To Essential Services Commission
GPO Box 2605 Adelaide SA 500

Local Government Rates Oversight Scheme – Draft Framework and Approach

This submission is made in response to the current consultation on the Local Government Rates Oversight Scheme (renamed to Local Government Advice).

Changes to the Local Government Act Section 122 now provide for the following oversight by Essential Services Commission (ESCOSA) such that ESCOSA will provide to each of the State's 68 local councils (on a four-yearly rotational basis) advice on the:

- appropriateness, and effective maintenance and implementation, of the council's long-term financial plan (LTFP), and infrastructure and asset management plan (IAMP), including any material amendments proposed or made in respect of those plans, and
- appropriateness of proposed financial contributions by the council's ratepayers under those plans.

In principle we support the overarching intent of the legal framework documented by ESCOSA and the 7 principles within the concepts of the 3 elements discussed.

We believe the focus however should be largely on the LTFP and underlying assumptions including linkages to adopted AMPs and any other relevant strategic plans identified. The focus on any advice should be on the robustness of the assumptions going forward and integrity and currency of data inputs with a focus on ensuring financial sustainability where financial sustainability is defined as

"A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services"

However there seems to be an emphasis by ESCOSA on historical information and analysis as opposed to commentary on the LTFP Projections and underlying assumptions regarding financial sustainability.

HISTORICAL DATA vs LTFP FORECASTS

Historical data can identify potential trends but only informs part of any analysis. A LTFP is based on what a council needs to spend in the future having regard to adopted Asset Management Plans (AMP), Strategic management plans, recent decisions of council including increased service delivery as a result of community consultation and council decisions.

Historical trends also do not necessarily highlight the impact of one off costs such as impacts of changes in accounting treatment including grants, a service not provided temporarily due to one off impacts such as COVID, staff loss, supply chain issues, legislative impacts (housing association mandatory rebates) and weather.

A LTFP is a forecast financial projection based on the current economic climate and the sustainability of continuing council's existing services for that year and beyond and eliminates the impact of "one off" expenditure in previous years results.

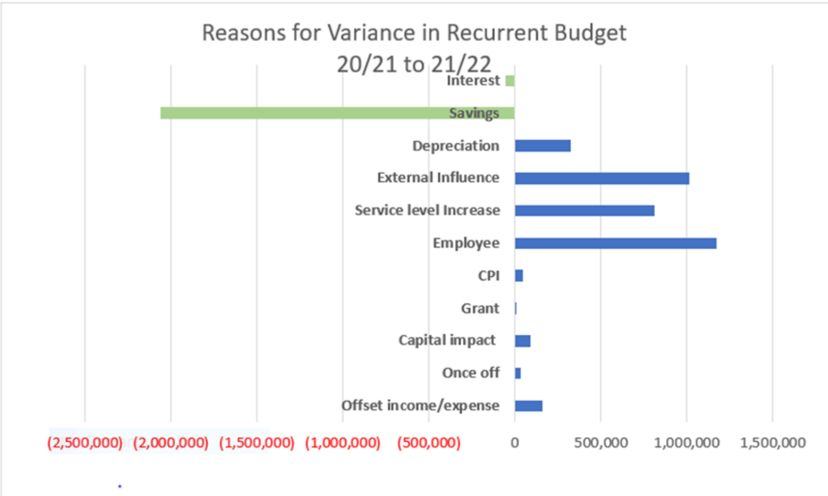
Wages projections are based on current negotiated enterprise bargaining (EB) agreement and where they don't exist a forecast wages price index for the base establishment number of staff. It is not based on historical averages and often with EBs there is a lead/lag impact depending on how many years have been ratified in the EB.

Insurance projections are based on forecasts received from Local Government Risk Services (LGRS) and not an average percentage of what we have paid over the last 10 years and or since 2007/08.

ESCOSA assert that CPI provides a proxy for the council's general performance in controlling its costs. "If operating expenditure growth per rateable property is broadly in line with the CPI, the council is potentially performing in-line with the overall economy in terms of cost control."

