

# Audit Committee Minutes

**24 May 2021**

## **Our Vision**

*A City which values its heritage, cultural diversity,  
sense of place and natural environment.*

*A progressive City which is prosperous, sustainable  
and socially cohesive, with a strong community spirit.*

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City of  
Norwood  
Payneham  
& St Peters

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**VENUE** Mayors Parlour, Norwood Town Hall

**HOUR** 7.00pm

**PRESENT**

**Committee Members** Cr John Minney (Presiding Member)  
Mayor Robert Bria  
Cr Mike Stock  
Ms Brigid O'Neill (Independent Member)  
Ms Sandra Di Blasio (Independent Member)

**Staff** Mario Barone (Chief Executive Officer)  
Sharon Perkins (General Manager, Corporate Services)  
Andrew Alderson (Financial Services Manager)

**APOLOGIES** Nil

**ABSENT** Nil

**TERMS OF REFERENCE:**

*The Audit Committee is responsible to facilitate:*

- *the enhancement of the credibility and objectivity of internal and external financial reporting;*
- *propose and provide information relevant to a review of the Council's Strategic Management Plans and Annual Business Plan;*
- *the review and reporting on any matter relating to financial management or the efficiency and economy with which the Council manages its resources;*
- *effective management of financial and other risks and the protection of the Council's assets;*
- *compliance with laws and regulations related to financial and risk management as well as use of best practice guidelines;*
- *the provision of an effective means of communication between the external auditor, management and the Council;*
- *proposing and reviewing the exercise of powers under Section 130A of the Local Government Act 1999;*
- *review Annual Financial Statements to ensure that they present fairly the state of affairs of the Council;*
- *liaising with the Council's Auditor; and*
- *reviewing the adequacy of accounting, internal control reporting and other financial management systems and practices of the Council on a regular basis.*

**1. CONFIRMATION OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 FEBRUARY 2021**

*Mayor Bria moved that the minutes of the Audit Committee meeting held on 22 February 2021 be taken as read and confirmed. Seconded by Cr Stock and carried unanimously.*

**2. PRESIDING MEMBER'S COMMUNICATION**

Nil

**3. QUESTIONS WITHOUT NOTICE**

Nil

**4. QUESTIONS WITH NOTICE**

Nil

**5. WRITTEN NOTICES OF MOTION**

Nil

**6. STAFF REPORTS**

## 6.1 2021-2022 DRAFT ANNUAL BUSINESS PLAN AND BUDGET

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**REPORT AUTHOR:** Financial Services Manager  
**GENERAL MANAGER:** General Manager Corporate Service  
**CONTACT NUMBER:** 83664585  
**FILE REFERENCE:** qA63320 A157646  
**ATTACHMENTS:** A - B

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### PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee for its information, the Draft 2021 -2022 Annual Business Plan, the Draft 2021-2022 Budget and Draft Rating Policy, which have been approved by the Council and released for community consultation.

### BACKGROUND

Pursuant to the provisions contained in Chapters 8, 9 and 10 of the *Local Government Act 1999* (the Act), the Council is required to adopt for each Financial Year, an Annual Business Plan (ABP) and Budget after 31 May and before 31 August.

Part 2 of the Act, “*Annual Business Plans and Budgets*”, requires the Council to consider its budget in conjunction with the Council’s Annual Business Plan and adopt the Budget following adoption of the Annual Business Plan.

Pursuant to Section 123 (3) of the Act, before the Council adopts an Annual Business Plan, the Council must prepare a Draft ABP and release the ABP for community consultation.

At its ordinary Council Meeting held on 3 May 2021, the Council endorsed the Draft 2021-2022 Annual Business Plan and Budget, as contained in **Attachment B**, be released for public consultation.

### RELEVANT POLICIES & STRATEGIC DIRECTIONS

The Council’s Long Term Strategic directions are outlined in the Council’s Strategic Plan, *City Plan 2030 – Shaping our Future*. The Draft 2020-2021 Annual Business Plan and supporting Draft Budget, sets out the proposed services and programs and initiatives for the 2020-2021 Financial Year and explains how the Council intends to finance its continuing services, programs and initiatives which are to be undertaken during the financial year.

The Council’s Long Term Financial Plan (LTFP), is a key document in the Councils Planning Framework. It is the primary financial management tool which links the Councils Strategic Plan, *City Plan 2030 – Shaping our Future*, Whole-of-Life Assets Management Plans, the Annual Business Plan and Budget.

