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26 May 2022

Mr Adam Wilson
Chief Executive Officer
Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001

C/- submission portal

Dear Mr Wilson

ESCOSA Local Government Rates Oversight Scheme – Draft Framework and Approach

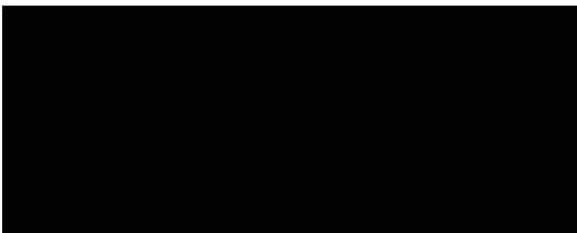
Our organisation has considered the ESCOSA Consultation Paper "Local Government Rates Oversight Scheme – Draft Framework and Approach" which has resulted in the attached submission. We have formed our submission to respond to the consultation questions posed in the ESCOSA paper. The overarching concerns that we have with the proposed framework are:

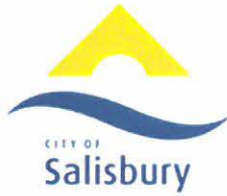
- The scope of the proposed framework compared to the intent that this would be a high-level review;
- The relevance of 14 years of historical information and the effort required in compiling this information; and
- The cost of \$52,000 is a significant cost and is greater than what was envisaged.

We would welcome further engagement to clarify any aspect of our submission and to discuss our proposal to undertake a pilot program of high-level review in 2022/23 so that learnings can be gained and the framework refined.

The City of Salisbury would welcome this opportunity to make a contribution to the development of a robust balanced and reasonable approach with the hope that this would reduce the impost for the sector and provide the assurance that is desired.

Yours sincerely





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2.3 Commission's interpretation of the legal framework

2.3.1 Overarching intent of the legal framework

DFA Consultation Question

2.1 Do stakeholders agree with this interpretation of the legal framework?
If not, why not?

RESPONSE

The ESCOSA framework is broader than the focus on the LTFP and IAMP required by S122, and while we recognise that ESCOSA has the power to obtain additional information it should be in relation to the review of the LTFP and IAMP. The inclusion in the DFA that ESCOSA can source any information irrespective of whether it is related to "relevant matters" is not consistent with S122.

The increase in the cost of the scheme from the \$20k quoted during the debate to now \$52k contained in the DFA reflects more than a CPI increase over the past 18 months, and may be a direct result of this expanded scope. Any increase in costs to Council will need to be funded through likely additional rates.

City of Salisbury support an approach of a high-level review in the first round (first 4 years) to enable ESCOSA to develop a more detailed understanding of the sector, and then review the DFA with consultation from the sector.

It is disappointing that there was no engagement with the sector in developing the DFA and no pilot program to enable both ESCOSA and the sector to develop a shared understanding and approach to the ROS.

City of Salisbury propose that a pilot program still be undertaken consisting of Metropolitan Councils, and that this pilot program occur for 2022/23 to enable these valuable learnings to occur. The balance of the 68 SA councils could then be undertaken over the following 3-year period. Having those Councils who would be expected to be further along the maturity curve going first gives time for other Councils to adopt and learn and will improve the outcomes for all, which should be the focus of the ESCOSA Framework.

2.3.2 The scope and context of the advice

DFA Consultation Question

2.2 Do stakeholders agree with this interpretation of the scope and context of the advice to be provided under the scheme?
If not, why not?

RESPONSE

As stated previously, the City of Salisbury believe that the first cycle of the scheme should be based on a high-level review and then an assessment be made to whether there is the need to broaden the scope within the bounds of S122 based on the findings of this first cycle and in consultation with the sector.

It seems that ESCOSA is relying on s122(1g) to expand the scope of review. ESCOSA is to have regard to Council's objectives of having ratepayers make appropriate financial contributions for services and facilities, not to step into the place of Council and assess whether the outcomes are appropriate.

The advice provided by ESCOSA is in regard to the specific Council and its objectives. Nowhere in S122 is there the indication that ESCOSA should be making comparisons between Councils, and City of Salisbury does not support ESCOSA publishing reports that have these comparisons.

