

Helping local government
build stronger communities.



Local Government Advice Scheme

Second Cycle: Framework and Approach

June 2026

Executive summary

LGA South Australia (LGA) welcomes the opportunity to provide feedback to the Essential Services Commission of South Australia (ESCOSA) on the future direction of the Local Government Advice Scheme (the Scheme), as it enters its next four-year cycle.

Since commencing in 2022, the Scheme has:

- reaffirmed the ongoing financial and operational pressures facing councils across South Australia
- highlighted the importance of long-term planning, governance and decision-making practices
- improved transparency and accountability for ratepayers and communities through independent and public advice
- encouraged positive change across the local government sector.

The first cycle established an important baseline for individual councils and for the sector overall, consolidating observations on emerging risks, areas of concern and current and forecast financial sustainability outcomes.

LGA also acknowledges that the Scheme matured considerably over the initial 4 year cycle as ESCOSA's understanding of the local government operating environment deepened. This evolution was reflected in progressively stronger reporting, with the third and fourth tranche reports demonstrating a more mature, targeted and higher value approach to assessment and advice.

LGA particularly recognises ESCOSA's commitment to engaging directly with Councils and investing time to understand local circumstances and operating contexts.

LGA welcomes ESCOSA's draft proposal that the second cycle will "... efficiently evolve to reflect the existence of the baseline established in the first cycle"¹. However, while meaningful progress has been made, LGA considers further refinement is required to ensure that baseline is sufficiently robust, consistent and fit for purpose to support long-term sector uplift.

The next phase should move beyond establishing the existence of sustainability risks toward generating deeper insight into their underlying drivers and identifying practical, tailored pathways for improvement. This presents an opportunity not only to better understand the issues, but to inform target improvement pathways including collaboration maturity, service delivery models and shared capability opportunities across the sector.

¹ [Local Government Advice Scheme Second Cycle: Framework and Approach - consultation draft](#) (page 22)

Assessment activity should remain targeted and proportionate to sector-wide financial sustainability risks while also providing councils with clear, actionable and preventative insights that support better long-term outcomes.

In principle, LGA supports the proposed key assessment areas for the second cycle including:

1. Assessment of progress against first cycle recommendations including actions undertaken by councils in response to the first cycle advice
2. Identification of any changes in council circumstances, operating context and long term financial planning since the first assessment
3. Assessment of council performance against a set of observed practice benchmarks, as outlined in the Consultation Draft.

However, given the Scheme's ongoing refinement and maturation throughout the first 4-year cycle, together with the findings and insights generated to date, LGA considers that these assessment areas alone may not be sufficient to deliver a consistent and meaningful sector-wide understanding of financial sustainability risk as the Scheme enters its second cycle.

The opportunity now exists to move beyond establishing a baseline and towards a more mature framework that supports deeper analysis, greater consistency across assessments and clear pathways for councils to strengthen long-term sustainability outcomes.

Accordingly, LGA makes a series of recommendations throughout this submission aimed at assisting ESCOSA to further develop and strengthen the Scheme so that it delivers greater value to participating councils, communities and the sector as a whole. These recommendations are intended to support a more targeted, preventative and outcomes-focused approach to assessment.

As the peak body representing local government in South Australia, LGA has not responded directly to each consultation question in the format presented in the Consultation Draft. Instead, this submission provides a broader strategic perspective on opportunities to strengthen the Scheme.

We note that many of the themes raised aligned with feedback submitted by other partner organisations participating in the review process.

