

**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON TUESDAY 14 APRIL 2015**



PRESENT

Mr Greg Connor (Chair), Mr Lew Owens, Councillor Tim Pfeiffer

In Attendance

Mr Geoff Whitbread	Acting Chief Executive Officer
Mr Vincent Mifsud	Director
Ms Kathy Jarrett	Director
Ms Heather Montgomerie	Director (Items 6.3, 6.4 & 6.5)
Ms Kate McKenzie	Manager Governance
Mr Ray Barnwell	Manager Finance (item 6.1, 6.2)
Mr John Sliverblade	Manager Strategic Assets (items 6.3)
Ms Heather Falckh	Manager Organisational Excellence (Items 6.8, 6.9, 6.10)
Mr Kyffin Thomson	BDO (items 6.9 & 6.10)

1. OPEN MEETING

The meeting commenced at 3.05pm. The Chair welcomed all those present to the meeting. The chair welcomed the new acting Chief Executive Officer, Mr Geoff Whitbread and invited his input throughout the meeting.

2. KAURNA ACKNOWLEDGEMENT

We would like to begin by acknowledging the Kaurna people, the traditional custodians of this land and pay our respects to their elders past and present.

3. MEMBERS DECLARATION OF INTEREST

The Chair asked if any Member wished to disclose an interest in relation to any item being considered at the meeting. No interests were disclosed.

4. CONFIRMATION OF MINUTES

Moved Mr Owens, Seconded Councillor Pfeiffer that the minutes of the Audit Committee meeting held on 16 December 2014 be confirmed as a true and correct record of proceedings.

Carried

5. BUSINESS ARISING

The statement identifying business arising from previous meetings of the Committee was reviewed and progress noted. The following was noted by the Committee;

- The project management report has been deferred to the next meeting as resources had been focused on the Annual Business Plan and Budget.
- The December 2014 actions were reflected as 2015, requiring correction.

- The 15th December meeting indicated timing as 2 -5pm whereas it should read 3 – 6pm.

ELECTED MEMBER REPORT

Councillor Pfeiffer provided a verbal report highlighting the following points:

- Council has now progressed 5 months into this new term and the elected body has started to settle and mature.
- Council has demonstrated a strong focus on its financial position with a particular focus on the budget for 2015/16.
- A number of interesting rating scenarios have been considered by Elected Members, including options that are very different to what has been considered in the past. The Council is keen to hear the Audit Committee's views on these options.
- Sporting infrastructure has been a priority for this Council with a focus on current sporting facilities and looking at the right opportunities for different sports in the future.
- The Open Space Reserve Fund has been utilised for the development of a play space in Jervois Street, South Plympton. This land was purchased by Council from the State Government to address the lack of open space in the north of the City. This fund is rarely used so it was a significant decision for Council to draw from it.

Councillor Pfeiffer acknowledged the Elected Members in the gallery and sought any further comments. Councillor Telfer concurred with the comments already made reinforcing that the Council is focused on finances and what is the best value for the rate payers. She acknowledged that the budget and prioritisation process had been challenging with eight new members on the Council.

6. REPORTS

Corporate and Financial Management

6.1 Annual Business Plan & Budget 2015/16, and Long Term Financial Plan Report Reference: AC140415R6.1

3.13 pm – Manager Finance entered the meeting.

The Manager Finance provided an overview of the report highlighting that the focus of this item was the draft budget for 2015-16 rather than the Annual Business Plan. Feedback and guidance was being sought on the recommendations outlined on page 18 of the report which included the assumptions and framework being applied in the development of the 2015/2016 budget.

The Committee noted that the recommendations were broken down into three parts and agreed to discuss items 1 and 2 as a starting point.

Councillor Pfeiffer indicated that Elected Members had considered a number of different scenarios at a forum on Tuesday 31 March 2015 and the Council was keen to seek feedback from the Audit Committee on each of these models.

The Chair proposed to discuss the principles to be applied universally to the scenarios, and then to discuss more broadly break even, funding surplus and funding deficit scenarios.

The Committee made the following comments regarding the principles:

- A stable rate increase over the term of the Long Term Financial Plan (LTFP) is recommended rather than a lower rate which will then require larger increases in the future. This avoids uncertainty and improves sustainability.

