

**Southern and Hills Local Government Association**

# **Submission**

**ESCOSA Local Government Advice**

**Second Cycle: Framework and Approach**

June 2026



# **Submission to the Essential Services Commission of South Australia**

## **Local Government Advice Scheme – Second Cycle: Framework and Approach**

### **Introduction**

The Southern and Hills Local Government Association (SHLGA) welcomes the opportunity to provide feedback on the Essential Services Commission of South Australia's (ESCOSA) consultation paper regarding the second cycle of the Local Government Advice Scheme (the Scheme). SHLGA represents six constituent councils across the Adelaide Hills, Fleurieu and Kangaroo Island regions, encompassing metropolitan growth areas, peri-urban communities, coastal settlements, tourism-dependent economies, and geographically isolated communities.

SHLGA acknowledges that the Local Government Advice Scheme has evolved over its first four-year cycle. The SHLGA Board supports the continuation of the Scheme and its overarching objective of ensuring that ratepayers and other stakeholders have access to independent analysis that enables, facilitates and informs public discussion about the complexity of council rates and financial management. However, the success of the Scheme will ultimately depend on whether councils and communities receive advice that is practical, contextual, proportionate, and capable of supporting informed decision-making and meaningful long-term improvement.

As a regional subsidiary, SHLGA has not sought to respond to matters relating to the individual operational experiences of constituent councils. Rather, this submission focuses on the high-level strategic, governance and implementation matters that are fundamental to the effective operation of the Scheme. We have used the consultation questions posed in the ESCOSA discussion paper to frame our responses.

### **Question 1 – Are there aspects of the advisory model that could be strengthened to improve its effectiveness while preserving councils' decision-making autonomy?**

SHLGA supports the continuation of the advisory model and agrees that decision-making responsibility should remain with the elected body of councils.

The advisory approach appropriately recognises the democratic role of councils and the diversity of local government operating environments across South Australia. A prescriptive or compliance-based model would be unlikely to accommodate the significant differences in council size, geography, growth pressures, asset base, revenue capacity, workforce capability and service expectations.

However, the effectiveness of the advisory model depends heavily on the practical value of the advice provided. The model has the most value when ESCOSA's advice goes beyond simply tells councils what they already know, and provides practical or implementable advice that will genuinely assist them to navigate complex financial challenges.

SHLGA considers that councils must receive clear value from the Scheme. Advice should:

- clearly identify material financial sustainability risks
- assist communities to understand the necessary trade-offs associated with service levels, infrastructure investment, and rates affordability
- support councils in communicating complex financial challenges to their communities
- identify practical pathways for improvement that are scaled to the capacity of the council
- acknowledge implementation constraints and sequencing challenges.

The Scheme is most valuable when it strengthens the quality of strategic conversations within councils and communities, rather than simply restating financial indicators already known to councils.

SHLGA also notes that ESCOSA's sector-wide observations have value beyond individual council advice. These observations can help identify broader regulatory, funding and policy settings that may contribute to financially unsustainable outcomes across the sector.

For example, ESCOSA has repeatedly identified tensions between asset renewal backlogs and investment in new or upgraded infrastructure. However, this pattern is strongly influenced by State and Commonwealth grant programs that incentivise new capital expenditure while excluding maintenance and renewal activities. SHLGA encourages ESCOSA to more explicitly identify these systemic drivers within its broader observations and reporting and actively contribute to sector-level reform discussions.

**Question 2 – In what ways has the scheme's first cycle promoted change in council's approach, and what could be done to strengthen the scheme's capacity to drive sustained improvements in financial management practices and community outcomes?**

SHLGA considers that the first cycle of the Scheme has contributed to improved financial management practices and stronger strategic discussions.

Across SHLGA constituent councils, the Scheme has assisted councils to:

- strengthen alignment between Long-Term Financial Plans (LTFPs), Asset Management Plans (AMPs) and Annual Business Plans
- improve transparency around assumptions and long-term financial sustainability
- undertake more structured discussions regarding rates affordability and service levels
- review debt settings and long-term borrowing strategies
- place greater emphasis on asset renewal and lifecycle costs
- improve governance oversight through Audit and Risk Committees and strategic finance workshops.