Recommendations

On ESCOSA's Local Government Advice Scheme, LGA:

1. Supports the proposed key assessment areas for the second cycle, particularly the opportunity for councils to provide written submissions under assessment areas 1 and 2.
2. Requests that ESCOSA develop guidelines and templates for written submissions under proposed assessment areas 1 and 2, to promote consistency, reduce administrative burden and minimise requests for additional information.
3. Supports the inclusion of an opportunity for councils to provide a written statement outlining material changes in council context or circumstances and the resulting impact on financial sustainability risk. This will provide a more comprehensive understanding of the complexity and operating environment of councils and strengthen the robustness of ESCOSA's final advice.
4. Recommends that ESCOSA provide a definition and scope of what constitutes 'material changes' in context or circumstances, including the types of factors and evidence that will be considered in the assessment.
5. Recommends that ESCOSA's advice distinguish between matters within a council's direct control and external structural or policy constraints that may materially influence financial sustainability outcomes.
6. Recommends that CPI not be adopted as a benchmark measure for assessing rate setting or affordability, recognising that council cost drivers and service obligations do not necessarily align with consumer inflation.
7. Recommends that ESCOSA consider opportunities to understand drivers of cost increases, including consideration of whether councils have followed legislated engagement and consultation requirements with ratepayers prior to adopting rates.
8. Requests that ESCOSA engage with LGA at an early stage to explore development of a future assessment model that is more risk based.
9. Recommends inclusion of an additional step within cycle 2 to allow councils to review and provide a written response to draft advice prior to publication. This will support accuracy and enable alignment of information published by both councils and ESCOSA.
10. Recommends that the assessment categories remain unchanged from cycle 1 to support continuity, comparability and trend analysis across assessment cycles.
11. Provide councils with information regarding the costs associated with cycle 2 assessments.

Contents

- Executive summary 2**
- Recommendations.....4**
- About us 6**
- Background.....6**
- Submission.....7**
 - Cycle 2 – Evolution of the Scheme 7
 - Assessment area 1: response to previous advice 7
 - Assessment area 2: material changes in context and circumstances 8
 - Assessment area 3: performance against observed practices 8
 - Consumer Price Index.....9
 - LGA rate capping report findings (2025).....10
 - Decoding the advice 13
 - Four year review cycle.....13
 - Additional response step.....14
 - Assessment categories 14
 - Funding the Scheme 14

About us

LGA's purpose is to help local government build stronger communities.

As the peak body proudly representing 68 councils across South Australia and the Anangu Pitjantjatjara Yankunytjatjara, we champion the needs of our members every single day.

Working for our members, we represent the interests of local government at both state and federal levels and provide robust and innovative solutions to local challenges.

Whether it's policy development, coordination on important issues or training and development, our work is about empowering local government to deliver a real, lasting impact for South Australians. Our trusted services also include tailored cover and risk services for the sector, and access to pre-qualified suppliers and panels to save councils time and money.

LGA welcomes the opportunity to provide a submission on the Local Government Advice Scheme Second Cycle – Framework and Approach Consultation Draft².

Background

Financial sustainability has long been identified by council CEOs and General Managers as the primary risk facing local government³. It is influenced by multiple factors across both policies, systems and controls including infrastructure renewal costs, asset management capacity, historical decisions, and the growth and evolution of service demands (often linked to population growth)⁴.

As a result, no single measure predicts sustainability risks, nor is there a universal solution. It is critical that risks are identified, communicated to the community, and managed through sound financial practices. Independent ESCOSA assessments support this improvement process.

LGA is committed to supporting the sector with financial sustainability challenges, and most recently commenced work with the Local Government Finance Authority on a new Financial Sustainability Program. We thank ESCOSA for its constructive engagement and contribution as a key stakeholder in the development of this Program.

² [ESCOSA - Local Government Advice 2026-27 to 2029-30: Draft Framework and Approach](#)

³ [JLT Public Sector Risk Report 2025](#) (page 3)

⁴ [South Australian Productivity Commission 2019, *Inquiry into Local Government Costs and Efficiency – Final Report*](#), November 2019, page 10

Submission

Cycle 2 – Evolution of the Scheme

LGA notes that ESCOSA's proposed approach for the second cycle includes three assessment areas, building on Cycle 1. While LGA supports this direction, we highlight the opportunity to continue providing councils with clear, actionable insights. Cycle 2 would be valuable if it placed greater focus on identifying root causes and outlining practical pathways for improvement or prevention.