- Long term financial sustainability should be the focus.
- A lower rate is a clear message to management that Council wishes to cut costs.
- Majority of Council's expenditure is fixed costs, based on wages and contractors. This is to be expected in a serviced based industry. However, productivity improvements should allow more to be done with fewer resources, so Council can still expect Management to deliver wage/contractor cost increases below the Enterprise Agreement levels.
- The consequences of each scenario should be considered individually, including messages for services and cost reductions to match rate reductions.

Environmental Scan

The Committee noted this was a comprehensive document and congratulated staff on the quantity of the information provided. The Committee made the following points:

- The Public health reforms and the direct impact on the City of Marion have been broadly noted with some consideration of the unintended consequences.
- It was suggested that internal pressures should include reference to the election of a new Mayor/Council and the recruitment of the new CEO as these will have an impact on service delivery and output.
- The document needs to also consider what Council will be doing differently because of the matters raised in the scan, so an opportunity for improvement would be to include a summary of Council's response to what has been identified in the Environmental Scan.
- The scan would benefit from clarity around what items are City of Marion specific (as opposed to general societal trends) and how these flow into the planning and activities of the organisation.

Timeline

The Committee acknowledged the time line noting the final draft would be presented to both the Audit Committee and Council on the 9th June 2015. This provides limited opportunity for the observations of the Audit Committee to be provided to Council on the final draft. It was suggested that the Audit Committee's feedback could be conveyed by staff and the Elected Member representative. It was noted that the final adoption of the ABP&B was proposed for 23 June 2015, so there would be opportunity to incorporate any changes if necessary.

Action: Develop a process to allow for comments from the Audit Committee to be conveyed to the Council meeting on 9 June 2015.

Strategic framework and assumptions

The Committee acknowledged the quality of the material presented and sought further clarity regarding items included or not included. The non-finalisation of the Asset Management Plans means there is still some uncertainty regarding projected potential funding gaps. Additionally, it is not clear if the figures include additional project expenditure. These issues together make it difficult to make conclusive comments on the rate setting.

The Committee noted that the budget preparations are based on 'business as usual' and those items already approved by Council resolution. It was further noted that no additional projects have been included. The budget is prepared and underpinned by Council's budget and treasury policies which include a fiduciary obligation to produce a balanced budget.

The following observations were made by the Committee:

- A conservative approach has been taken in the preparation of the Long Term Financial Plan (LTFP). Council debt is steadily reducing over the term of the ten year LTFP. The Committee suggested that the level of debt at the end of the LTFP may be too low.

- Council may consider in its financial modeling the impact of various scenarios for debt levels for the business. For example, Council might model the impact of \$5 - \$10m debt levels and 'what might need to give'. This modeling should include the affordability of the loans and council's ability to service any potential new loans.
- It was suggested that as debt is reduced, it would provide opportunity for further borrowings for projects that add value to the community. It was noted that modeling had been provided to Elected Members highlighting the impact of debt funded major strategic projects of \$25m, with the effect of this being ongoing funding deficits.
- The Committee noted that the '13 Elected Member priorities' and suggested it was unclear what this referred to, or whether provisions for these priorities had been included in the budget. It was noted that these projects were still under development and that likely costs were unknown at this stage. It was confirmed that no provision had been included in the 2015/2016 budget or LTFP for these aspirational projects. The Committee suggested that if these were to be included in the budget it would need to take account of this expenditure either through rate increases or expense reduction in non-core areas. The Committee suggested that a notional allowance of say \$2m per annum should be included in the financial modeling to facilitate budget discussions to ensure that it is appropriately considered.
- The Committee discussed the merits of setting a budget by seeking lower rates, cost reductions, and the inclusion of additional projects. This approach creates a situation where multiple levers are pulled at the same time, which in turn creates a difficult budget situation as the different levers clash. The budget set should be a challenge for the future with built in efficiency and productivity targets. It was noted that the use of the vacancy management policy has already yielded significant savings and other identified operational savings have already been built into the draft budget.

Reasonableness/Fairness and Equity

The Committee reflected on the principles and observed that a measured consistent increase is desirable without rates going up and down.

