

23 May 2022

Essential Services Commission of South Australia

Via website submission

To whom this may concern,

**Local government advice - draft framework and approach**

The City of West Torrens at its 17 May 2022 Council Meeting resolved the following with regards to the Local Government Rates Oversight Scheme Draft Framework and Approach:

**Do stakeholders agree with this interpretation of the legal framework?**

**If not, why not?**

Council agrees with the legal framework giving effect to the scheme relates to monitoring and the provision of advice, not economic regulation. It does not provide to the Commission any powers to enforce compliance measures, set service standards or regulate any council's rates.

However, ESCOSA's expansive interpretation of their review should be clearly defined as the increased creation and provision of information not only leads to increased pressure on each council's administration but also increases costs charged by ESCOSA.

**Do stakeholders agree with this interpretation of the scope and context of the advice to be provided under the scheme?**

**If not, why not?**

Council agrees that the scope should be limited to what has been legislated and this should not be exceeded as is proposed by ESCOSA.

**Do stakeholders consider these principles appropriate for the analytical framework?**

**If not, why not? How should they be changed and why?**

The Council agrees that the Principles are robust. However, consideration must be given to Principle 2 which details long term planning focus. If the advice is to be implemented within the following financial year, the results of this amendment or change may not be realised until after the next ESCOSA review cycle. Council also disagrees with Principle 5 as the LGA does not collect data and whilst councils do have the referenced data available, the collation and provision of this data would be a significant administrative burden on councils.

ESCOSA should be able to obtain all of the information they require from published Council documents or the Grants Commission without requiring additional information from Council.

**Do stakeholders consider this an appropriate analytical framework?**

**If not, why not? How should it be changed and why?**

The intent of the legislative reform to s122 of the Act was to provide an overview of a Council's financial performance. This would be achievable with using the Council's LTFP and IAMP. The additional information which ESCOSA may require to complete their review is far more in-depth and detailed, straying into the consideration of day to day operational matters. This raises the question as to whether the advice provided by ESCOSA regarding Council's financial performance would be limited to their LTFP and IAMP.

ESCOSA should be able to obtain all of the information they require from published Council documents or the Grants Commission without requiring additional information from Council.

**Do stakeholders consider it necessary to consider historical trends when applying the analytical framework?**

**If not, why not? How should it be changed and why?**

**Do stakeholders consider this to be an appropriate approach for the collection of historical information?**

**If not, why not? How should it be changed and why?**

Council does not believe it is necessary to review information from 2007, indeed it is difficult to see the relevance of any past information when assessing the LTFP and IAMP for any particular year as these are forward looking documents. Much of this older information would also not be available and Council argues that the relevance of this information is negligible given the length of time passed, the differing political environment and changes in ratepayer demands. Council proposes that if such information were to be required, it be provided for a maximum of 5 years prior to the review year (i.e. for a Council reviewed in 2022/2023, the information from 2017/2018).

**Do stakeholders agree that, where it is useful to do so, information should be normalised on a per rateable property basis?**

**If not, why not? How should it be changed and why?**

Council disagrees with the proposal that information should be normalised on a per rateable property as this method offers no reasonable basis for comparison. This methodology does not consider the vast number of inputs which affect this comparison causing it to be misleading.

Council rates are not a fee for service. Federal, state and local tiers of government in Australia operate on the principle that all citizens make an equitable contribution to the costs of running their government. Not all citizens use all services such as public libraries, playgrounds or jetties and they are unlikely to travel over every local road or bridge. Citizens contribute to the costs of all government services, even if they do not use those services.

Further this methodology does not consider that council offer differing levels and modes of services for similar services. For example, the City of West Torrens offers one library with a variety of services operating from this centre. Other councils have a number of libraries that service their community with a variety of different services from these locations. It would be very difficult to meaningfully compare these services on a rateable property basis given the demands of the community differ and there is no effective baseline.

**Do stakeholders agree that use of the CPI is an appropriate index to utilise when considering a council's operating income and expenditure growth over time?  
If not, why not? How should it be changed and why?**

CPI a commonly used measure of comparison but in the case of the comparison of local government entities, it does not take into account the evolving nature of Council decision making. It also does not take into account the fact that the CPI measures increases in the costs of goods and services purchased by households/ consumers which is a different bundle of goods and services than the bundle purchased by councils.

