

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON TUESDAY 8 MARCH 2016**



PRESENT

Mr Greg Connor (Chair), Mr Lew Owens, Ms Kathryn Presser, Councillor Raelene Telfer, Councillor Tim Gard (from 2.38pm).

In Attendance

Mr Adrian Skull	Chief Executive Officer
Mr Vincent Mifsud	General Manager, Corporate Services
Ms Abby Dickson	General Manager, City Development
Mr Tony Lines	General Manager, Operations
Ms Kate McKenzie	Manager, Corporate Governance
Mr Ray Barnwell	Manager, Finance
Ms Sherie Walczak	Unit Manager Risk
Mr Colin Heath	Manager, Contracts and Operations Support

1. OPEN MEETING

The meeting commenced at 2.01 pm. The Chair welcomed all those present to the meeting.

2. KAURNA ACKNOWLEDGEMENT

We begin by acknowledging the Kurna 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 declarations were made.

4. CONFIRMATION OF MINUTES

Moved Councillor Telfer, Seconded Ms Presser that the minutes of the Audit Committee meeting held on 15 December 2015 is confirmed as a true and correct record of proceedings.

Carried Unanimously

Moved Mr Owens, Seconded Ms Presser that the minutes of the Special Finance & Audit Committee Meeting held 22 February 2016 is confirmed as a true and correct record of proceedings.

Carried Unanimously

5. BUSINESS ARISING

The statement identifying business arising from the previous meetings of the Committee was reviewed and progress achieved against identified actions noted. It was requested that the project management report would be brought to the next Committee meeting.

Action: That the Project Management Report be brought to the next Committee meeting.

6. ELECTED MEMBER REPORT

6.1 Elected Members Report

Report Reference: FAC080316R6.1

Councillor Telfer provided an overview of the Elected Member Report and advised the Committee that all new Section 41 Committees of Council are now operational and are looking forward to getting further connected with their responsibilities.

Councillor Telfer advised that Council is still confirming and embedding its financial processes regarding how to approve unfunded project / initiatives. Further probity regarding prioritisation may be required.

The Committee noted Council's decision to fund the Energy Efficient Council Buildings Project and the Solar Options to the value of \$600k. The Committee noted that, while these were projects of merit and will include a payback, they appear to have been approved without consideration of the impact on the 2016/17 Annual Budget or LTFP.

7. REPORTS

Corporate and Financial Management

7.1 Draft Annual Business Plan and Budget 2016/17 and Draft Long Term Financial Plan Reference No: FAC080316R7.1

The Manager Finance provided an overview of the report highlighting that feedback and guidance is being sought from the Committee regarding:

- The environmental scan
- The Annual Business Plan (ABP) schedule
- The financial ratios
- Alignment of the rate modeling to Council's Budget and Treasury policies
- The Strategic Financial Framework and assumptions

It was noted that the rate modeling in the report is based on 2.75% pa increases and Council has the capacity to set a lower/higher rate depending on further consideration of unfunded projects and initiatives.

Environmental Scan

The Committee commented that the environmental scan was a good document and suggested to include the following:

- Further information regarding higher/tertiary education particularly with the connection to Flinders University and Tonsley. Both sites could be a significant contributor to the future of the City of Marion.
- Opportunities for light rail, in particular through to Flinders University.
- The opportunity for future Council amalgamations and shared services.
- Infrastructure issues associated with flooding and stormwater, keeping in mind the greater Adelaide stormwater management issues.
- The National Disability Insurance Scheme (NDIS) and what this may offer the City of Marion.
- Further clarification regarding the social and cultural environment and how Council intends to prioritise implementation within the next 12 months. It was noted that some target responses were based on strategy and planning stages rather than implementation. Some matters may require further integration into the business and a number of matters will be ongoing.
- The inclusion of growth within the City at around 1% per annum.

ABP Schedule

The Committee stated that the timeframes seem reasonable and allowed opportunity for the Committee to have input before going to Council.