- The impact of a 1% rate rise was queried, and it was estimated at approximately 28 cents per week per household, or \$14 per year. It may be useful to discuss dollar amounts instead of percentage increases to assist the community to understand the financial impact.
- Ensure there is a clear understanding of what savings have been achieved from 2014/15 adopted budget to the draft 2015/16 budget. \$2.1m of net savings have been achieved. It was noted that in past years Council had delivered year end savings, and that the approach proposed effectively delivers those savings 'up front' with reductions already built into the budget.
- Cr Pfeiffer enquired as to whether setting a lower rate with a view to achieving efficiencies thus avoiding higher rates in future years was a sound approach. The committee indicated a preference for a stable rate and using any efficiency gains to minimise future increases.
- The delivery of a balanced 3.3% budget rather than 5% that had previously been forecast is acknowledged. It was further noted that a 2.25% rate increase will indicate that expenditure is being reduced and possible services changes will be made. The other risk associated with dropping the rate significantly is that Council is still unsure of the capital expenditure required for the Asset Management Plans, however the Committee acknowledged that this was discussed in item 6.3 on the agenda, including a proposal to manage forecast potential renewal funding gaps.

Other factors to also consider are:

- The budget still has no consideration of revenue from asset disposals
- Cash flow balance is critical

- Council could set a debt tolerance level along with strong debt management principles.

Summary

The Committee indicated that a rate rise of around 3.3% would be prudent and deliver a balanced budget. If the rate is set too low, Council may be in a situation where it needs to apply a higher rate increase in future years. It is preferable to look for further potential ongoing savings in future years and where these are realised adjust the future rate rise accordingly. It would be unwise to reduce the rate knowing that it created a forecast funding deficit in future years.

The Committee noted that any surplus should be used wisely to either reduce debt or placed in the Asset Sustainability Reserve to support long term asset objectives, or used as a guide to possible further sustainable rate reduction.

The Committee recognised a rate increase of 3.3% down from 4.1% in the previous year was a trend in the right direction and should be applauded. The Committee suggested there may still be more to go and a savings culture and discipline need to be embedded if this is to be realised. If new projects are to be achieved, they need to be planned with some contingencies to ensure they are properly supported.

ADJOURNMENT

4.30 pm The Chair adjourned the meeting for 10 minutes.

4.40 pm The Meeting resumed.

6.2 Debtors Reports and Debt Collection **Report Reference: AC140415R6.2**

The Committee noted that this report was now provided to Council as part of monthly financial reporting.

It was noted that there are two types of debtor categories being Sundry debtors and Rates debtors. A debt recovery process is followed when debts become outstanding. The Committee noted that Council's Rating Policy enables the provision of assistance to Ratepayers who may be experiencing financial hardship and Council works with ratepayers and other stakeholders to negotiate appropriate arrangements rather than taking a punitive approach via debt collectors or the sale of property.

The Committee noted that debt write off is managed under delegation but this delegation has not been exercised for a number of years. Council will always try to recover 100% of the debt where possible.

The Committee queried how Council manages outstanding rate debts when this is sometimes postponed for a number of years, eg until the property is sold. The Committee queried how this was reflected in the annual accounts and an undertaking was made to provide this advice accordingly.

Action:

- 1. Information be provided to the Committee regarding how postponed rates debts are reflected in the annual accounts.**
- 2. That a debtors aging report is presented to the Committee as a summary report once per year in line with the end of year accounts.**

6.3 Asset Management Plans Preliminary Report **Report Reference: AC140415R6.3**

4.47pm Director (Heather Montgomerie) and the Manager Strategic Assets entered the meeting.

A summary of the report was provided to the Committee noting that a number of draft Asset Management Plans (AMPs) had been presented to the Committee in previous years, however acknowledged that it was difficult dealing with them in isolation and it would be more useful to understand the broader asset picture. Additionally, BDO completed a review of the AMP's and recommended that the Plans be prepared on the basis of maintaining existing levels of service and on a "like for like" renewal of assets. This would remove some of the doubt about the desired service level. Council has adopted an Asset Management Policy and resolved that AMPs be completed in accordance with the policy by the end of the 14/15 financial year.

It was highlighted that the AMP's do not include upgrades and new assets in accordance with the Asset Policy. These will need to be considered separately in the budget process and prioritised with other unfunded projects, which will provide a greater level of transparency as to the use of rates for new or upgrade capital works.

