

Councillor Siebentritt - QoN - Council's financial position following release of the ESCOSA report

Tuesday, 25 March 2025
Council

Council Member
Councillor Dr Mark Siebentritt

Public

Contact Officer:
Anthony Spartalis, Chief Operating Officer

QUESTION ON NOTICE

Councillor Dr Mark Siebentritt will ask the following Question on Notice:

'Following media reports about Council's financial position following release of the ESCOSA report, can the Administration advise:

- How many of the findings and recommendations in the ESCOSA report did Council Administration agree with or note, and how many were disagreed with and why?
- If capital in addition to what is proposed in the LTFP is required to fund renewal of assets like the King William Rd Bridge and Torrens Weir, does this mean Council would become bankrupt?
- What was the level of debt prior to this term of Council (30 June 2022) and what was the level of debt as at 30 June 2024? How does this compare to the projected debt over the next 10 years and what has contributed to the level of projected debt? Is there a plan in place to manage this?
- Did ESCOSA conclude that the valuation of assets has been incorrect?
- Did ESCOSA conclude there was mismanagement in any way as part of its assessment of Council's financial management and planning?'

REPLY

1. The Essential Services Commission of South Australia (ESCOSA) identified five risks impacting Council financial sustainability.
2. Administration noted three are already managed through its annual business plan and budget, and quarterly budget review process:
 - 2.1. *"The Council's revenue includes a relatively high proportion of user charges. The Council must hold the assets and cover the expenses associated with providing these services, which are only sustainable if a suitable return is made on each of these more commercially orientated operations."*
 - 2.2. *"The Council is proposing to engage in significantly more capital expenditure than it has historically. This represents a considerable financial, practical and logistical challenge."*
 - 2.3. *"There is a risk of a higher borrowings requirement and higher rates if the Council is unable to secure external grant funding and/or it has underestimated the costs of its proposed capital program."*
3. Administration doesn't accept two risks identified by ESCOSA, namely:

- 3.1. *"Council lacks a strategy for the capital renewal liabilities for its extensive commercial assets, combined with a lack of transparency regarding whether the assets each deliver a net positive or net negative result for ratepayers".*
 - 3.1.1. CoA has in place a confidential Property Strategy, endorsed by Council, which guides strategic management of Council's land and assets. The details of this are commercial-in-confidence and are not publicly shared.
 - 3.1.2. ESCOSA recommended that CoA develop a comprehensive and transparent strategy for its commercial assets. This position is not feasible as it would adversely impact the City's market competitiveness, especially where unique circumstances mean Council is a price setter. This need for confidentiality extends to publishing any separate financial statements for each of the commercial operations. CoA undertakes significant business planning and market testing to progress commercial outcomes.
 - 3.1.3. The renewal of its commercial assets is incorporated into the Asset Management Plans based on condition audit and agreed service levels.
- 3.2. *"Replacement costs for Adelaide Bridge and Torrens Weir were derived prior to COVID and could be understated as a result of market, price and supply chain changes since that time."*
 - 3.2.1. The replacement costs for the Adelaide Bridge and Torrens Weir were derived in the AMP based on the last condition audit and revaluation, indexed to 2024/25.
 - 3.2.2. A more detailed engineering investigation and options analysis is underway to establish a preferred lifecycle management strategy, explore the feasibility of rehabilitation options (rather than replacement) as well as refining the scope, timing and costs of works. Outcomes of these studies are planned to be incorporated into the Asset Management Plans and Long-Term Financial Plan, in conjunction with the revised condition assessment and replacement costs revalued in the 2023/24 financial year.
4. ESCOSA also made seven recommendations. The following four ESCOSA recommendations are considered as part of existing council practice through strategic planning, the annual business plan and budget, and quarterly review processes:
 - 4.1. *"Analyse the implications for long-term financial sustainability and timely renewal of assets before considering any rate freeze or valuation freeze in the future and disclose the analysis to ratepayers."*
 - 4.2. *"Improve the disclosure of cost savings targets or productivity improvements in its Long-Term Financial Plans and Annual Business Plans (as appropriate), to provide evidence of constraining cost growth and achieving efficiency across its operations and service delivery."*
 - 4.3. *"Consider undertaking a detailed review, with its community, of the potential alternative options and the risk implications, from both the financial and service provision perspectives, of the proposed financing of its capital expenditure program."*
 - 4.4. *"Upgrade its Asset Management Plans to more accurately reflect formal asset valuations, condition assessments, remaining useful lives and corresponding depreciation schedules, incorporate this information into the Asset Management Plans and include these expenditure forecasts in the annual budget and annual Long-Term Financial Plan update."*
5. Administration noted the following recommendation:
 - 5.1. *"Consider providing more clarity around the risks (and develop mitigation strategies) if the Council's expectations regarding its operational performance do not materialise and/or its financial strategy becomes stressed."*
6. One recommendation runs counter to Council policy - *"Consider the Future Fund applying a greater emphasis on asset disposals with the proceeds used to repay borrowings, or reduce the need for them, rather than the purchase of assets for commercial operations."*
 - 6.1. The Future Fund is a critical tool in CoA financial strategy and is used to offset debt, and fund purchase of revenue generating assets which increase CoA revenues.
7. A further recommendation reflects the finding above relating to the management of commercial assets – *"Develop a comprehensive and transparent strategy for its commercial assets, addressing for each class of assets and for each individual asset how to optimise value for ratepayers"*.
 - 7.1. This does not acknowledge the existing CoA Property Strategy which due to the commercial nature of our assets, is held in confidence and therefore is not publicly available (as noted above).
8. ESCOSA did not indicate Council risked bankruptcy.