SHLGA supports the second cycle focus on assessing how councils have responded to previous advice. However, SHLGA emphasises that budget repair and long-term financial sustainability improvements take time, and achieving material change often requires long-term effort across multiple planning and budgeting cycles. Councils experiencing financial stress or operating constraints may not have the capacity to immediately implement large-scale asset management reform, major systems upgrades, or significant organisational transformation.

ESCOSA's advice should therefore:

- recognise the implementation costs associated with recommendations
- acknowledge workforce and capability constraints
- recognise where councils are undertaking staged or incremental improvements
- consider barriers to implementation, including access to expertise, funding limitations, competing priorities, workforce turnover, or external economic pressures.

A council that has not fully implemented all recommendations may nevertheless be making genuine and appropriate progress toward improved sustainability, and framework should provide an opportunity for this to be acknowledged.

### **Structured Engagement and Validation of Advice**

SHLGA considers that the credibility, usefulness and acceptance of ESCOSA's advice is heavily influenced by the quality of engagement that occurs during the assessment process. Effective advice requires a sound understanding of local context, planning assumptions, operating constraints and the rationale underpinning council decisions.

Several councils have observed that aspects of the first-cycle advice did not always fully reflect local circumstances or, in some cases, misunderstandings of council planning settings, or conclusions that may have been different had additional context been available during the assessment process. While councils will not always agree with ESCOSA's conclusions, confidence in the Scheme relies on councils and communities being satisfied that the advice is based on an accurate understanding of the available evidence.

SHLGA therefore recommends that ESCOSA adopt a more structured engagement and validation process as part of the second cycle. This process should include:

- early engagement with councils to confirm key issues and areas of focus
- structured opportunities for councils to explain material assumptions, planning decisions and local circumstances
- a formal factual verification stage prior to finalisation of advice
- transparent distinction between matters of fact and matters of professional judgement.

The purpose of this engagement should not be to negotiate or influence ESCOSA's conclusions. Rather, it should ensure that any final advice is informed by a complete and accurate understanding of the relevant facts, planning context and operating environment.

**Question 3 – Should the Commission maintain a four-year rotational schedule on the same basis as the first round – so that councils have a consistent four year cycle? If not, why not?**

SHLGA supports retaining the four-year rotational schedule.

In most cases, the existing cycle provides councils with an appropriate timeframe to consider and respond to ESCOSA advice and progressively implement improvements. The extent to which measurable change can be demonstrated during the four-year cycle will depend on the circumstances of individual councils.

A consistent four-year cycle supports sector certainty and allows councils to appropriately plan for the cost and resource implications associated with participation in the Scheme.

Where a council is assessed as materially at risk or unsustainable, SHLGA considers that additional support between formal reporting cycles may be warranted.

Importantly, SHLGA considers that such follow-up activity should focus on support and capability building, rather than compliance oversight. This function may be more appropriately coordinated through the Local Government Association of South Australia (LGASA), in partnership with ESCOSA, the Local Government Finance Authority of South Australia (LGFA), and relevant sector groups such as the Local Government Financial Management Group.

**Question 4 - Was the information gathered and the advice given in the first cycle appropriate and proportionate? Are there ways in which they could be streamlined or improved for the second cycle?**

**Question 9 - Is the proposal to require written statements from councils in relation to Assessment Areas 1 and 2 reasonable and proportionate? What guidance would be helpful in relation to the content and format of those statements?**

**Question 14 - Are the proposed information requirements for the second cycle appropriate and proportionate? Are there additional information items that the Commission should require, or existing items that could be removed or streamlined?**

**Question 15 - What guidance would be most helpful to councils in preparing the two written statements? Are there particular areas where councils would benefit from worked examples or templates?**

SHLGA generally supports the proposed information requirements for the second cycle and agrees that written statements regarding councils' responses to previous advice material changes in circumstances are reasonable and proportionate.

However, to ensure consistency, transparency and efficiency in preparing written statements, SHLGA strongly recommends that ESCOSA develop:

- standardised templates
- guidance notes
- minimum reporting requirements

Developing a standardised reporting template would support longitudinal comparison over multiple cycles.

The template should allow councils to identify any barriers or constraints encountered in responding, where deemed necessary, to ESCOSA advice and revised or staged implementation approached where relevant.

Councils should also be permitted to provide supplementary appendices to the template response where additional explanation is required.