The Committee noted that significant progress had been made, and the information provided indicated that AMPs were heading in the right direction to provide clarity on Council's longer term position. It was also noted that it was important to consider how upgrade or new works are integrated into Council's prioritisation process.

The Committee noted that the figures provided were based on the currently adopted LTFFP and if the assumptions within this plan were altered, it would impact on the figures currently being proposed.

Treatment of grant funding for stormwater works was queried and clarification provided that works in the adopted stormwater management plans were fully funded, and that any grant funding received would release funding capacity back into the LTFFP.

The Committee noted that the current forecast funding gap for asset maintenance and renewal is approximately \$34.4m over the course of the LTFFP, including a provision of \$49 million for building renewal equivalent to accumulated depreciation on building assets. This provision was proposed while building renewal plans are developed over the next two years.

The Committee then noted the next report on the Community Facilities Partnership Program (CFPP), and were advised that the 10 year forward forecasts of approximately \$30 million for the CFPP/building renewal program from 2015/16 would significantly reduce this gap.

The following observations were made by the Committee:

- The figure of \$34.4m is a projected figure based on current assumptions and the currently adopted LTFFP.
- The AMP's should be considered and amended regularly in line with the review of the LTFFP.
- Excellent progress had been made on the AMP's and the work is leading into a space where Council can be clear regarding what resources are required for maintenance and renewal of its existing assets
- Ensure Operational costs have not been duplicated in maintenance or renewal costs.

The next step is to finalise the plans to present to the Committee in June and then progress through to Council for adoption. Further work is also progressing with the Strategy Unit regarding how new and upgraded assets can be prioritised as part of Council's LTFFP and budget process.

6.4 Community Facilities Partnership Program Funding **Report Reference: AC140415R6.4**

It was noted that in 2009/10 Council adopted a LTFP with a \$20m provision over 10 years for building renewal. This included provision for disability access (DDA) works, asbestos removal, open space buildings, minor structural renewal and tennis courts in the amount of \$4.3m. In 2010/11 the remaining \$15.7m was then rebadged as the 'Community Facilities Partnership Program' where the intent was that renewal funding for community facilities together with occupant/ user funding could be used as a lever to attract contributions for grant funding from other levels of government.

Since Council adopted the program in 2010, about half a dozen clubs have used the funding, with a portion also being used to develop the Sports Master Plans. The groups that have used the funding under the program have generally used it for upgrades rather than like for like renewal. This therefore creates pressures on the renewal of other community assets as additional money was being provided for upgrade rather than renewal.

The Committee noted that this report was consistent with the preceding report regarding asset management, and that the CFPP in its current form had not delivered its objectives. The Committee queried if Council had been drawing down on the funds for upgrades and whether Council was falling behind on its maintenance and renewal requirements? Examples were given of a hall that was demolished due to its poor state of repair, and that other assets (eg light towers) had failed due to poor maintenance.

Advice was provided to the Committee that the CFPP funding is included as building renewal projected funding in the 10 year LTFP and is not a cash backed reserve.

The Committee noted the report and the intent of the program and in so doing, further noted that:

- Council needs to ensure building renewal is part of its ongoing responsibilities and required funding;
- It would be good to retain the ability of the community to bring forward their priority projects for potential co-funding.

In closing, the Committee noted that the matter of the CFPP was a Policy that required discussion by Council prior to any decisions being made regarding its continuation or retirement.

6.5 Acquisition and Disposal of Land Assets Policy **Report Reference: AC140415R6.5**

It was noted that the Acquisition and Disposal of Land Assets Policy had been reviewed to provide consistency with the Asset Management Policy adopted by Council in 2014 and some minor amendments were also proposed to the Asset Management Policy. The review of this policy has provided better clarity and alignment of Councils policies. The Committee commended staff on the report and noted the following:

- It was recommended that a statement be included in the Policy Principles to the effect that 'that Council will seriously consider the disposal of land where it has been determined that it is no longer required for the community'.
- It would be prudent for the Policy to formally state that any decision to dispose of land must be a decision of Council. This should also be reflected in the Council delegations.
- As a matter of clarification, alternative wording is proposed for page 57 of the report stating "This policy sets the principles that govern the provision and management of assets in order to deliver services and programs that rely on those assets, and disposal of assets that are no longer required for service delivery."