In proposed assessment areas 1 and 2, ESCOSA should also provide adequate resources to councils to support written submissions and statements to their Scheme assessment. This could include:

- Written guidelines to support high quality, consistent reporting across the sector
- For assessment area 2: clear guidance on how to identify and express 'material changes'
- Consistent reporting templates and examples for councils to use to help ensure that ESCOSA's expectations are met. To assist councils, the template could be prepopulated with appropriate information, such as the findings from the last review, and provide a working example to guide councils in their response.
- What publicly available information can be used as reference
- What other information or evidence held by council can be used to support the written statements and how this can be certified (e.g. by external auditors)
- Clarify how the written statements provided by councils will be used by ESCOSA (e.g. for informational purposes, or whether they will be published in full or part as a component of final advice).

Providing clear guidance and template documents is likely to streamline and improve reporting quality and reduce the need for additional information requests. This is essential, especially for councils and regions where capacity and resources are limited, particularly during peak reporting periods.

LGA welcomes the opportunity to work with ESCOSA to develop suitable guidelines and templates that promote improvement and consistency in sector-wide reporting.

Assessment area 1: response to previous advice

LGA supports the opportunity for councils to provide a written statement that responds to advice provided in the first cycle, including actions taken in the intervening period. It is noted

that this is expected to have formed part of the regular reporting to council and the community.

Assessment area 2: material changes in context and circumstances

LGA notes the further opportunity under assessment area 2 to provide a written statement on context, circumstances and material changes that may have significantly affected council since its initial cycle 1 assessment. LGA supports the ability for councils to provide this information and context to ESCOSA as part of proposed cycle 2.

As identified above, the cycle 2 model would benefit from a clear definition of the scope of 'material changes' in context or circumstances that will be considered by ESCOSA. Without this further guidance, there is a risk that the term will be interpreted broadly, potentially leading to misaligned expectations.

Flexibility should also be applied where a council's operating context may not reasonably reach an expected 'material change' (pending definitions being provided), in these cases a brief statement of context should suffice.

Assessment area 3: performance against observed practices

LGA understands the intent of assessment area 3 to provide an evaluation of how current practices compare with benchmarks observed by ESCOSA across the sector. There is benefit in highlighting exceptional practice across the sector in many relevant areas including financial management and sustainability, asset management, governance etc. Where this is occurring, it should be acknowledged and celebrated.

We also note ESCOSA has acknowledged the significant diversity in the sector. Therefore, the observed practices should deeply consider council differences and LGA again cautions against this assessment area becoming a rigid standard that is applied equally to all councils.

Councils vary greatly in geography, growth, asset and infrastructure base, complexity, size, capacity and capability, population and community expectations. Understanding these differences and challenges is essential to suitably assess and mitigate the financial sustainability risk.

There are also a number of external factors outside the control of local government that can impact on the financial sustainability risk of councils. They include:

- Impacts of natural disasters that divert resources from day-to-day service delivery
- Declining taxation share through untied Financial Assistance Grants⁵

⁵ [ALGA-Budget-2026-27: Fact Sheet 2: Financial Assistance Grants](#)

- Workforce shortages across essential roles are limiting councils' ability to deliver services and renew assets, with regional and remote areas most affected due to challenges in attracting and retaining skilled staff
- Costs of addressing climate change impacts, particularly for councils with coastal assets and infrastructure
- Community expectations that councils in rural and remote areas fill critical service gaps in health, aged care and childcare – i.e. they become the providers of last resort
- Structural revenue limitations for small regional and rural councils, particularly with ageing and declining populations
- Federal and State grant programs that favour new assets over renewal
- Legislation and regulatory changes (e.g. *Local Nuisance and Litter Control Act 2016*) which often shifts additional and unplanned costs onto councils.
- Expansion of the roles and requirements placed on councils by Federal and State governments, increasing their costs – commonly known as cost shifting
- Cost pressures faced by councils that exceed CPI, such as increases in the cost of building new and renewing or maintaining existing infrastructure.