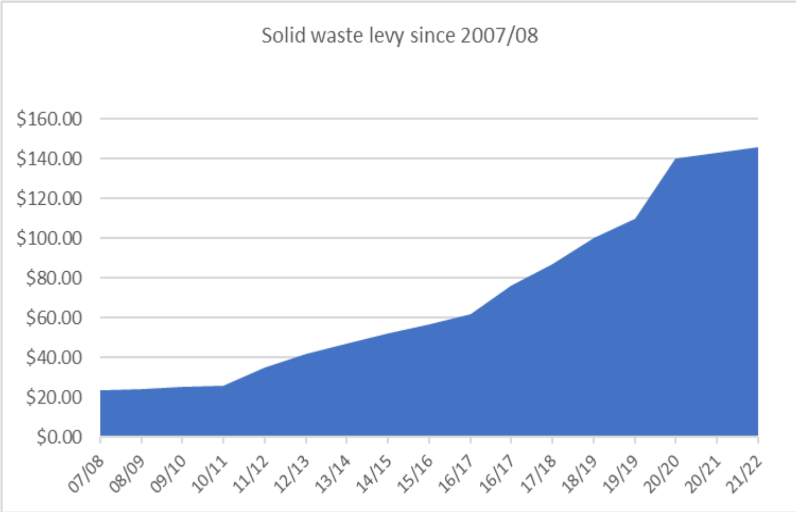
A council always strives to ensure rates remain affordable having regard to financial sustainability and alignment of rates increases to CPI given a community expectations.

The graph below shows for Charles Sturt the reasons for expenditure movements for the budget 2020/21 vs 2021/22 and how we ensure we continue to keep rates affordable despite external pressures when setting our annual budgets.



A draft Annual Business Plan seeks feedback from community consultation annually on its rates increase for the level of services, project and infrastructure within its Plan having regard to its LTFP projections. An Audit and Risk committee also provides feedback on the sustainability of its LTFP and assumptions.

However, a council is subject to many uncontrollable costs, which often increase greater than CPI. The solid waste levy is such an example . Since 2007/08 this levy has increased 524%, far greater than CPI. To say a council is controlling its own costs if it can ensure alignment to CPI is overly simplistic and doesn't have regard to fact that there are many costs which are not under a council's control. As per the graph below which shows cost increases for the waste levy since 2007/08, noting the more significant increases are skewed to more recent years.



Often costs such as insurance, waste, water, electricity increase greater than CPI and there is an assumption by ESCOSA that a council can continue to absorb these costs and restrict overall average rates increases to CPI. On this basis if a council wishes to remain sustainable they would need to potentially cut services. The LGPI which is an indicator of general price increases for a council's basket of goods shows pressure on expenditure is often higher than CPI for this very reason.

Greater than 50% of a councils operating budget is for wages and depreciation, both of which are not tied to CPI.

The purpose of the LTFP is to demonstrate financial sustainability.

It is not designed to provide information on a per rateable property basis, nor optimise revenues from other streams, nor provide an assessment of service delivery and standards.

Infrastructure expenditure does not have regard to newly adopted AMP with changes in strategy and for the impact of updated condition assessments or recent revaluations.

The historical analysis suggested focuses on expenditure in isolation of income

At Charles Sturt we run collaboration projects with Marion and Port Adelaide and our expenditure is often greater than it would be otherwise but these costs are offset by reimbursements. In 2020/21 we had some $1.29m in operating income received to offset the $1.29m in operating costs for a net nil impact.

The Regional Landscape levy also appears as an expenditure item to be paid to Green Adelaide Board but is offset by an income line in rates for the funds a council must collect on behalf of the Green Adelaide Board.

Too much emphasis on historical analysis can dilute the effect of recent trends in addressing new and emerging issues such as Climate adaptation costs or of the impact on fuel prices due to the war in Ukraine or changes in legislation or service standards which a LTFP will seek to account for.

The premise by ESCOSA is that a Council's "business as usual" doesn't change over time.

This is not reflective of the changes to Council's operations over time and the pressure from ratepayers to supply services where other forms of government fall short.

For example services such as heritage grants and support, climate change, events and festivals, economic development and Placemaking are all services that exist now within the City of Charles Sturt core service provision that did not exist in 2007/08.