Financial ratios

The Committee noted that the documents had been prepared based on 2.75% pa rate increases and did not include the Edwardstown Oval redevelopment as this project has yet to be approved and funded by the Council.

The Committee stated that the rate increase was reasonable, depending on Council's desire to fund unfunded projects/initiatives. Alternatively, it could potentially be reduced further.

The Committee queried why the Asset Sustainability Ratio decreased in the outer years of the LTFP. It was noted that the decrease is linked to the assumption around depreciation, which is projected to increase faster than capital renewal and as a result is not necessarily indicative of insufficient renewal of Council's asset base occurring. The integration of the recently updated AMPs into the LTFP will alter this ratio as depreciation will be replaced with required renewal, giving a more accurate representation of this ratio.

The Strategic Financial Framework and assumptions

2.38pm Councillor Gard entered the meeting

The Committee made the following points:

- The ABP is developed on a set of assumptions that cannot be guaranteed. For example, the employee cost increase assumption of 2% pa cannot be guaranteed whilst the Enterprise Agreement is still to be negotiated. It is also noted that the outside workforce Enterprise Agreement does not expire until 30 June 2017 and includes a minimum 3% increase for 2016/17. Such an assumption requires management of the total labour cost, such that employee numbers may have to reduce if total costs are to remain within the 2%pa increase.
- Unfunded projects and initiatives are being considered by Council quarterly, which can create difficulties for the annual budget process as ad-hoc projects can be introduced throughout the year. This can make it more difficult to prioritise. The development of a financial modeling tool will help Council to understand the financial impact of funding new projects/initiatives and how their funding requirements impact the financial ratios of the

Council, enabling Council to assess these projects when proposed during the year and ensuring the financial ratios remain within the required tolerances.

- The Community Facilities Partnership Program (CFPP) funding was included within the Asset Sustainability Reserve last financial year with extended parameters for its use. The ABP and LTFP include further funding of \$1.9m to this reserve in 2016/17. The Committee queried if this reserve could be used to fund capital projects. It was noted that this reserve is a cash reserve and it can be used, keeping in mind any shortfall in renewal requirements within the Asset Management Plans may need to be funded from this reserve.
- The unfunded projects and initiatives could be estimated at a total cost to Council of between \$20-\$25m. If some of these were to be funded from this reserve, the reserve would be fully expended.
- 1% growth has been reflected within the ABP and LTFP: it was suggested that this could potentially be quarantined to help resource the unfunded projects in areas where growth has occurred, keeping in mind that this will come from overall expenditure. It was noted that revenue from growth is included in Council's overall rate revenue and Council can allocate expenditure from this revenue as they see fit.

The example of the Streetscape Policy and Strategy was discussed, noting that this is an unfunded and unprioritised project/program. The Committee suggested that Council should assess the return on investment (including public value) over a period of time and consider the costs benefit analysis prior to including any capital costs within the budget. The project will progress to a certain point where it is clear what the capital allocation should be. Council can then consider this cost (in-conjunction with its other unfunded projects) to determine what it can afford to fund without going into a deficit. If the financial impact results in Council going into deficit, then Council either needs to consider what it will stop doing or increase the rates. This assumes that the Streetscape project has a high priority amongst other proposals.

The Committee noted the projected closing cash balances and confirmed that these are based on the assumption that no money is spent from the Asset Sustainability or other Reserves. The Committee suggested that it may be useful to use some scenarios (e.g. Edwardstown Oval) to understand what impact it would have on projected cash balances. The Modelling tool suggested above could be used for this process.

The Committee queried if any benchmark data had been sought from other Councils regarding rate rises and it was noted that some preliminary indicative figures are suggesting possible rate rises in the range of 2.5% to 4.9%.

Alignment of the rate modeling to Council's Budget and Treasury policies

The Committee noted modeling was consistent with Council's Policy requirements.