Further City of Salisbury note that the Schedule of Councils that an element of the allocation framework was the use of a league table on the adjusted operating surplus ratio for 2019-20. Describing Councils as top and bottom in this schedule is not constructive. A better description is highest and lowest, recognising that it may be appropriate for the adjusted OSR to be high or low given the particular council's circumstances.

4.2 The principles underpinning the analytical framework

DFA Consultation Question

4.1 Do stakeholders consider these principles appropriate for the analytical framework?
If not, why not? How should they be changed and why?

RESPONSE

The City of Salisbury support the use of these principles. We have concerns about the extent of the application of some of them though given the framework that has been developed. For example, principle 5 – leveraging existing information is not being relied upon in sourcing historical data. This information exists in the Grants Commission database, and requiring Councils to provide it again via spreadsheet is inconsistent with this principle.

Also principle 3 and 4 being Materiality (focus on overarching targets and measures) and Simplicity appear to be somewhat negated through the granular approach being taken by ESCOSA demonstrated in the information required to be provided by Councils and the broad interpretation taken in the DFA to s122(1g)(b) where advice may be provided on other matters, but these other matters should have come to light through the high level review of LTFP and IAMP not through detailed information requests or requests that are not directly related to the review of these plans.

4.3 Overarching analytical framework

4.3.4 Applicability to the analytical framework

DFA Consultation Question

4.2 Do stakeholders consider this an appropriate analytical framework?
If not, why not? How should it be changed and why?

RESPONSE

Missing from these three elements of financial sustainability is that depreciation is a key factor in ensuring that current ratepayers contribute fairly to the costs of assets. We also disagree that rate stability means reasonably. There may be issues with infrastructure that must be addressed and Council may determine that the most appropriate way to address this is through a one-off higher rate increase or higher rate increases for a period of time. This is then tested with the community through public consultation. A further example is when the State Government increased the Solid Waste Levy which for the City of Salisbury was equivalent to an 0.8% rate increase. This resulted in an unreasonable increase in costs for many Councils that was not planned, but was also not within Council's control.

Within the table of endorsed ratios, the interpretation that a positive Operating Surplus Ratio assists in funding the capital program or can be used to reduce debt (if this represents an appropriate long-term strategy). As principal repayments must be met there must be a surplus that can be directed to meeting these obligations. Missing from the interpretation is that a positive ratio also provides some financial capacity to deal with emerging issues throughout the year, which is necessary as Councils manage a range of changing circumstance every year.

The interpretation for the Net Financial Liabilities Ratio is that a reducing ratio is an issue for intergenerational equity. A different perspective is that a decreasing ratio provides capacity for

future Councils to shape its infrastructure program to continue to meet community expectations, with these future projects not having been determined at the time of preparing the LTFP many Councils provide some provision for new capital expenditure, others do not and show a growing level of capacity. We agree with the interpretation of the Asset Renewal Funding Ratio although an actual ratio between 90-110% can be difficult to achieve in any single year due to the actual timing of delivery of the works program, but over a rolling, say 3-year period, City of Salisbury expect to not only plan to be in this bandwidth but also achieve this through actual results. It should be noted that the ARFR as it is currently measured was not in place from 2007-08 which is when ESCOSA is requiring historical data sets for.

4.4.1.1 The relevance of historical trends &

4.4.1.2 What historical information is needed from each council?

DFA Consultation Question

4.3 Do stakeholders consider it necessary to consider historical trends when applying the analytical framework?

If not, why not? How should it be changed and why?

DFA Consultation Question

4.4 Do stakeholders consider this to be an appropriate approach for the collection of historical information?

If not, why not? How should it be changed and why?

RESPONSE

City of Salisbury understand that consideration of prior financial year information can provide a useful context to considering long term financial plans, however, 14 years of prior data seems excessive. There has been significant change in the sector over this time, following the Inquiry into Local Government Financial Sustainability in 2005. More comparable data would be the most recent prior years, and consequently City of Salisbury believe that information should be limited to prior 5 financial years.