Charles Sturt also had budget deficits until 2010/11 when it finally achieved a sustainable operating surplus. The average rate increases for Charles Sturt prior to being financially sustainable was 5.6% and subsequent to breakeven was 2.9%. Over this time (subsequent to breakeven) there was included an additional 4.3% over 3 years for a $60m infrastructure investment in water reuse and harvesting through Water Proofing the West.
Hence any rate increases must have regard to changes in service delivery.

Mandatory rebates for housing associations cost $796k in 2008/09 and increased to $2.13m in 2017/18 (169%) costing Charles Sturt $1.343m in lost revenue from rates levied. Mandatory rebates were discretionary until state government legislation granted a 75% mandatory rebate following which significant housing trust stock (which were rateable) were transferred to housing associations.

New developments undertaken within the City impact on service standards and ongoing costs. For example the Bowden/ Brompton redevelopment has resulted in a higher level of amenity the Council inherited and must now maintain.

For these reasons we think any historical analysis should be limited to the last **5** years. This aligns with a term of the Council where following council elections it sets its new strategic direction with its Community and Corporate Plan and sets objectives for the next 4 years.

Data from any analysis should be derived from the Grants Commission who are able to meet any of ESCOSA's information requirements and is data derived from audited financial statements. Requesting Councils to duplicate the information seems an inefficient duplication of effort and the Grants Commission have indicated they are happy to work with ESCOSA on extracting any relevant data requirements.

RELEVANCE OF CPI

CPI is a measure of the cost of good and services purchased by households and consumers so to determine the efficiency of a council having regard to CPI seems flawed.

We believe it is more appropriate to review historical trends in light of the LGPI which is a measure of the cost pressures of a council's basket of goods.

CPI has relevance predominantly regarding expectations of ratepayers that overall average increases will be close to CPI ,but does not indicate a councils efficiency or otherwise as many cost drivers for council costs such as external contracts, insurance, wages, depreciation, interest costs, utilities do not increase in alignment by annual CPI.

At the time of setting budgets Councils often only have access to the March CPI at the time to inform it of expectations the community will have on the overall average rates increase.

For the LTFP Charles Sturt documents all relevant assumptions and includes this information in its Draft Annual Business Plan and Budget. This information is presented to both its Audit committee and Council and once the LTFP is adopted Yr 1 sets the high level budget parameters for development of the annual budget.

We purchase data from Access Economics on forecast data for CPI, fuel and wages plus allow for the impact of endorsed council resolutions for strategic projects, Asset Management Plans, taking account of impacts from the previous year on the base establishment of staff, ongoing operating costs as a result of capital projects and endorsed increases in service delivery.

For utilities, water, waste and insurance we use specific drivers relevant to those costs.

FOCUS OF ESCOSA FEEDBACK

We believe the focus of the ESCOSA review should be limited to the scope as per LGA Act 1999. Therefore, it should be on the adopted LTFP and underlying assumptions with a focus on key performance indicators including linkages to AMPs and other strategic management plans and council resolutions.

We think ESCOSA should focus on the currency of AMPs which feed into the LTFP and how council processes ensure alignment with adopted AMPs and the adopted LTFP.

The feedback should pertain to the ongoing sustainability of council operations and insights into potential opportunities for more efficient operations but in light of an analysis against LGPI not CPI.

Any historical analysis should have regard to the performance of key financial ratios and council's performance over no more than the previous 5 years.

Ant historical data should be sourced from the Grants Commission data and/or analysis provided by the Productivity Commission review into LG efficiency and its feedback.

The advice we think should be initially be provided in Draft so that any material misstatement or observations can be clarified before the final advice is provided especially given it is to be published.

COST RECOVERY

The $52k cost seems excessive and no driver for ESCOSA to be equally efficient. It also doesn't take into account council size and for some smaller councils $52k will result in a significant increase in rates to fund or a reduction in community services. This seems at odds with the purpose of the review.

The amount charged to a council however should have regard to a council's size and not include cost recovery of the set up costs incurred by ESCOSA to manage this new legislative impost on councils.

We understand this is a new process for all parties. We appreciate the opportunity to provide feedback and happy to clarify any aspect of the feedback.

Kind regards

[redacted]

City of Charles Sturt.