ESCOSA's advice should clearly differentiate between issues that councils can directly control and external structural constraints which are beyond their influence. It is important that the advice provided under the Scheme is an honest and open appraisal of all relevant influences. This will increase transparency and provide greater understanding of the financial sustainability risk for each council rather than just the assessment category.

Assessments should be risk based and consider the range of factors driving increased service delivery costs, while also recognising the need for councils to deliver services efficiently.

Consumer Price Index

LGA recommends that ESCOSA do not use CPI movements as an indicative benchmark for measuring affordability and comparison for rate-setting purposes.

CPI is a measure of the average change over time in the prices paid by households for a basket of goods and services and is used to track inflation and changes in the cost of living. While CPI is a well-known indicator of inflation across the broader economy, it is less suitable to the local government context. This is because local governments' expenditure patterns differ markedly from that of households and therefore are subject to different fluctuation pressures.

In addition, councils continually face steep increases across the board in different areas including materials, labour, plant, infrastructure and assets.

By way of example, the road and bridge construction maintenance producer price index collected by the Australian Bureau of Statistics (ABS)⁶ and replicated by the Bureau of Infrastructure and Transport Research Economics (BITRE) in their 2024 yearbook⁷ shows that in the period 2011-12 to 2023-24, costs for road and bridge construction and maintenance in South Australia have increased 56%, while CPI over that same period has been in the order of 38%. Road and bridge infrastructure assets make up an average of 43% of the total asset base of councils across the nation⁸.

Given this, it would be more valuable to assess performance against bespoke indices that more accurately reflect real costs experienced by councils in meeting the needs and expectations of local communities.

There may be valid reasons for individual councils to increase rates above CPI, and in consultation with their communities, such as:

- Rebalancing historically low rate levels
- Funding asset renewal programs or projects
- Addressing cost-shifting from other tiers of government
- Meeting statutory requirements, including where these have changed or increased burden to local government
- Responding to growth demands, particularly where there is an economic benefit for the community in the future
- Funding new facilities or services which have received community support through robust consultation
- Covering increased costs outside councils' control.

LGA rate capping report findings (2025)

LGA notes that the Scheme was introduced “...to give ratepayers confidence that the rates they pay are set at the level necessary for their council to provide the services they value.”⁹

The above example about road and bridge assets is supported by additional research commissioned by LGA in 2025 on South Australian local government performance against other jurisdictions where councils are subject to rate capping, as this remains a relevant factor to consider in wider responses to the Scheme's advisory services. A summary of key relevant findings is provided below.

⁶ [Producer Price Indexes, Australia, March 2026 | Australian Bureau of Statistics](#) (see table 17)

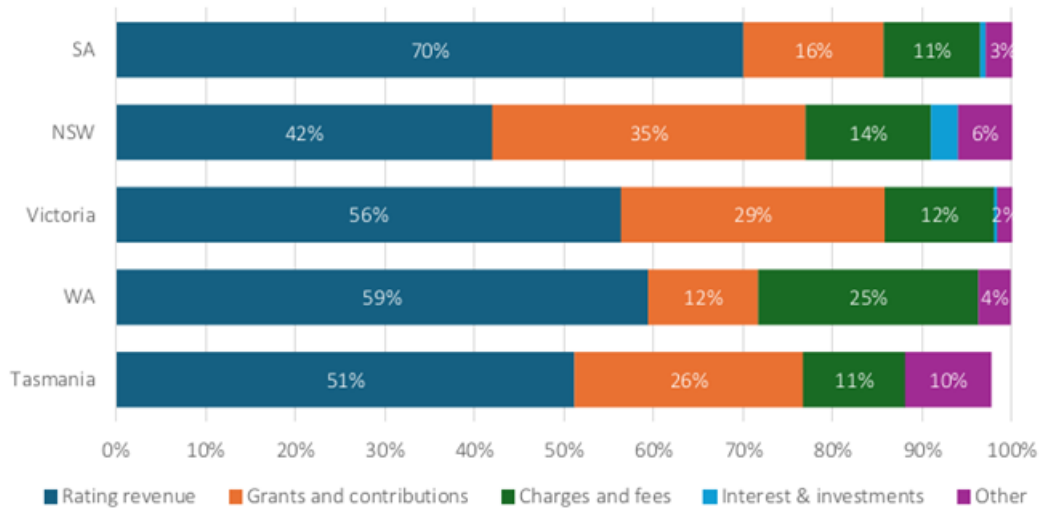
⁷ [Australian Infrastructure and Transport Statistics—Yearbook 2024—January 2025](#) (see table 6.16)