The 14-year period extends well past the required records keeping period of 7 years and is an impost to Councils to access archived records.

Additionally, as this data has already been provided to the Grants Commission (with this data capture commencing for the 2007/08 year), and whatever decision is taken in relation to historical data we believe the information should be sourced from the Grants Commission or the Councils in Focus website. City of Salisbury maintain that it is unreasonable to have Council staff rekey this extensive information into the templates provided by ESCOSA, when the information is available through other means.

The due dates for submissions are 1 August for historical data and 30 September for the relevant years data. This is not aligned to the legislative requirement of submissions by 30 September.

4.4.1.3 Accounting for scale

DFA Consultation Question

4.5 Do stakeholders agree that, where it is useful to do so, information should be normalised on a per rateable property basis?

If not, why not? How should it be changed and why?

RESPONSE

Service provision is determined by the Elected Members as representatives of the community and reflecting their intimate understanding of community members needs and aspirations. As the service provision changes over time this drives costs, as well as inflationary impacts, and growth in rateable properties and residential and commercial construction activity. The simplistic approach of reviewing costs based on the number of rateable properties ignores this complexity.

Also considering the number of rateable properties does nothing to distinguish between the categories of rateable properties and that ratepayers do not all make an equal contribution to the costs of Council in dollar terms. Rather than taking this granular approach City of Salisbury support a high-level review for the first cycle (4 years) whilst greater understanding of the sector is achieved.

4.4.1.4 Accounting for inflation

DFA Consultation Question

4.6 Do stakeholders agree that use of the CPI is an appropriate index to utilise when considering a council's operating income and expenditure growth over time?

If not, why not? How should it be changed and why?

RESPONSE

Councils have discretion to use assumptions within the LTFP that are appropriate for their Council. City of Salisbury use a range of drivers including wage inflation, unit rate escalations for infrastructure depreciation, forecast CPI and interest rate assumptions. As CPI measure the increase in costs of a household bundle of goods it does not represent the bundle of goods that Councils purchase. For these reasons City of Salisbury does not agree that CPI alone is an appropriate indicator to consider Councils increase in revenue and expenditure. ESCOSA should consider other factor impacts the sector along with the CPI. It is assumed that the relevant CPI will be the Adelaide CPI.

4.4.2 The key questions to address

DFA Consultation Question

4.7 Do stakeholders consider these to be appropriate questions for implementing the analytical framework?

If not, why not? How should they be changed and why?

DFA Consultation Question

4.8 Do stakeholders consider the proposed approach to a material amendment appropriate?

If not, why not? How should it be changed and why?

RESPONSE

Given that the review under S122 of the AMP and LTFP and funding statement, the questions contained in the DFA are much more far reaching than would reasonable be expected by the changes in S122 resulting from the Local Government Reform Bill.

The designated authority is to have regard to relevant matters being material amendments made or proposed to LTFP and AMP and councils reasons for those amendments, revenue sources outlined in the funding plan, and matters prescribed by regulations (which there are none).

In considering these relevant matters the designated authority is to consider the objectives of council in forming its plans, and council's objective in ensuring financial contributions from ratepayers are appropriate. The level of questions being proposed under the DFA are at a more granular level, for example ESCOSA forming a view regarding service risk, cost control measures, appropriateness of rates given ratepayer demographics, and whether plans can be practically implemented.

The approach taken in the DFA is as though Councils operate in a vacuum, providing the same services every year, with no aspirations for improved service levels. This perspective negates the democratic process that appoints the elected member body and the purpose of Councils developing city plans and long-term objectives for the community.

Further the questions posed regarding asset renewal and depreciation demonstrate a lack of understanding of the long-lived assets of council, the requirements of Australian accounting standards and the inevitable disconnect between depreciation and asset renewal expenditure, when

some assets may have 100 years lives or more and require no or little intervention prior to reaching the end of this period.