Moved Councillor Pfeiffer, Seconded Mr Owens that with the consideration of the comments made by the Audit Committee, the Audit Committee recommends to Council:

1. Adoption of a revised Asset Management Policy, clarifying linkages to other relevant Council policies;
2. Adoption of a Disposal of Land and Assets policy, replacing the 'Acquisition and Disposal of Land Assets Policy' and 'Disposal of Assets Other Than Land Policy'.

Carried

Corporate and Financial Management

6.6 Strategic Risk Profile

Report Reference: AC140415R6.6

The Committee noted the Strategic Risk Profile is being reviewed to align the risk profile to the six pillars of the Community Plan, and it would be circulated out of session for Committee Member's comment. This would allow work to progress in the coming months prior to the June 2015 Audit Committee Meeting.

Action: that the Strategic Risk profile be circulated to Audit Committee Members out of session for feedback and comment.

6.7 South Australian Ombudsman Annual Report for 2013/14

Report Reference: AC140415R6.7

An overview of the report was provided and the Committee noted that the City of Marion received the lowest number complaints in metropolitan local government per 10,000 head of population with 2.5 complaints received per 10,000 people.

The Committee also noted that Mr Wayne Lines had now commenced in the role of the Ombudsman replacing Mr Richard Bingham. This has also seen a change in approach by this office with the Ombudsman referring complaints back to Council for review under its section 270 Grievance procedures prior to the Ombudsman considering any review. This has created an increase in the number of section 270 reviews being requested.

It was noted that the City of Marion had not been aware of some of the complaints made, or when they had been 'referred back to agency'. Clarification was provided that when the report states that a matter has been 'referred back to the agency' it simply means the Ombudsman had directed the complainant back to Council, however the Ombudsman had not advised Council of the matter. In this case, the complainant may opt to not pursue the complaint any further and so Council is unaware of any issue.

Corporate and Financial Management

6.8 Review Recommendations Update (Core Assurance and Service Reviews)

Report Reference: AC140415R6.8

5.38 pm Manager Organisational Excellence entered the meeting

The Committee focused on the project brief and noted that it was a similar approach to what had been applied previously. The difference in approach was using external services but also linking the service review to the internal planning processes and up skilling staff.

The Committee noted that the program of reviews would cover:

- Should this service be delivered or not?
- Could the service be delivered differently or in a more cost efficient manner?

- Opportunities for benchmarking and ideas about the future.

These items would be better reflected in the brief.

6.9 Grants Management Service Review **Report Reference: AC140415R6.9**

5.43 pm Mr Kyffin Thomson from BDO entered the meeting.

A summary of the report was provided to the Committee noting that a Management Committee previously operated with the objective of managing to manage grant attraction for the City of Marion. This Management Committee has been inactive in recent years and grant attraction is currently managed at a departmental level instead of as a collective. This report has recognized the opportunities to bring together a consistent methodology, approval process and administration for improved efficiency in the processes for grant applications and increase the likelihood of success.

The Committee noted that:

- The City of Marion is aware of grant funding opportunities but a more efficient process is would be beneficial.
- The recommendations should be built into the Council's project management systems so it is not a stand alone process.
- The Manager Strategy was responsible for implementing the recommendations by March 2016 and it was confirmed that this was achievable.

6.10 Funding to the Community Service Review **Report Reference: AC140415R6.10**

The Committee noted this report and agreed that further clarity regarding the purpose of the funding was required. The Committee commented that the word sponsorship was more appropriate than donation. The Committee also agreed that the grants and sponsorships should be kept as separate functions and not integrated.

7. CONFIDENTIAL ITEMS

Nil

8. ANY OTHER BUSINESS

8.1 CEO KPI's **Report Reference: AC140415R8.1**

The Committee agreed to provide comments regarding the draft Chief Executive Officer Key Performance Indicators out of session and to organise a teleconference before the end of the week.

9. MEETING CLOSURE

The meeting was declared closed at 5.56 pm

10. NEXT MEETING

The next meeting of the Audit Committee is scheduled to be held on:

Time: 3.00 pm - 6.00 pm

Date: 9 June 2015

Venue: Chamber, Administration Building, 245 Sturt Road, Sturt

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CHAIRPERSON

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