Financial sustainability underpins the Council’s Financial Goals and Outcomes, which are set out in the Long Term Financial Plan. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long term service and infrastructure needs of the community, without any sharp increases in rate revenue or cuts in service provision and standards.

The Draft 2021-2022 Annual Business Plan and Budget is developed on the basis of ensuring that it will assist in delivering on the Councils Long Term Strategic direction set out in the Councils Strategic Plan, *City Plan 2030 – Shaping our Future*, meets the Council’s Asset Management principles set out in the respective *Infrastructure and Assets Management Plans* and financial objectives set out in the *LTFP*.

## FINANCIAL AND BUDGET IMPLICATIONS

The 'in-principle' adoption of the Draft 2021-2022 Budget, as presented (based on a 4.35% Rate Revenue increase inclusive of valuation growth 1.95%), will result in an Operating Surplus of \$425,000 (2020-2021: Net Operating Deficit of \$798,000) and a Net Surplus (after Capital Income) of \$4.641 million (2020-2021: \$1.074 million).

It should be noted that the Draft 2021-2022 Budget includes Carried Forwards of \$203,000 for 2020-2021 Operating Projects which are not anticipated to be completed by 30 June 2021 (which will be funded from cash reserves) and the Council's share of the net loss from Joint Ventures of \$201,000. Taking Carry Forward Projects and Joint Ventures into account, the projected underlying Operating Surplus for 2021-2022, based on a 4.35% revenue increase is \$829,000.

## SOCIAL ISSUES

Nil.

## CULTURAL ISSUES

Nil.

## ENVIRONMENTAL ISSUES

Nil.

## RESOURCE ISSUES

Nil.

## RISK MANAGEMENT

The Draft 2021-2022 Budget will be impacted upon by the decisions made by both the Federal and State Governments in handing down their respective budgets. The Federal Government Budget is scheduled to be handed down on 11 May 2021, with the State Budget scheduled to be handed down in June. At the time of writing this report, the date the State Budget is scheduled to be delivered is yet to be confirmed.

The Draft 2021-2022 Budget as presented in this report, is based on the following assumptions:

- that the Financial Assistance Grants, comprising of the General Assistance Grant and the Road Funding Grant, will be provided based on the current funding arrangements of four (4) quarterly instalments, with the value of funding being indexed by 2%;
- Supplementary Road funding to South Australia will not be re-instated;
- State Government Charges, which are set by Legislation, are yet to be indexed;
- no further increase in the Solid Waste Levy beyond the current fee of \$145 per tonnes; and
- no new fees and charges will be introduced.

Any adjustments to the Council's draft Budget arising from either the Federal or State Budgets will be incorporated when the details of these budgets becomes available. Should these assumptions and other decisions upon which the Draft 2021-2022 Budget is based, not eventuate, there is a possibility that the Council will not be in a position to deliver its proposed budgeted Operating result.

Notwithstanding this, the preparation of the Draft 2021-2022 Annual Business Plan and Budget has been prepared to ensure that the Council meets its legislative responsibilities in accordance with the requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*.

## COVID-19 IMPLICATIONS

As part of the economic recovery from the COVID-19 pandemic, the State Government released a number of funding programs aimed at stimulating the economy through infrastructure spend. The Council has submitted a number of grant applications to the State Governments *Open Space and People for Places Grant Funding Programs* and *Grassroots Facilities Program*.

The grant funding applications which have been submitted include funding applications for projects that have been endorsed 'in-principle' by the Council and with the project expenditure being included in the draft 2021-2022 Annual Business Plan and Budget, plus funding applications for a number of projects which have not been included within the draft 2021-2022 Annual Business Plan and Budget, as these project will only be undertaken should the grant funding applications be successful.

The value of projects where grant funding applications have been submitted is in the order of \$9.775 million, with \$4.7 million of funding being sought. These projects have been determined based on the potential projects which have been identified in future years of the long Term Financial Plan and Infrastructure and Asset Management Plans. Given the nature of the projects, it is anticipated that project delivery will be undertaken across two (2) financial years, therefore should the Council be successful in securing grant funding for these applications, the net increase to the Councils Draft Capital Program would be between \$2.5 million and \$4.7million.

