure (including updated asset valuations³⁸) into its 2026 LTFP.

The Council states it undertakes five yearly reviews of asset valuations, including reviewing asset conditions and useful asset lives.³⁹ However, the Council does not index the accounting asset values in the audited financial statements (between formal valuations), and it does not account for indexation in its forward-looking financial plans. This practice creates a risk that asset values and depreciation are understated in the interim years between formal valuations, creating the risk of the Council not having an accurate understanding of the costs to renew and replace assets, exacerbating sustainability risk.

The Council's average ARFR (gross)⁴⁰ of 84.8 percent for the Historical Period indicates that it has not fully funded its asset renewal and replacement program in line with its IAMPs. The Commission acknowledges the deterioration in this ratio from 2019-20 to 2023-24 (see Figure 5), which shows that the Council's capacity to deal with asset renewals was impacted by the recovery from the 2020 bushfires.⁴¹

The Council's draft LTFP does not include the updated LTFP estimates for its capital expenditure program, indicating the Council has not fully evaluated the financial implications of its asset renewal requirements and that its draft LTFP is unreliable.

³⁸ The Council updated the asset valuations for some of its infrastructure assets on 30 June 2025. See Kangaroo Island Council, *General Purpose Financial Statements for the year ended 30 June 2025* (included in its 2024-25 Annual Report), Note 7 Infrastructure, Property, Plant and Equipment, pp. 90 to 92.

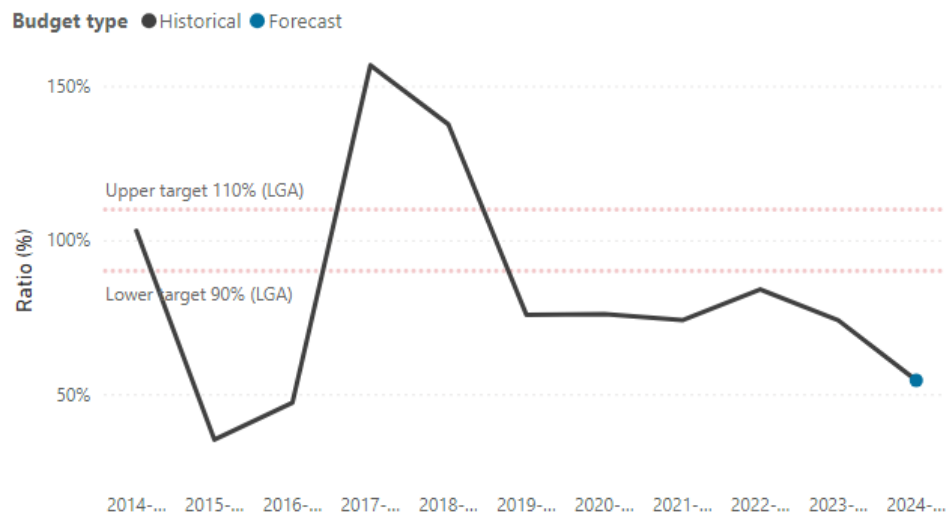
³⁹ Kangaroo Island Council, *Initial provision of information to the Commission*, 30 April 2025.

⁴⁰ The IAMP-based method is the current industry standard whereby asset renewal/replacement expenditure is divided by the recommended expenditure in the IAMP (or AMP). Ideally, this will show the extent to which a council's renewal or replacement expenditure matches the need for this expenditure, as recommended by the plan. The suggested LGA target range for the ratio is 90.0 to 110.0 percent (LGA SA Financial Indicators Paper, p. 9).

⁴¹ See footnote 37.

Figure 5: Asset renewal funding ratio (renewal expenditure gross) – historical

Asset renewal funding ratio (renewal expenditure, gross)



5.3.2 The Commission's recommendations on asset renewal funding

Infrequent valuation updates and the lack of annual indexation of values of the Council's largest infrastructure asset class (i.e., Roads and footpaths) add financial sustainability risk, as the Council does not have an accurate understanding of the costs of asset renewal and replacement. This is exacerbated by IAMP forecasts not being fully integrated into the draft LTFP.