**Question 5 - Are there additional themes or observed practices that the Commission should address in an updated version of the Observed Practices document?2 Are there areas where the Commission’s observations could be strengthened with additional data, benchmarking or analysis?**

**Question 6 - To what extent have councils found the first-cycle advice and the Observed Practices document useful in informing their planning and decision-making? What could be done to increase the practical value of the Commission’s outputs?**

**Question 7 - Does the Commission’s characterisation of ‘the basics’ - understanding what the community values, the full lifecycle cost of delivery, and transparent communication to ratepayers - adequately capture the foundational disciplines that the scheme should promote? Are there other foundational practices that should be given similar prominence?**

**Question 10 - Which characteristics should be considered by the Commission to take account of the significant diversity among South Australian councils when applying the observed practices benchmarks in Assessment Area 3?**

**Question A1 - Is the analytic framework set out in this appendix clear and comprehensive? Are there additional analytic considerations that the Commission should incorporate?**

**Question A2 - Are the seven dimensions proposed for Assessment Area 3 (observed practices) the right dimensions? Should any be added, removed or refined?**

SHLGA supports ESCOSA’s continued focus on foundational financial management disciplines. However, several aspects of the proposed “observed practices” framework require refinement and contextualisation.

## **Community versus Consumer**

SHLGA notes with caution the use of “consumer”-style language within the consultation paper. ESCOSA’s statutory role in sectors such as water and energy understandably informs parts of its regulatory perspective. However, local government operates differently from consumer utility markets.

Councils do not serve “customers” or “consumers” in the conventional sense. Councils serve communities comprised of diverse people with different needs, priorities, expectations and capacities.

Councils set rates to fund a broad range of services, infrastructure and community outcomes that reflect local priorities, statutory responsibilities and social objectives, rather than establishing direct pricing relationships between individual users and the services they receive. This means councils may choose to provide publicly funded programs and facilities targeted at supporting vulnerable or priority population groups - such as older people, young people, people with disability or socially isolated residents - even where those services are used by only a small proportion of the community. Unlike utility pricing models, council rates are not a fee-for-service arrangement where each ratepayer receives benefits equal to their contribution. Instead, rates operate as a collective funding mechanism that enables councils to balance efficiency, equity, inclusion and long-term community wellbeing in ways that do not align neatly with traditional business or economic regulatory principles.

Similarly, describing councils as “long-term businesses” risks oversimplifying the role of local government and may unintentionally distort assessment approaches relating to community expectations and service delivery.

While councils should communicate openly and transparently with their communities about the services they choose to provide, the level of service delivered, and the costs involved, many local government services will not necessarily “stack up” under narrow economic or commercial assessment frameworks. The value of these services is often social, preventative or community-based in nature, and different ratepayers will place different levels of importance on them depending on their individual circumstances, needs and priorities. As a result, council decision-making frequently involves balancing competing expectations and determining what level of collective investment the community is prepared to support in pursuit of broader public benefit outcomes.

SHLGA recommends that ESCOSA review and refine its language and conceptual framing to ensure the Scheme appropriately reflects:

- the democratic and community-based nature of local government
- the diversity of community expectations
- the broader social, cultural and wellbeing outcomes councils deliver.

## **Diversity and Context**

SHLGA strongly supports ESCOSA's recognition that councils operate in highly diverse circumstances. Observed practice benchmarks must be applied with careful judgment and contextual understanding, including consideration of:

- population size and growth profile
- geography and remoteness
- tourism impacts and seasonal population fluctuations
- socio-economic conditions
- asset profile and infrastructure burden
- climate risk exposure
- workforce availability and organisational capacity
- grant dependency
- revenue capacity and rate base composition.

SHLGA acknowledges and supports the consultation paper's emphasis on the unique pressures facing growth councils. ESCOSA's understanding of these pressures would be well-informed by direct engagement with growth areas such as the Mount Barker District Council.

## **Maturity Model Approach**

Given the significant variation in council capacity across South Australia, best practice should not be presented as a single fixed benchmark that may be unrealistic in some contexts. SHLGA recommends that ESCOSA review and reframe the "observed practices" framework as a maturity model.

A maturity model approach would:

- establish legislative compliance as a baseline
- identify progressive stages of organisational maturity based on capacity
- provide clearer improvement pathways
- create more transparent and achievable expectations
- better recognise incremental progress.