The Committee noted that the reporting on the Annual Business Plan has improved year on year. The work completed regarding the ratios was excellent and provided useful comparisons. The Committee suggested the development of a financial modeling tool that would assist Council assess the Whole of Life financial impact of funding decisions (e.g. council spends on capital projects of amounts of \$5m, \$10m, etc) and demonstrate when such decisions would cause the Council to fall into a funding deficit.

Action: Investigate the development of a financial modeling tool to assist Council assess the Whole of Life financial impact of funding decisions for capital projects and demonstrate when such decisions would cause the Council to fall into a funding deficit.

Service Reviews and Internal Audit

3.09pm Mr Jared Lawrence and Mr Justin Jamieson from KPMG entered the meeting

7.4 Internal Audit Program

Reference No: FAC080316R7.4

Cash Handling Scope

The Committee noted the Cash Handling Scope making the following comments:

- It is an opportunity to check for fraud.
- Review current policies and procedures.
- Understand the customer experience.
- How to govern cash into the future.

The Committee noted that it would be good to consider how cash transactions have changed over the past 5 years and what is the trend moving forward. It would also be useful to understand what other organisations are doing, from a technological perspective, as it is assumed the City of Marion would now manage a lower level of physical cash.

The Committee sought assurance that KPMG's review would assess the processes and segregation of duties. This was confirmed by KPMG.

Capital Works Carryover Review

KPMG provided an overview of the report, stating that the review of carryovers was focused on the voracity of existing structures and processes, and noting that the main findings/opportunities for the City of Marion related to:

- Planning a shift from a 12 month cycle to a two year or three year cycle.
- The reset AMP funding requirements needs to now update the LFTP and should consider resource planning to smooth the flow of capital expenditure in the future.
- Resourcing allocation to be considered for both internal and external (alternate service delivery models).
- Improving the existing governance structures regarding monitoring, performance and escalation, including the potential to include the capital works program at the Project Control Group (PCG) meetings.

The Committee suggested that:

- The risk ratings and maturity levels were inconsistent. KPMG advised that the City of Marion has various disciplines and approaches in place meaning the risk ratings remained at low or moderate. The opportunity for improvement related to further structure and consistency being applied.
- The report focused on project management rather than capital works carryovers. It was later noted that the root causes were the systems and processes as part of the project management which may contribute to the level of carryovers.
- The Capital Works programs are complex and it is important to not rush through this process.
- It is important to differentiate between:-

1. Capital Works Programs

2. New Capital Projects

- A certain level of carry overs will always occur and management should be requested over the upcoming months to be clear regarding what should be carried over, re-timed or given up for the 2016/17 year.

The Committee noted that the impact of carry overs has been approximately \$4m each year meaning there is opportunity to either re-set the program or look at the resources to deliver the program.

The Committee agreed that with some further improvement and accountability, the level of carry overs should be reduced. The Committee suggested that the timing of the recommendations be reviewed to ensure that they don't all fall due at the same time, and there should be a key focus on prioritising the "Moderate" rated findings.

3.44 pm Kathryn Presser left the meeting

3.48 pm Kathryn Presser re-entered the meeting

3.49 pm Mr Jared Lawrence and Mr Mr Justin Jamieson left the meeting.

Adjournment

3.49 pm The Chair adjourned the meeting for 5 minutes

3.55 pm The meeting resumed

Risk Management

7.2 Corporate Risk Profile

Reference No: FAC080316R7.2

The Unit Manager Risk provided an overview of the report noting that the Committee did not receive the full risk matrix due to its size. The process undertaken included 26 workshops across the Council to review, assess and mitigate risks at an operational level. On average most groups identified between 4 and 12 risks. Some high risks identified were common across multiple work areas and these have been consolidated into the risks presented within the report. The high risks will be monitored by the Risk Working Group with membership including the Executive Leadership Team, Manager Corporate Governance, Manager Finance, Manager Innovation and Strategy, Unit Manager Risk and the Risk Co-ordinator.

The Committee noted that the process was good and sought further assurance regarding:

- How the current actions and further actions differed
- How risks were assessed and what risk ratings were applied
- If each risk had a risk owner
- How implementation of treatments by due dates was going to be monitored.
- What checks will be put in place to test if the treatments work.

