

25 May 2022

Mr Adam Wilson
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Submitted via online form on ESCOSA website

Dear Mr Wilson,

RE: Local Government Advice – Framework and Approach

This submission is made on behalf of our membership, approximately 200 members representing the 68 South Australian councils, in regards to your current consultation on the Local Government Rates Oversight Scheme (renamed to Local Government Advice).

We have a number of key concerns and areas that require clarity including:

- The scope of information requested by ESCOSA
 - We believe the information requested by ESCOSA should be directly relevant to, and used for the purpose of provision of advice regarding council's Long Term Financial Plan, Infrastructure and Asset Management Plans, and total revenue sources only.
 - We note that the information as requested does not include the Infrastructure and Asset Management Plan and as such we are unsure how its linkage to the Long Term Financial Plan and proposed rate increase will be ascertained.
 - If the Infrastructure and Asset Management Plan data is provided, we question what will be the process / mechanism to reconcile this to the Long Term Financial Plan?
 - We are concerned that the proposed framework as presented is not an assessment of Councils objectives of maintaining and implementing Long Term Financial Plans and Infrastructure and Asset Management Plans, and Councils objectives in ensuring that rates are appropriate given these plans, as previously intended, consequently we do not support the proposed framework.
 - The information requested in the consultation document is in excess of this requirement and indicates ESCOSA will be undertaking a more detailed, and as a result, costly review.
 - It is proposed that the first four years of operation of the scheme should be used to set a baseline for each council and then, using a risk-based approach, the scope of the review could be scaled up for a particular council if a need is identified.



- The period for which historical data is requested
 - There has been significant change and improvement in the sector since the 'Inquiry into Local Government Financial Sustainability' in 2006; this is not given due consideration with this request.
 - We are unsure as to why so many years of historical data are being requested.
 - Further we are unsure as to why councils are being requested to provide this information again despite it being held by the South Australian Local Government Grants Commission and Office of Local Government for their 'Councils in Focus' initiative. Utilising this existing data will provide consistency in the way the data is provided for use in the Scheme, while reducing the overheads associated with councils providing the information and ESCOSA compiling and loading the data into their systems.
 - We are concerned that the detailed knowledge associated with one off historical impacts cannot be ascertained from the financial statements alone, this will necessitate engagement with respective councils, and consequently the more years of historical information that is incorporated, the greater the impost on Councils needing to respond, and the greater the risk that the relevant information will not be available, noting the timeframes are far in excess of record keeping requirements.
 - We believe the request for historical data should reflect the timeframe anticipated within the proposed scheme, i.e. no greater than the previous four years, and a request for historical information for a longer period is not supported.
 - Further, we note that the timeframe for providing this historical information is 1 August as compared to 30 September as specified in the Act, we have concerns over this date and do not support the due date deviating from the legislated timeframes.
 - The Productivity Commission Inquiry into Local Government completed a review into Local Government Costs and Efficiency and this could provide a useful reference tool for ESCOSA.

- Costs of the scheme
 - The costs associated with the proposed scheme are far in excess of what was anticipated.
 - We are concerned about the burden this places on councils, and how small councils in particular will be able to accommodate these costs.
 - The costs of \$52,000 cited per council are significant and appear to include set up costs, and for ESCOSA to gain an understanding of Local Government, which should not be oncharged to Councils. If there is a cost it should have regard to council size.
 - We question what benefit/s the council or community will receive from the imposition of costs associated with the proposed scheme. How will ESCOSA handle rate increases councils may need to implement to cover the cost of the scheme?
 - Further, there are concerns about how and when the costs associated with the scheme will be invoiced across the sector.
 - We believe the scope of the proposed scheme should be fully funded by the State Government, or at least reduced to address the unreasonable costs.



- Budget / LTFP assumptions
 - The removal of the discretion provided in the Local Government Act 1999 for a council to determine the reasonable assumptions and indexations to be used in the development of its Long Term Financial Plan is strongly rejected.
 - These assumptions should include consideration of the Local Government Price Index (which accounts for the costs of items usually purchased by councils as opposed to CPI), endorsed Enterprise Bargaining Agreements, the ABS wage price index and other actual cost factors which collectively provide a more accurate representation of inflation pressures to be considered by council.
 - The Long Term Financial Plan is a future forecast based on the most up to date assessment of economic conditions and current Strategic Plans including Infrastructure and Asset Management Plans to ensure long term sustainability. Historical trends can be a useful tool in any analysis but Local Government performance should be assessed against the historical Local Government Price Index which is a reflection of how Local Government specific costs have increased, not CPI as proposed which is a measure of the increase in a basket of goods irrelevant to the Local Government basket of goods.
 - The focus should be on the robustness and validity of assumptions which underpin the Long Term Financial Plan including alignment to adopted Infrastructure and Asset Management Plans.

- General
 - We would appreciate the opportunity for each council to review and provide feedback on their draft advice prior to it being published, this will allow for clarification or the provision of additional information.
 - We strongly believe that 'Advice' should be provided in a form that is easily incorporated into the Annual Business Plan.
 - The use of the term 'CPI constrained' will lead to unreasonable criticism of councils that justifiably increase rates greater than CPI and will have a practical effect of capping council rates to CPI.
 - We are unsure how the wants and needs of the community will be taken into consideration in ESCOSA's assessment. Feedback is often received during community consultation that the community is prepared to pay additional rates for enhanced infrastructure and service levels. Similarly, we are unsure how the views of Council's Audit Committee will be taken into consideration.
 - We are disappointed to see the top and bottom references to certain councils in the 'Schedule of Councils'. This assessment was made on the Operating Surplus Ratio with no indication as to the appropriateness of this to an individual council's circumstance, or if this outcome had been supported by the community to achieve a particular outcome.
 - We are concerned about the inference that 'growth' does not contribute to additional income requirements of council, usually realised via rates. As the population grows, use of infrastructure and services proportionally increases, with in many circumstances the infrastructure needing to be built in advance of the full realisation of growth.



- A trial of the proposed approach would have been welcomed and allowed time to develop an understanding of the information requirements before being implemented on a broader scale.

As a sector we are committed to enhancing transparency, demonstrated through the existing consultation processes on Strategic Plans and Annual Business Plans, which is undertaken in a manner that does not impose additional burden or provide avenue for further uncertainty. Given the uncertainty associated with the Scheme, we would support a pilot program in the first year (2022/23), allowing a greater understanding of the requirements and enabling guidance and support to be provided to less mature councils based on learnings from the pilot program.

We would welcome the opportunity for further consultation, to achieve outcomes that are workable and in the best interests of all stakeholders.

Yours sincerely,