This approach is commonly used across local government governance, asset management and financial management frameworks.

SHLGA also recommends that ESCOSA align its qualitative benchmarks with existing sector best-practice guidance produced by the LGA and other sector bodies. This alignment is important to avoid councils receiving conflicting or inconsistent advice regarding what constitutes best practice.

**Questions 8 - Do stakeholders consider that the three proposed assessment areas provide an appropriate framework for the second cycle? Are there additional areas that the Commission should consider?**

**Question 12 - Are the proposed five assessment categories clear, meaningful and appropriately graduated? Should any categories be added, removed or redefined?**

**Question 13 – Is the approach of providing both a current and a forecast assessment appropriate? Are there risks or benefits that the Commission should consider in adopting this dual-assessment approach?**

SHLGA generally supports the proposed three assessment areas and the proposed five assessment categories.

The proposed categories appear broadly appropriate. However, SHLGA recommends that the “At Risk” category be refined by removing the word “significant” in relation to corrective action requirements. The distinction between “At Risk” and “Materially At Risk” should remain proportionate and clearly differentiated.

SHLGA also supports the proposed dual “current” and “forecast” assessment approach, provided sufficient contextual explanation accompanies the assessment.

Forecast sustainability assessments necessarily involve judgement and assumptions regarding:

- inflation
- interest rates
- grant funding
- asset valuations
- workforce costs
- economic conditions
- growth rates
- climate impacts.

Accordingly, ESCOSA’s assessments should clearly acknowledge the external factors influencing council financial positions during each reporting cycle, including:

- construction cost escalation
- fuel price shocks
- inflationary pressures
- cost of managing cyber security risks
- cost shifting

- changing State and Federal funding arrangements
- natural disasters and recovery costs.

These broader contextual observations are important in helping communities understand the limited relevance of CPI to council costs and why councils may need to make difficult decisions.

## **Emerging Issues and Additional Observations**

### **Consistency with LGFA Assumptions**

SHLGA notes the importance ESCOSA places on intergenerational equity and responsible debt management.

While recognising the distinct roles of ESCOSA and the LGFA, it would be highly beneficial for councils if both organisations utilised broadly consistent assumptions and criteria regarding:

- borrowing capacity
- debt servicing capability
- long-term financial assumptions
- inflation and interest rate settings.

SHLGA notes that the LGFA Strategic Plan includes a commitment to support sector consistency through long-term financial planning assumptions and data inputs. Alignment between ESCOSA and LGFA assumptions would improve consistency and reduce confusion for councils and communities about the reasonable basis for long-term forecasting.

### **Prudential Reporting**

SHLGA recommends that ESCOSA consider the role and effectiveness of Section 48 Prudential Reports as part of its broader assessment framework.

In particular, ESCOSA could consider whether prudential reporting requirements are meaningfully informing council decision making and are adequately considering long-term financial impacts and effectively assessing lifecycle costs and debt implications associated with major projects.

### **Shared Services and Collaboration**

In relation to workforce and operational capacity, SHLGA recommends that ESCOSA consider shared service arrangements and regional collaboration models as positive responses to workforce and financial pressures.

## **Scheme Costs**

For smaller and financially constrained councils, Scheme costs are not easily absorbed and may themselves place pressure on operational budgets. The cost of the Scheme and how those costs are distributed should reflect councils' relative capacity to pay.

SHLGA also emphasises that:

- every effort should be made to minimise Scheme costs
- the Scheme should maintain a tightly focused scope
- advice should focus on areas of materiality and genuine risk
- duplication and unnecessary reporting should be avoided.

## **Conclusion**

SHLGA supports the continuation and refinement of the Local Government Advice Scheme and acknowledges the evolution and improvement in ESCOSA's approach over the first four-year cycle.

The Scheme has the potential to make a valuable contribution to improved long-term financial sustainability, stronger strategic planning, and more transparent community conversations regarding service levels, infrastructure investment and rates.

However, the effectiveness of the second cycle will depend on:

- the practical usefulness of the advice provided
- proportionality and contextual understanding
- consistency and transparency of reporting expectations
- alignment with existing sector guidance and frameworks
- recognition of implementation constraints and external pressures
- ensuring councils receive value from participation in the Scheme.

SHLGA looks forward to continuing to work constructively with ESCOSA and sector partners to support ongoing refinement of the Scheme.