## CONSULTATION

- **Committee Members**

Mayor Bria, Cr Minney and Cr Stock, have been involved throughout the Budget preparation process and have considered the various components of the Draft Budget and made decisions as appropriate.

- **Community**

The community through community consultation process on the Annual Business Plan will have input into the final form of the Draft Budget. The community consultation period commenced on 10 May 2021 and concludes on 2 June 2021. In addition to written submissions, the community can attend a public meeting which is being held on 2 June 2021, commencing at 7 pm.

- **Staff**

The review of the Operating Expenditure and Special Projects and the Draft Annual Business Plan process has been completed with the involvement of the Chief Executive Officer, General Managers and the various Responsible Officers.

- **Other Agencies**

Nil.

## DISCUSSION

As the State undertakes its economic recovery from the COVID-19 pandemic, the focus in developing the Draft 2021-2022 Annual Business Plan and Budget, has been on ensuring that the Council maintains the service standards for its existing range of services which are aimed at supporting the delivery of the Strategic Objectives outlined in the Councils' Strategic Management Plan *CityPlan 2030* and that those services receive appropriate funding. The Draft 2021-2022 Annual Business Plan and Budget also reflects the principles of the recently adopted *Asset Management Plans* and the *2021-2031 Long Term Financial Plan*.

In addition, as the third tier of government, the Council is supporting the economic recovery by proposing a number of large scale infrastructure projects, which are aimed to be delivered over the next two (2) financial years.

The Draft 2021-2022 Annual Business Plan and Budget is strategically focused, financially responsible and targeted at ensuring that the Council's priorities and operations are appropriately resourced balanced with ensuring that the increases in the annual rates contribution is fair and reasonable given the service level provided.

## Budget Overview

Table 1 below sets out the proposed Operating Surplus of \$425,080, based on a Recurrent Operating Surplus of \$968,054, an Operating Deficit relating to Operating Projects (including 2020-2021 Carry Forwards) of \$482,974 and an additional \$60,000 for additional finance costs associated with borrowings which are required to deliver the strategic projects included within the draft Capital Projects Budget. It should be noted that the Operating Deficit relating to 2021-2022 Projects, incorporates \$362,298 from the Federal Government Roads-to-Recovery Program. While this funding will be utilised to fund a Capital Project, this funding is required to be included when determining the Council's Operating Surplus.

**TABLE 1: 2021-2022 PROPOSED STATEMENT OF COMPREHENSIVE INCOME**

	Recurrent Operating 2021-2022	Carry Forward s 2020- 2021	Operating Projects 2021-2022	Capital Projects 2021-2022	Proposed 2021-2022
	\$	\$	\$	\$	\$
<b>INCOME</b>					
Rates	38,000,567	-	-	-	38,000,567
Statutory charges	1,865,875	-	-	-	1,865,875
User charges	3,910,411	-	-	-	3,910,411
Grants, subsidies and contributions	2,340,869	-	362,298	-	2,703,167
Investment income	110,500	-	-	-	110,500
Other income	497,940	-	-	-	497,940
Net loss joint ventures & associates	2,288	-	-	-	2,288
<b>Total Income</b>	<b>46,728,450</b>	<b>-</b>	<b>362,298</b>	<b>-</b>	<b>47,090,748</b>
<b>EXPENSES</b>					
Employee costs	16,115,712	-	-	-	16,115,712
Materials, contracts & other expenses	18,131,374	203,272	642,000	-	18,953,374
Finance costs	670,000	-	-	60,000	730,000
Depreciation & amortisation	10,640,005	-	-	-	10,640,005
Net loss Joint Ventures & Associates	203,305	-	-	-	200,000
<b>Total Expenses</b>	<b>45,760,396</b>	<b>203,272</b>	<b>642,000</b>	<b>60,000</b>	<b>46,665,668</b>
<b>OPERATING SURPLUS / (DEFICIT)</b>	<b>968,054</b>	<b>(203,272)</b>	<b>(279,702)</b>	<b>(60,000)</b>	<b>425,080</b>
Net gain (loss) on disposal or revaluation of assets	-	-	-	25,000	25,000
Amounts specifically for new or upgraded assets	-	-	-	4,190,707	4,190,707
<b>NET SURPLUS (DEFICIT)</b>	<b>968,054</b>	<b>(203,272)</b>	<b>(279,702)</b>	<b>4,155,707</b>	<b>4,640,787</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Change in revaluation surplus- infrastructure, property, plant & equipment	-	-	-	2,000,000	2,000,000
<b>Total Other Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000,000</b>	<b>2,000,000</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>968,054</b>	<b>(203,272)</b>	<b>(279,702)</b>	<b>6,155,707</b>	<b>6,640,787</b>

Financial sustainability underpins the Council's Financial Goals and Outcomes which are set out in the Councils LTFFP. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long term service and infrastructure needs of the community, without any large rate revenue increases or cuts in service provision and/or standards.