The focus on trend analysis and the vast number of questions, will no doubt add a further burden to Councils going through this process to respond to a raft of clarification questions that ESCOSA will have following the trend analysis process. Taking a high level and simplified approach in the first instance is City of Salisbury's preferred approach. Based on a high-level review then the ESCOSA could delve further on a needs basis. Taking this granular, one-size-fits-all approach as the starting point for all Councils is resource intensive, costly, and assumes that there are issues within the sector and across the board, when this is not known to be or agreed to be the case. City of Salisbury advocate for ESCOSA to use a tiered or risk-based model to develop a framework better suited to the variability across the sector.

In terms of materiality, City of Salisbury support ESCOSA using a similar definition of materiality as applied to financial statement audit.

DFA Consultation Question

4.9 Do stakeholders consider this an appropriate approach to the analytical framework to assess the key questions in Table 5?

If not, why not? How should the approach be amended and why?

RESPONSE

Given responses to previous questions, City of Salisbury maintain that the level of review that ESCOSA is proposing through the DFA is beyond the scope of S122.

4.5.1 Content of the advice

DFA Consultation Question

4.10 Do stakeholders consider this an appropriate approach to developing the content of the advice that the Commission provides to each council?

If not, why not? How should the approach be amended and why?

RESPONSE

Responses provided to other questions should be considered in relation to the content of advice provided. Additionally, there is concern about the length of the advice that ESCOSA may provide given that the advice must be provided in full in the Annual Business Plan. For this reason City of Salisbury ask that advice be provided in the form of an executive summary that can be easily incorporated into the ABP, and that the full report be available to Councils and Publicly available through Councils websites and cross-referenced within the ABP and web landing page.

4.5.2 Publication of the advice

DFA Consultation Question

4.11 Do stakeholders consider this an appropriate approach to adopt for the publication of the advice, given the legal framework?

If not, why not? How should the approach be amended and why?

RESPONSE

The City of Salisbury accepts that ESCOSA advice will be included in the ABP. To ensure that the advice supports accessibility of the ABP, it would be helpful if ESCOSA would consider how to provide its advice in a way that is able to not unnecessarily increase the size of the ABP. An option would be for ESCOSA to provide an Executive Summary of key findings and recommendations / advice that would be included in the ABP in full, together with Councils response. City of Salisbury support the full ESCOSA report being made publicly available with links on the ABP webpage.

4.6.1 Alignment with the legal framework

DFA Consultation Question

4.12 Do stakeholders consider the analytical framework aligned with the legal framework? If not, why not? How should the approach be amended and why?

RESPONSE

The legislation requires ESCOSA to assess the objective of Council to maintain and implement LTFP and IAMPs, and whether Council has the objective of ensuring that rates under the LTFP and IAMP are appropriate, and that Council consider the appropriateness of any amendments proposed or made to these plans.

Given the wording of this section, it is the opinion of the City of Salisbury that it is not for ESCOSA to assess whether the outcome is appropriate, but rather that Council have these objectives.

Section 122 requires ESCOSA to focus on the LTFP and IAMP, and in addition to these documents ESCOSA has the power to obtain all relevant information on the following matters (a) material amendments made or proposed to be made to the LTFP and IAMP and the council's reasons for those amendments; and (b) revenue sources. In reviewing the LTFP and IAMP, and all relevant information associated with these relevant matters, ESCOSA may become aware of other matters that it wishes to provide advice on and under S122(1g)(b) it has the power to provide this advice. It is the opinion of the City of Salisbury that this section does not provide ESCOSA with the right to source information for the purpose of providing this additional advice not aligned to LTFP1 IAMPs.

4.6.2 Alignment with the overarching principles for the analytical framework

DFA Consultation Question

4.13 Do stakeholders consider the analytical framework to be aligned with the overarching principles for its development? If not, why not?

RESPONSE

For the reasons expressed in response to other questions the City of Salisbury believes the analytical framework's scope is beyond that reasonable expected as appropriate under S122, for example service sustainability, costs control and affordability.

5.2 Guidelines and information provision

DFA Consultation Question

5.1 Do stakeholders consider publishing a revised set of guidelines and proforma Excel template no later than the start of each the Relevant Financial Year appropriate? If not, why not? How should the approach be amended and why?