The Unit Manager Risk provided an overview of the risk matrix, including the headings that confirmed that the above points were addressed within the documents. Implementation and monitoring of treatments would occur through the Risk Working Group.

The Committee suggested that the following risks should also be included:

- Work Health Safety (noting that the WHS system has significantly progressed in the last 18 months)
- Inability to deliver further budget savings
- Potential dysfunction between Council and Administration.

7.3 Draft Fraud Policy **Reference No: FAC080316R7.3**

The Committee noted the policy and made the following suggestions:

- Change the word 'actively discouraged' within the Policy Statement to either not acceptable or not tolerated.
- Alter the objectives within the report to be clear that the Policy is about embedding fraud controls and ensuring outcomes.
- Include reference to the Whistleblowers Act and Policy.

The Committee noted that the internal control audit is a standard process included within the audit of statutory accounts and therefore the controls for fraud are across the board, not just at a high level.

The Committee recommended that further work progress on the Fraud Framework and the Policy be presented to Council for consideration and adoption.

8. CONFIDENTIAL ITEMS

Service Reviews Scopes Reviews and Monitoring (Hard Rubbish) **Reference No: FAC080316F8.1**

Moved Mr Owens, Seconded Councillor Gard that the Finance and Audit Committee that pursuant to Section 90 (2) and (3)(b)(d) of the *Local Government Act 1999*, the Finance and Audit Committee orders that all persons present, with the exception of the following persons: Adrian Skull, Tony Lines, Vincent Mifsud, Abby Dickson, Colin Heath, Roger Belding, Kate McKenzie, Deborah Horton and Melissa Nottle-Justice, be excluded from the meeting as the Finance and Audit Committee receives and considers information relating to the Service Review - Hard Waste Service and Management of Dumped Rubbish report, upon the basis that the Finance and Audit Committee is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to commercial information.

Carried Unanimously

4.37 pm The Meeting went into confidence

The Committee reviewed the Service Review for Hard Rubbish and Illegally Dumped Rubbish and acknowledged the team's work on the review, congratulating them on an excellent report. It was noted that the service review clearly demonstrated that there is a need for the services within the Community.

The Committee noted the following points:

- 22% of residents are currently using the hard rubbish service.
- There will be pressure on the service to meet demand, if the demand continues to grow.
- Further work is required with Council to review service standards.
- There are opportunities to improve internal service provisions and monitoring.
- There are opportunities to explore further partnerships or collaboration with third parties.
- The use of taping off hard rubbish with the letter box drop has made an impact.

The Committee encouraged management to further liaise with the Southern Region Waste and Recycle Authority (SRWRA) to see what other options may arise.

It was noted that some work did take place with the City of Marion's Southern Depot on Adams Road at Trott Park and on initial review, the financial benefits weren't obvious.

The Committee suggested that some further work could be completed regarding items that cannot be recycled (hazardous waste and e-waste) and improve communication with the community on how to dispose of these items.

The Committee noted the report recommendations and encouraged management to progress with further improvements. It was noted that changes to services would be reported direct to Council for consideration and adoption (if appropriate).

Moved Mr Owens, Seconded Councillor Gard that the Finance and Audit Committee in accordance with Section 91(7) and (9) of the Local Government Act 1999 the Finance and Audit Committee orders that this report and the minutes "Service Review - Hard Waste Service and Management of Dumped Rubbish, FAC080316R7.5", having been considered in confidence under Section 90 (2) and (3)(b)(d) of the Act, be released with relevant information of a commercial nature redacted.

Carried Unanimously

4.55 pm The meeting came out of confidence.

9. ANY OTHER BUSINESS

10. MEETING CLOSURE

The meeting was declared closed at 4.56 pm

11. NEXT MEETING

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

Time: 2 pm – 5 pm

Date: 31 May 2016

**Venue: City of Marion Council Chambers
245 Sturt Road, Sturt**

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CHAIRPERSON

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