From an operational perspective, financial sustainability is being able to manage the balance between keeping rate revenues increases to a minimum, maintaining existing service standards and expenditure on appropriate new services and necessary major capital investments and initiatives.

To be truly financially sustainable, the Council needs to generate sufficient cash flow from its recurrent operations to meet existing principal loan repayments, spending on renewal works, while having the future financial capacity (i.e. cash reserves to meet future loan servicing) to undertake new investments in the Councils Infrastructure, services and activities.

Pursuant to Section 123 (10) (b) of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*, Part 2 Financial Accountability, the budget is required to contain:

- a) a budgeted income statement, balance sheet, statement of changes in equity and statement of cash flows, presented in a manner consistent with the Model Financial Statements; and
- b) a statement as to whether projected operating income is sufficient to meet projected operating expenses for the relevant financial year; and
- c) a summary of operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances; and
- d) estimates with regard to the Council's Operating Surplus ratio, Asset Sustainability ratio and Net Financial Liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

The Financial Statements contained in **Attachment A**, are presented as prescribed in the Model Financial Statements and are based on a 4.35% increase in rate revenue. The Financial Statements also provide comparisons with the 2020-2021 Forecast and the Audited Financial Statements for the past three (3) years. Together, these Statements provide a complete picture of the Councils budgeted financial position for the 2021-2022 Financial year.

### **Budgeted Capital Projects**

the Draft 2021-2022 Capital Budget ("Draft Capital Budget") and resolved to endorse "in-principle", a Draft Capital Budget, which incorporates Capital Projects to the value of \$20.126m million, exclusive of the expenditure required to finalise the 2020-2021 Capital Projects (\$4.9 million) which are not anticipated to be completed by 30 June 2021 and staff costs of \$1.035 million which are capitalised and included in the final asset cost). The Draft Capital Budget expenditure is offset by Capital Funding which incorporates Grant and Other Revenues to the value of \$4.156 million, which will result in a net cost to the Council of \$15.971 million.

The endorsed Capital Projects for 2021-2022 have been broken down into a number of categories as detailed in Table 2 below:



**TABLE 2: CAPITAL PROJECT CATEGORIES**

Capital Project Category	2020-2021 Endorsed Capital Projects \$'000	2020-2021 Grant Funding and Other Revenues \$'000	2020-2021 Net Cost \$'000
<b>Whole-of-Life Capital Works Program (<i>Infrastructure Renewal</i>)</b>			
• Road Resealing	3,762	-	3,762
• Footpath Reconstruction	800	-	800
• Kerbing Reconstruction	1,439	-	1,439
• Traffic Control Devices, Off street Carpark & Paths	709	-	709
• Stormwater Drainage Program	2,646	-	2,646
• Recreation and Open Space Program	1,033	-	1,033
• Building Works Program	1,033	-	1,033
<b>Sub-total</b>	<b>11,422</b>	<b>-</b>	<b>11,422</b>
<b>Recurring Projects</b>	<b>644</b>	<b>145</b>	<b>499</b>
<b>New Capital Projects</b>	<b>8,061</b>	<b>4,071</b>	<b>3,991</b>
<b>2020-2021 New Projects</b>	<b>20,127</b>	<b>4,216</b>	<b>15,911</b>
<b>Carry Forward Projects</b>	<b>4,761</b>	<b>-</b>	<b>4,761</b>
<b>Capitalisation of Salaries</b>	<b>1,035</b>	<b>-</b>	<b>1,035</b>
<b>Total Capital Projects Expenditure</b>	<b>25,920</b>	<b>4,216</b>	<b>21,707</b>

Details of the 2021-2022 New Projects are set out in *Appendix One Key Initiatives & Projects* of the Annual Business Plan which is contained in **Attachment B**.