RESPONSE

The proforma excel template requires a significant amount of data entry, and given Principle 5 proposes leveraging existing information the City of Salisbury does not support the provision of information through these excel spreadsheets in relation to historical information. The number of years of data is also questioned as these records are not readily available to Council. Should ESCOSA wish to source historical data, we believe that the grants commission data should be relied upon, as this would be more efficient, and remove the unnecessary burden being proposed within the DFA.

If there is a need to reissue the final templates each year, 1 July is appropriate provided that legislated timeframe for information provision is upheld, being 30 September.

5.3 Timing of information provision

DFA Consultation Question

5.2 Do stakeholders consider the proposed timing for information provision appropriate? If not, why not? How should the approach be amended and why?

RESPONSE

The timeframe for information provision has been set within the legislation and the City of Salisbury do not agree to this timeframe being amended by ESCOSA. There was feedback provided by the sector about the timeframes required to fit within the annual workplan of Council's, the availability of resources to meet these information demands, and timeframes for the availability of documentation.

7.2 Reasonable costs

DFA Consultation Question

7.1 Do stakeholders agree with the Commission's approach to allocating its projected indicative costs across the first cycle of the scheme? If not, why not? How should the approach be amended and why?

DFA Consultation Question

7.2 Do stakeholders agree with the Commission's approach to addressing any material difference between its actual costs and its projected indicative costs? If not, why not? How should the approach be amended and why?

RESPONSE

Given Section 122(1k) is clear in what can be recovered, being the costs incurred in performing its functions in relation to the Council, the City of Salisbury do not agree that it is appropriate for ESCOSA to charge anything other than the direct costs of performing the review function.

7.3 Cost recovery

7.3.1 Should councils be billed directly or via the LGA?

DFA Consultation Question

7.3 Do stakeholders agree that the Commission should bill the LGA the total yearly cost associated with the scheme, noting that any such scheme would require unanimous agreement between the LGA and member councils covering at least the first four-year cycle? If not, why not?

RESPONSE

City of Salisbury is opposed to ESCOSA invoicing the LGA in one bill and then the LGA recovering these costs. This pushes the administrative effort from State Government to the Local Government Sector and on principle this is not something the City of Salisbury support.

Further it opens the ESCOSA cost to be spread across LGA member councils in a scaled approach like annual membership fees, which would result in City of Salisbury paying more than double the \$52,000 contained in the DFA. City of Salisbury is relatively mature in its S122 planning and financial sustainability and the effort of undertaking the review for City of Salisbury may well be less than that of smaller Councils. We do not support cross subsidisation from large Councils to small Councils in this instance.

From an accounting perspective we will need to recognise the cost in the year the review is undertaken so spreading the payments over four years is purely a cashflow impact, and given the low level of interest rates there is little benefit from spreading the payments which must be offset by the administrative effort in ensuring that appropriate year end accruals occur.

7.3.2 When should councils be billed and with what frequency?

DFA Consultation Question

7.4 Do stakeholders agree with the Commission's approach to the timing and frequency of billing? If not, why not? How should the approach be amended and why?

RESPONSE

City of Salisbury has no concern with this approach, however, should the cost of the scheme increase after the initial 4 year period, advice no later than March of the preceding year will provide sufficient time for Councils to adequately budget for the cost in their respective budgets.

7.3.3 How should costs be allocated between councils?

DFA Consultation Question

7.5 If the Commission were to bill each of the 68 councils separately, do stakeholders agree with its proposed approach to allocating the total yearly cost between councils? If not, why not? How should the approach be amended and why?

RESPONSE

City of Salisbury interprets this that ESCOSA should be charging each council based on costs incurred in performing the review function in relation to the Council. As the process proposed by ESCOSA is the same for each council a split of 1/16th for each Council would seem fair.

It should be noted that ESCOSA should not be incorporating into this charge the costs of establishing the scheme as that is not incurred in performing the review function. Further the cost of the scheme has increased significantly from the \$20,000 advised by Former Minister Vickie Chapman during the debate of the Bill in October 2020.