Further, measuring or comparing by CPI where rates are to increase by CPI only, would not give councils the opportunity to consider large scale capital expenditure or increasing savings. This methodology would only allow this sort of expenditure or savings by decreasing costs through efficiencies or by increasing grants allocation. The City of West Torrens operates in a very resourceful manner and grants are not an entirely reliable source of income.

The LGPI measures goods and services purchased by Council and is a preferred method of comparison and measurement. This one of the indices on which the City of West Torrens' LTFP has been developed.

**Do stakeholders consider these to be appropriate questions for implementing the analytical framework?**

**If not, why not? How should they be changed and why?**

Council does not agree with the premise that it is the role of ESCOSA to effectively audit the implementation of any council's LTFP or IAMP.

The City of West Torrens is also concerned that financial ratios do not tell a complete story of financial performance.

Council is does not agree with the definition of successfully implemented as it is not clear and is beyond the scope of an ESCOSA review.

Feedback is contained below at ESCOSA question 4.9.

Council agrees that the review of LTFP is within the scope of the ESCOSA review but does not believe the review of cost control, ratepayer demographics, practical implementation or ratio input information forms part of this scope.

Council does not agree with the veracity of financial data being effectively audited is within the scope of an ESCOSA review. This information is audited by annual external audit processes. Further the resources required to provide this information may not be available at all councils given the August information provision schedule conflicts with the external audit process and Audit Committee reporting requirements.

**Do stakeholders consider the proposed approach to a material amendment appropriate?**

**If not, why not? How should it be changed and why?**

Council also considers the consideration of material amendments to be deficient measure in the comparison of councils. There is no definition for 'material' in the Accounting Standards and each council's auditor sets the value for material as relevant for each council. Therefore material amendments differ significantly from council to council leading to difficulties in comparison.

**Do stakeholders consider this an appropriate approach to the analytical framework to assess the key questions in Table 5?**

**If not, why not? How should the approach be amended and why?**

Council does not agree with the premise that ESCOSA may request further information to review which is within the ambit of other legislative provisions. Further this adds little to no value to councils as often independent entities are paid for this work. Including this as part of the ESCOSA review increases the scope of the review and therefore, unnecessarily, increases the costs to councils.

**Do stakeholders consider this an appropriate approach to developing the content of the advice that the Commission provides to each council? If not, why not? How should the approach be amended and why?**

Council does not agree that ESCOSA's proposal regarding content of its advice is consistent with s122 of the Act as the proposal goes far beyond the scope.

**Do stakeholders consider this an appropriate approach to adopt for the publication of the advice, given the legal framework?**

**If not, why not? How should the approach be amended and why?**

Council agrees that the legislation is quite clear that ESCOSA advice and Council response must be published in its annual business plan. Given the potential size of this advice and response, Council proposes that ESCOSA considers this in the preparation of its advice, potentially creating an overview document with links to a full version of its report.

**Do stakeholders consider the analytical framework aligned with the legal framework?**

**If not, why not? How should the approach be amended and why?**

Council does not consider that the proposed analytical framework aligns with the legal framework. The analytical framework includes matters and a level of detail (e.g. service sustainability, costs control and affordability) beyond the scope of section 122.

**Do stakeholders consider the analytical framework to be aligned with the overarching principles for its development?**

**If not, why not?**

Council does not consider that the proposed analytical framework aligns with the legal framework. The analytical framework includes matters and a level of detail (e.g. service sustainability, costs control and affordability) beyond the scope of section 122.

**Do stakeholders consider publishing a revised set of guidelines and proforma Excel template no later than the start of each the Relevant Financial Year appropriate?**

**If not, why not? How should the approach be amended and why?**

By requiring council to use an existing excel spreadsheet, the process would require Council Administration to extract data from various systems and then input into a new format. This would take significant resources. These resources may also be stretched given the August information provision deadlines conflict with external audit processes and Audit Committee reporting requirements. Some documents may already exist but may no longer be readily available (for example, an historical document which has been archived with State Records will require time and the payment of a fee before it can be retrieved).