The Commission recommends that the Council:

3. **Ensure** LTFPs are informed by current and accurate financial information from its IAMPs.
4. **Annually** index asset values and depreciation charges between formal revaluations (in accordance with the relevant accounting standards) and ensure LTFPs, annual budgets and annual financial statements adequately reflect asset values and depreciation.

6 Advice on current and projected rate levels

6.1 Key points



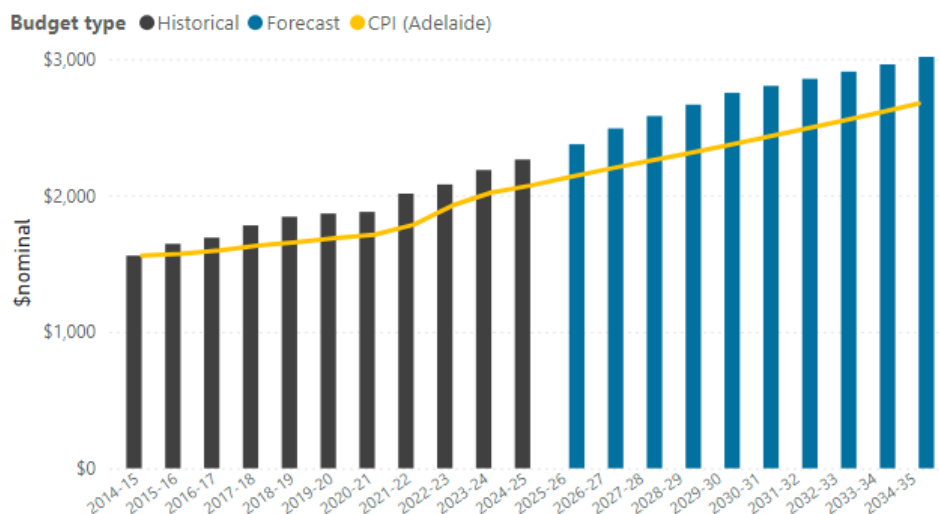
Growth in rates per property exceeds historical and forecast CPI.



Affordability risk among the community for further rate increases appears to be moderate, based on a range of factors, including an assessment of the economic resources available to the community, the relatively low average rates for ratepayers, and the risk of further rate increases following a comprehensive review of its LTFP.

Figure 6: Average rates revenue per property – historical and forecast

Average rates revenue per property



6.2 Historical and forecast growth in rates revenue

Figure 6 shows historical and forecast growth in rates per property above CPI. The Council has relatively low average rates for residential and non-residential ratepayers compared to similar councils and the Statewide average rates.⁴² Noting these incongruent points, combined with the long history of operating deficits, it is possible that the baseline rate was too low to properly fund operating costs and annual increases have not been sufficient to contribute to the generation of an operating surplus.

6.3 Affordability risk

The affordability risk of further rates increases appears to be moderate, on balance, when considering:

⁴² Refer to Councils in Focus rates data for 2022-23 available at [Kangaroo Island Council | Councils in Focus](#). The Commission is not relying on these rate comparisons for its advice; the data source provides one indicator, among many, which has informed its advice on the appropriateness of the rate levels. Other rate charges such as for waste management and the regional landscape levy do not form part of this comparison.

- ▶ the Council's average socio-economic indexes for areas (SEIFA) economic resources ranking for the Council area⁴³
- ▶ the current relatively low average rates for residential and non-residential ratepayers compared to similar councils and the Statewide average rates
- ▶ the effect of average annual (CAGR) increases in rates per existing ratepayer of approximately 2.7 percent per annum over the Forecast Period, and
- ▶ the risk of further rate increases following the Council's comprehensive review of its LTFP.