⁸ [ALGA-National-State-of-the-Assets-Report-2024-final.pdf](#) (see pages 8 and 9)

⁹ [ESCOSA - Local government advice – framework and approach](#)

1. Finding of this report indicate that South Australian councils receive less funding from other sources such as Federal and State Government grants (i.e. as a share of total revenue). This means that councils here have a greater reliance of rate revenues than interstate counterparts (see chart below)

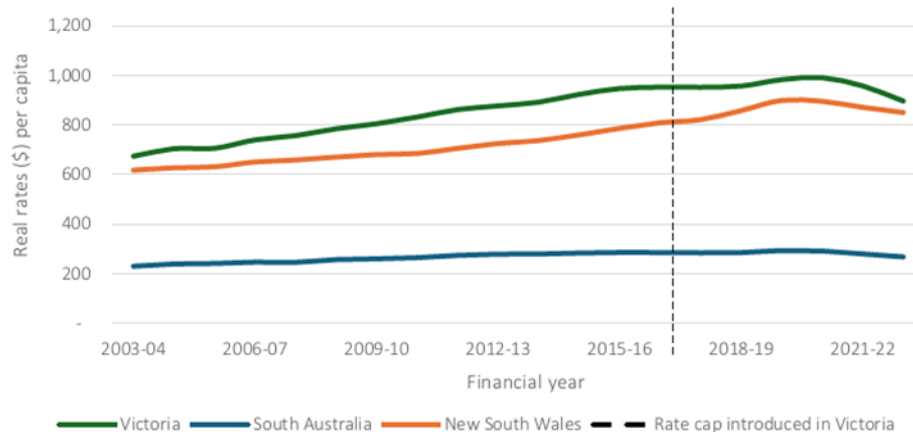
Figure 6: Local government revenue sources by state (2023)



Source: Local Government Grants Commission (SA); Office of Local Government (NSW); DJPR (Vic).

2. Notwithstanding this reliance on rate revenues, South Australia has experienced relatively modest growth in real rating revenue per capita over the past 2 decades. This shows that we have a relatively sustainable and fair rating system with mutual benefits to both council and ratepayers.

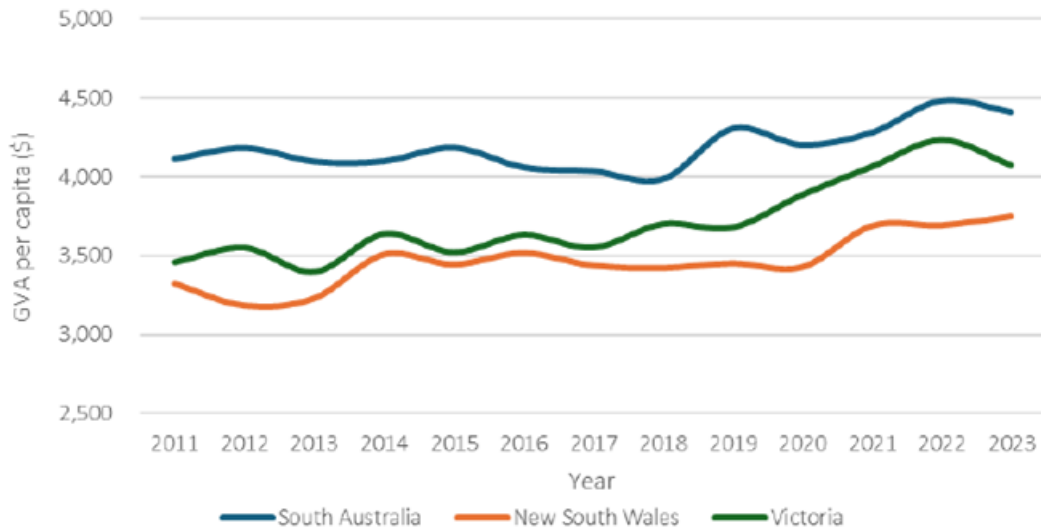
Figure 8: Real rating revenue per capita, South Australia, Victoria and New South Wales (\$2023)