### Borrowings

Proposed net capital expenditure (exclusive of carry forwards), as detailed in **Attachment B**, is \$16.946 million (inclusive of Roads-to-Recovery project) is proposed to be funded as follows:

- Use of depreciation recovered through rate revenue                   \$10.525 million
- Roads to Recovery Funding   \$ 0.362 million
- Long Term Borrowings   \$ 6.060 million

Capital Projects approved as part of the 2020-2021 Budget that are due to be completed during the 2021-2022 Financial year (i.e. Carry Forward Capital expenditure), will be funded through a combination of cash reserves and previously approved undrawn borrowings.

In determining the level of borrowings required to fund the capital program, consideration has been given to the cashflow requirements and to intergenerational equity between current and future users. Whilst these considerations have formed part of the budget model they will be reviewed and reconsidered before the decision to commit to any borrowings.

## Rating Strategy

The Council's LTFP is based on a series of financial outcomes, with one being Rate Stability, with the overall objective being that *"annual rate collections are fair and equitable for our residents and ratepayers with the aim to keep rate revenue increases stable over the medium term"*. The LTFP has set the target of Rate Revenue increases to be between 3% and 6% each year.

Rate revenue increases need to be reflective of the service level increase to ensure that the Council remains financially sustainable. In considering the increase in service level, the Council needs to take into account not only the increase in operating programs and services but also the increase in service level that emanates from past and proposed capital investment.

To maintain financial sustainability, the Council endorsed, in its *Long Term Financial Plan*, a rate revenue increase, which was based on;

- indexation based on the 10 year average of the LGPI;
- new assessment growth;
- factor for increase in service level from capital investment

Applying these principles, the rate revenue increase for 2021-2022 has been set at 4.35%, and is the basis for the budget set out in Appendix 3 of the Annual Business Plan which is contained in **Attachment B**.

The breakdown of the proposed rate revenue increase is detailed in Table 3 below.

**TABLE 3: BREAKDOWN OF RATE REVENUE INCREASE**

<b>2021-2022 Rating Strategy</b>	
<i>Proposed Rate Revenue Increases</i>	4.35%
New Development Growth	0.6%
<i>Revenue due to New Development</i>	<i>\$219,000</i>
General Valuation Growth	1.35%
<i>Revenue due to General Valuation Growth</i>	<i>\$483,000</i>
Rate Revenue Indexation/Service Level	2.4%
<i>Revenue due to rate revenue indexation</i>	<i>\$855,000</i>
<b>Increase in Rate Revenue</b>	<b>\$1,557,000</b>

A rate revenue increase of 4.35%, as proposed within the Draft Budget, will result in the average rate revenue increase over the past 5 years of 2.75%, which is at the lower end of the Rate Revenue targets set out in the Councils Long Term Financial Plan. For the same period, based on valuation information received to date, the average residential rate increase was 1.87%, with the average Commercial Rate increase of 0.56%.

The average residential property value has increased by 1.2%, to \$682,000 which when compared to the average residential property from 2020-2021, which had a value of \$674,00, this means, based on a rate revenue increase of 4.35%, an average residential rate payer will have an increase of \$54 (3.56%) in the amount of rates payable. The average commercial property value has remained stable at 0.93% to \$968,000. An average commercial property owners will have a \$58 (2.24%) increase in the amount of rates payable for 2021–2022.

As such, from a financial management perspective, the Council has clearly delivered on its financial objective.

## Rating Policy

A review of the Councils' Rating Policy has been undertaken, with particular focus on the eligibility criteria for Rate Capping Rebates. Pursuant to Section 166(1)(l)(ii) of the Act, the Council grants a rebate of General Rates, subject to certain eligibility criteria, to the principal ratepayer of a residential assessment, where that property is the principal place of residence and that the increase in the rates levied is a result of a rapid change in the property value.

For eligible residential ratepayers, the increase in general rates (excluding the Regional Landscape Levy) will be capped at two (2) times the rate revenue increase, subject to certain conditions.

The current eligibility criteria for the automatic rebate is any such increase in property value, in whole or part is not result of:

- (a) development greater than \$30,000 undertaken on the property, or
- (b) a change in land use for rating purposes on the date the Council declared its general rates; or
- (c) a change in the zoning of the land; or
- (d) a change in the ownership of the property since 1 January 2020.

This means that the maximum increase in rates payable will be 8.7% for residential properties where there has been no transfer in ownership or no development in excess of \$30,000.