9. In the event that additional capital is required, Council has the ability to reduce its delivery on new and upgraded assets assumed in the LTFP. The LTFP is a conservative projection tool that frames the best assumptions available at the time of preparation, and is able to be modified annually.
10. Council's 2024/25 to 2033/34 LTFP currently has \$23.2 million of uncommitted New and Upgrade Capital Funding. In addition CoA has since received \$16.4 million in cash for an extension of a long term lease; ended the 2023/24 financial year with \$13.7 million favourable cash position (net of carry forwards); and recently received grants of approximately \$12 million (\$7.3 million for Mainstreets, \$3.6 million Blackspot funding, \$1.0 million for Charles Street).
11. In relation to levels of debt before this term of Council, now and in ten years time, and Council's plan to manage debt:
 - 11.1. As at 30 June 2022 Council had borrowings of \$8.000 million, \$7.519 million as at 30 June 2023, and \$0 borrowings as at 30 June 2024 (cash positive \$1.635 million).
 - 11.2. The projected debt within the 2024/25 to 2033/34 LTFP at year 10 is \$220.591 million. This debt is attributed to:
 - 11.2.1. Capital Expenditure on New and Upgraded Assets \$176.316 million (of which \$23.2m is unallocated)
 - 11.2.2. Significant Asset Renewal of the Adelaide Bridge \$50.550 million (indexed, net of anticipated grant funding)
 - 11.2.3. Significant Asset Renewal of the Torren's Weir \$18.033 million (indexed, net of anticipated grant funding)
 - 11.2.4. Significant Asset Renewal of Rundle UPark \$17.138 million (indexed).
12. Achieving a healthy target operating surplus allows Council to manage and service the debt liability outlined in the LTFP, and is built into each annual business plan and budget, as is prudent and disciplined expenditure.
13. ESCOSA did not conclude the valuation of assets had been incorrect.
14. ESCOSA recommended Council update its AMPs to accurately reflect formal valuations, condition assessments, remaining useful lives and corresponding depreciation schedules. It also recommended incorporating this information into the AMPs and include these expenditure forecasts in the annual budget and annual LTFP update.
15. This reflects existing CoA practice. The City of Adelaide undertakes condition audit and revaluation of assets every four to five years in line with legislative requirements.
16. In 2023/24, Council implemented an annual desktop revaluation exercise to ensure the value of assets remains in line with indexation.
17. The asset values incorporated in the 2024 adopted Asset Management Plans (AMPs) were derived from the last revaluation of the relevant asset class indexed for inflation to current values.
18. The exercise and implementation of the annual desktop revaluation is to ensure the unit rates in both the AMPs and LTFP reflect current prices and valuations.
19. ESCOSA did not conclude there was mismanagement in any way as part of its assessment of Council's financial management and planning.
20. ESCOSA concluded the operating performance of Council has been materially impacted by Council decisions regarding rate setting – namely freezing both the rate in the dollar from 2013/14 to 2023/24, and property valuations for five years 2018/19 – 2022/23. This decision has had a direct impact on Council's long-term financial position.

Staff time in receiving
and preparing this reply

To prepare this reply in response to the question on notice took approximately 5.5 hours.

- END OF REPORT -