Source: ABS Government Finance Statistics.

- While rate caps in other jurisdictions have been associated with reduced economic output, South Australia 'Gross Value Add' (GVA) per capita has remained higher than other jurisdictions reviewed.

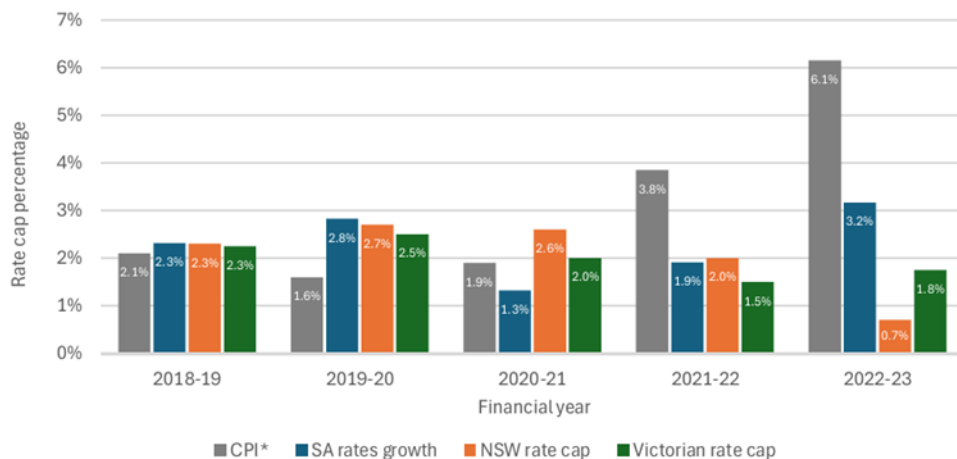
Figure 10: Government sector Gross Value Added per capita, urban council areas, 2011-23



Source: SGS Economics and Planning (2025).

- The report also notes that Annual South Australian rates have generally moved in step with CPI and Local Government Price Index (LGPI) trends. This suggests that council rates decisions largely reflect rising costs of materials and services. Compared to rate caps in New South Wales and Victoria, growth in rates in South Australia was more responsive to changes in the inflation rate, particularly between 2022-23.

Figure 4: South Australian local government total rating revenue against CPI, 2018-19 to 2022-23



Source: Local Government Grants Commission; ABS.

* CPI lagged one year to reflect conditions at the time that councils make budget and rating decisions.

Decoding the advice

There may be value in ESCOSA exploring opportunities to provide a more granular breakdown of where a council has increased rates (or is forecast to do so over time) to better inform the reader.

This could be supported by the additional context that can be provided by councils under assessment criteria 1 and 2 in their written statements and include where additional costs may have been required in different service areas to support community needs and expectation. For example, it could separate out:

- Infrastructure and assets where significant capital or other investment has been made
- External cost pressures e.g. current fuel costs, price increases for electricity and gas
- New or enhanced services that have been approved through the Annual Plan and Budget process (and have been subject to rigorous community consultation)
- Where councils have been addressing long-term sustainability risks, particularly where this has been identified through the Scheme.