Council proposes that as far as possible, ESCOSA restrict the documents it compels councils to provide to those documents that already exist and which remain readily available.

**Do stakeholders consider the proposed timing for information provision appropriate?**

**If not, why not? How should the approach be amended and why?**

The timing of information provision is inconsistent with council budget preparation timeframes. This could lead to gaps in information provision. The advice from ESCOSA is also received in February/March of each year which is a significant way through the next years council budget process which would mean advice could not be acted upon until the following year. This would also leave one year until Council is again reviewed by ESCOSA which is often not long enough to see an impact from changes made to LTFPs and IAMPs.

The timing of information provision is also problematic as it conflicts with the external audit process. Most, if not all councils, are still in the process of completing their end of financial year external audit reviews with their contracted external auditors and preparation of documents and reports for Audit Committee submission as a result of the November as a result of the LG Commission Submission.

Further this would place significant pressure on existing resources to provide the information requested by ESCOSA and to implement the ESCOSA advice.

Council is concerned that in late 2020 the approximate figure for an ESCOSA review was determined at \$20,000 and by early 2022, this figure has increased to \$52,000. There appears to be no rationale for this increase apart from a growth in scope for these reviews.

Further this appears to be a 'fixed' figure and does not take into account the size or complexity of the council being reviewed.

Given many of the functions of an ESCOSA review are already undertaken by external auditors, this 'double payment' does not appear to add any value to councils.

**Do stakeholders agree with the Commission's approach to allocating its projected indicative costs across the first cycle of the scheme?**

**If not, why not? How should the approach be amended and why?**

Council does not agree that 'set up' or indicative costs for ESCOSA to perform these reviews fits within the legislative framework for cost recovery in s122(1k) of the Act. Set up costs cannot be compared to the costs of actually conducting a review.



**Do stakeholders agree with the Commission's approach to addressing any material difference between its actual costs and its projected indicative costs?**

**If not, why not? How should the approach be amended and why?**

As above. Council does not agree that 'set up' or indicative costs for ESCOSA to perform these reviews fits within the legislative framework for cost recovery in s122(1k) of the Act. Set up costs cannot be compared to the costs of actually conducting a review.

**Do stakeholders agree that the Commission should bill the LGA the total yearly cost associated with the scheme, noting that any such scheme would require unanimous agreement between the LGA and member councils covering at least the first four-year cycle?**

**If not, why not?**

Cost recovery is for costs incurred 'in relation to the council'. Whilst the ability to 'spread payment' across multiple years thus reducing pressure on council expenditure cannot be ignored, this should not be the sole reason to implement this proposal. An ESCOSA review, regardless of the way it is invoiced or paid for, should not add undue pressure to council budgets, thus affecting the provision of services to the community.

ESCOSA should be directly invoicing each council as the service provider to take into account any variation in costs specifically. By transferring the accounts payable process to the LGA, this shifts the responsibility onto the LGA whose role is primarily advocacy and sector assistance and is resourced to that effect. Council, therefore, disagree with the proposal that ESCOSA should invoice the LGA in a lump sum.

**Do stakeholders agree with the Commission's approach to the timing and frequency of billing?**

**If not, why not? How should the approach be amended and why?**

Council disagrees with ESCOSA's proposed approach to the timing and frequency of billing. Council should be billed individually in the year their review is undertaken and early advice of the amount is required for budgeting purposes. For the CWT, as a first tranche Council being reviewed, to be advised the costs are likely to be more than double that of the amount initially proposed, is unacceptable.



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**If the Commission were to bill each of the 68 councils separately, do stakeholders agree with its proposed approach to allocating the total yearly cost between councils?**

**If not, why not? How should the approach be amended and why?**

Council strongly disagree with the LGA being the responsible body for invoicing for reviews on behalf of ESCOSA.

However, if this approach was to be taken, Council proposes that councils are invoiced in line with their council group e.g. 1A, 1B etc. in line with how LGA membership fees are determined.

Costs should be allocated on a per council basis based on the work undertaken by ESCOSA and not allocated on an equal basis to each council. However, this needs to be capped at no more than \$50K for each council which in any case is significantly more than CWT's standard financial audit cost.

Should you have any further questions or queries, please do not hesitate to contact me on [REDACTED]

Yours sincerely,