⁴³ The Kangaroo Island Council area is ranked 41 among 71 South Australian '*local government areas*' (including Anangu Pitjantjatjara and Maralinga Tjarutja Aboriginal community areas and 'unincorporated SA') on the Australian Bureau of Statistics SEIFA Index of Economic Resources (2021), where a lower score (e.g., 1) denotes relatively lower access to economic resources in general, compared with other areas, available at <https://www.abs.gov.au/statistics/people/people-and-communities/socio-economic-indexes-areas-seifa-australia/2021>.

7 The Commission's next advice and focus areas

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

- ▶ strategy to move towards a financially sustainable position and reduce debt
- ▶ progress in annually reviewing its LTFP and in meeting its strategic management plan obligations under the LG Act and Regulations
- ▶ maintaining current and accurate data in IAMPs and integrating the IAMP and LTFP
- ▶ implementation of its asset renewal requirements, and
- ▶ adequacy of income sources.

8 Appendix: Glossary of terms

Item	Explanation
ABS	Australian Bureau of Statistics
AMP	Asset management plan (also called an IAMP)
ARFR	Asset Renewal Funding Ratio: renewal expenditure based (gross): $\text{Asset Renewal Expenditure} / \text{IAMP Renewal Expenditure}$ (where IAMP expenditure includes sale of replaced assets) Asset Renewal Funding Ratio - renewal expenditure based (net) - if IAMP excludes sale of replaced assets: $\text{Asset Renewal Expenditure} / \text{IAMP Renewal Expenditure}$ (where IAMP expenditure excludes sale of replaced assets) Asset Renewal Funding Ratio (depreciation based): $\text{Asset Renewal Expenditure} / \text{Depreciation}$ (IAMP Renewal Expenditure is that required according to the IAMP.)
CAGR	Compound Annual Growth Rate: $\text{CAGR} = (\text{V}_{\text{final}} / \text{V}_{\text{begin}})^{1/t} - 1$ CAGR represents the mean annualized growth rate for compounding values over a given time period. CAGR smoothes the effect of volatility of periodic values that can render arithmetic means less meaningful. (Source: Wikipedia)
Commission	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
CPI	Consumer Price Index (Adelaide, All Groups)
Council	Kangaroo Island Council
ESC Act	<i>Essential Services Commission Act 2002</i>
F&A	Local Government Advice: Framework and Approach – Final Report
Forecast Period	10 years from 2025-26 to 2034-35
FTE	Full Time Equivalent
Historical Period	10 years from 2014-15 to 2023-34
IAMP	Infrastructure and asset management plan (also called an AMP)
LG Act	<i>Local Government Act 1999</i>
LGA SA Financial Indicators Paper	Local Government Association of South Australia, Financial Sustainability Information Paper 9 - Financial Indicators Revised May 2019

Item	Explanation
LTFP	Long-term financial plan
NFLR	Net Financial Liabilities Ratio Net Financial Liabilities are defined as: Total Liabilities LESS Current Assets (Cash and Cash Equivalents) LESS Current Assets (Trade and Other Receivables) LESS Current Assets (Other Financial Assets) LESS Non-Current Assets (Financial Assets - excluding equity accounted investments in council businesses) The net financial liabilities ratio is: Net financial liabilities ÷ Total Operating Income
OSR	Operating Surplus Ratio The Operating Surplus (Deficit) is defined as: Total Operating Income LESS Total Operating Expenses²⁸ The Operating Surplus Ratio is defined as: Operating Surplus (Deficit) ÷ Total Operating Income
Regulations	<i>Local Government (Financial Management) Regulations 2011</i>
RBA	Reserve Bank of Australia
SEIFA	Socio-Economic Indexes for Areas
SMP	Strategic management plan
The scheme or advice	Local Government Advice Scheme



The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444

E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au



Kangaroo Island Council
43 Dauncey Street
Kingscote SA 5223

T 08 8553 4500

F [Redacted]

www.kangarooisland.sa.gov.au