Four year review cycle

LGA supports the continuation of the Scheme through a second four-year cycle. This will provide an opportunity for councils to demonstrate the actions taken in response to issues identified during the first cycle and assess the effectiveness of those measures against the baseline now established across the sector.

A second cycle will also enable ESCOSA to build on the knowledge and insights gained through the initial reviews, supporting further maturity and consistency in financial management.

Looking beyond the second cycle, LGA is interested in working with ESCOSA to explore a more risk-based model for future reviews. This could include varying the frequency and intensity of assessments according to a council's financial sustainability risk profile. Where previous reviews have identified a council as financially sustainable and there is no evidence of significant change or emerging risk, consideration could be given to a more streamlined assessment process. This may also reduce review costs and allow greater attention to be directed towards councils experiencing financial sustainability challenges or material changes in circumstances.

Such an approach would enable ESCOSA to focus its resources where they are likely to have the greatest impact, while maintaining appropriate oversight.

Additional response step

LGA also considers there is value in councils being offered the opportunity within the assessment process in cycle 2, to review and respond to the draft ESCOSA advice prior to publication. This would allow councils to provide a written response that can be published together with the final advice as well as centralising all relevant information for ease of community access. Ratepayers would then be able to find all consolidated and relevant information relevant to their council.

This additional response step would enable any misinterpretations to be rectified early and for councils' response and commitment to improvement to be published.

Assessment categories

LGA's view is that the assessment categories used in cycle 2 should remain consistent with those applied in Cycle 1. Maintaining the same assessment framework will enable meaningful comparison over time and support ESCOSA's stated objective of using the first cycle as a foundation for future reviews.

Consistency between cycles will allow councils to better understand how they are tracking against previous advice and provides clarity on whether actions taken since the first review are having the intended effect. It will also strengthen the value of the Scheme as a tool for measuring progress rather than simply identifying issues at a point in time.

LGA also considers it important that cycle 2 assessments recognise and clearly communicate areas where councils have made positive progress. While some councils may continue to face financial sustainability challenges, many will have taken meaningful steps to address recommendations arising from their first review. Observations should provide an opportunity for this progress to be acknowledged alongside any remaining risks or areas requiring further attention.

Recognising improvement serves an important purpose beyond the individual council. It helps identify and showcase good practice across the sector, provides practical examples for others. It also reinforces the value of continuous improvement. A balanced assessment that highlights both achievements and ongoing challenges is beneficial to the council.

Funding the Scheme

While the cost to councils for participating in the mandated Scheme does not form part of ESCOSA's consultation process, this is an important matter for LGA, our members and the sector on behalf of their ratepayers. It is of particular interest for those to councils with large areas, significant assets and a small rate base.

In this regard, LGA supports councils continuing to have the option to use an annualised funding model, allowing the cost of the Scheme to be spread across annual payments rather than being incurred as a single cost in the year of assessment.

We note that, at the 2023 LGA Annual General Meeting¹⁰, members carried a motion seeking a review of the cost structure applied to the Scheme. The motion called for consideration of a funding approach that allocated costs proportionally. At the time, this included discussion of models involving differentiated council contributions based on size and capacity.

Notwithstanding this position, LGA understands that ESCOSA's experience from the first review cycle indicates that the level of effort required to undertake an assessment is broadly similar across councils, regardless of size. While larger councils may have more extensive documentation, data sets and complexity requiring detailed review, smaller councils can require additional effort associated with data extraction, validation and engagement with staff to obtain relevant information. As a result, the overall assessment effort may not vary significantly between councils.

LGA appreciates ESCOSA's reflections from the first cycle and recognises the considerations associated with establishing a cost recovery model that is both equitable and reflective of the actual resources required to undertake assessments.

We would welcome further discussion with ESCOSA on these matters.

¹⁰ [Agenda: LGA Annual General Meeting 26 October 2023](#) (item 7.1)

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