

*Financial viability of councils taking over
responsibility for street lighting in SA*

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Background (1)

- In 2nd half of 2016 LGA in SA investigated the feasibility of Councils assuming full responsibility for street lighting operations
- 85% of services currently provided by SA Power Networks (SA electricity sector privatised in 1999)

Background (2)

- Some traditional & unresolved concern by councils re service levels, charges and ‘customer responsiveness’
- Suggested proposal considered establishing an entity owned, managed and controlled by councils to deliver all street lighting services

Regional Subsidiary (1)

- SA LG Act allows councils to establish legal entities to collaborate
- Some specific obligations but not necessarily onerous
- Councils control such entities and incur responsibility for performance
- Are used eg to provide joint services (eg waste management, stormwater mitigation)

Regional Subsidiary (2)

- Could be used to provide street lighting services and recover costs from councils
 - apply (transparently based) charges in accord with standards & councils
 - varying service levels in accord with preferences

Borrowings (1)

- SA LG's have ready access to competitively priced borrowings thru SA Local Government Financing Authority
- If councils accepted responsibility to manage street lighting it is assumed they would need to acquire existing assets from SAPN at fair price (having regard to remaining useful lives)

Borrowings (2)

- The regional subsidiary could borrow funds (eg from LGFA) to:
 - acquire existing assets
 - met short-run cash flow needs (eg peaks?)and repay loans over time from revenue from ongoing service charges

Findings (1)

- No risks/issues identified suggesting councils couldn't operationally take control and deliver effective service levels
- The regulated SAPN charges are based on a 'weighted average cost of capital' (WACC)
 - WACC is based on a return both to equity and to cover borrowings
 - WACC will vary over time with interest rate movements but is well above rate councils can borrow at

Findings (2)

- The high effective 'WACC' upon which the regulated SAPN charges are based effectively suggests that even after allowing for risks councils would realise significant savings
 - (LG entity would accommodate outlays and set charges to recover long-run estimated costs)
- 'Overheads' built into SAPN charges would be less for a new LG owned entity

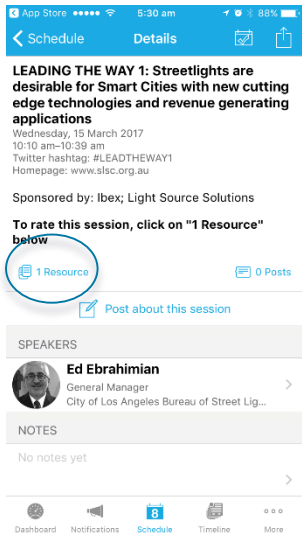
Findings (3)

- Benefits other than financial include:
 - Increased accountability and service levels
 - Transparent / competitive charges
 - Increased certainty of charges
 - Additional technology choice (TS 1158 compliant).
 - Maximise Smart Cities benefits

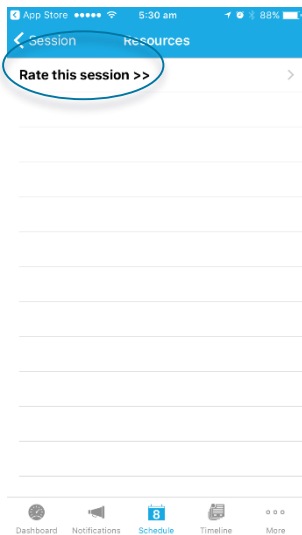
Current status

- LGA currently consulting with councils re next steps
- A detailed business implementation plan completed
- Negotiated access has begun
- Options for legislated access have begun if negotiations are not successful

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