## Draft Annual Business Plan

To fulfil the requirements of the *Local Government Act 1999* and therefore provide citizens with the opportunity to review and comment on the Council's proposed activities for the 2019-2020 Financial Year and the proposed funding of those activities, the Draft 2021-2022 Annual Business Plan has been prepared and is included in **Attachment B**.

The Draft Annual Business Plan incorporates all of the assumptions detailed within this report and for illustrative purposes only, has factored in an increase in rate revenue of 4.35%. Upon finalisation of the Draft Budget through its "endorsement in principle," the Draft Annual Business Plan was made available for citizens from 10 May 2021.

Following consideration of the submissions by the Council on 16 June 2021, the final 2021-2022 Annual Business Plan will be put forward for adoption, followed by the 2021-2022 Annual Budget at the Council Meeting to be held on 5 July 2021.

## OPTIONS

Nil

## CONCLUSION

Through the adoption of the Long Term Financial Plan, the Council has committed to the attainment of Financial Sustainability. The development of the Annual Budget with reference to the financial targets and outcomes outlined in the LTFP will ensure that the Council continues to move in the right direction to achieve its ultimate goal of Financial Sustainability.

The Draft 2021-2022 Annual Business Plan and Budget as presented in **Attachment B**, will deliver an Operating Surplus of \$425,000 based on a 4.35% increase in Rate Revenue, however, the underlying Operating Result, which excludes 2021-2022 Operating Project carry forwards and Joint ventures, for the provision of the Council's continuing services and programs and new initiatives, is an Operating Deficit of \$829,000.

The Councils financial capacity and its ability to withstand ongoing low rate revenue increases has been reduced by the zero rate increase (excluding new development) in the 2020-2021 financial year and the proposed expanded capital works program in 2021-2022, decisions made by the Council to support the community and the wider economy as it recovers from the COVID-19 pandemic. Decisions regarding the rate increase will have future impacts on the Council's ability to deliver on the financial objectives and targets set out in its Long Term Financial Plan and while the Draft Budget as presented in this report is forecasting an Operating Surplus, the draft Budget, as presented is forecast to deliver a cash deficit of \$1.1million.

The proposed Rating Strategy and the Draft Budget as presented in this report, is based on sound financial management principles, which will deliver the Council's Strategic Outcomes in a sustainable and equitable manner, for both today's and future ratepayers.

#### **COMMENTS**

If Committee Members have any questions or require clarification in relation to specific budget items, and/or any issues raised in this report, do not hesitate to contact the General Manager, Corporate Services, Sharon Perkins on 8366 4585, prior to the meeting.

#### **RECOMMENDATION**

It is recommended that the report be received and noted.

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*Ms Brigid O'Neill moved:*

- 1. That the Audit Committee impresses on the Council, the need to maintain the proposed rate revenue increase at no less than 4.35% for the 2021-2022 financial year.*
- 2. That the Council give serious consideration to the identification of Capital Projects that could be deferred to future years in order to improve the cash flow position for the 2021-2022 financial year.*

*Seconded by Ms Sandra Di Blasio and carried unanimously.*

## 6.2 2020-2021 THIRD BUDGET REVIEW

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**REPORT AUTHOR:** Financial Services Manager  
**GENERAL MANAGER:** General Manager, Corporate Services  
**CONTACT NUMBER:** 8366 4585  
**FILE REFERENCE:** q63320/A155827  
**ATTACHMENTS:** A

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### PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a summary of the forecast Budget position for the year ended 30 June 2021, following the Third Budget Review. The forecast is based on the year-to-date February 2021 results.

### BACKGROUND

Pursuant to Section 123 (13) of the *Local Government Act 1999*, the Council must, as required by the Regulations reconsider its annual business plan or its budget during the course of a financial year and, if necessary or appropriate, make any revisions.

The Budget Reporting Framework set out in Regulation 9 of the *Local Government (Financial Management) Regulations 2011* ("the Regulations") comprises two (2) types of reports, namely:

1. the Budget Update; and
2. the Mid-year Budget Review.

#### Budget Update

The Budget Update Report sets out the revised forecast of the Council's Operating and Capital investment activities compared with the estimates for those activities set out in the Adopted Budget. The Budget Update is required to be presented in a manner consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*.

The Budget Update Report must be considered by the Council at least twice per year between 30 September and 31 May (both dates inclusive) in the relevant financial year, with at least one (1) Budget Update Report being considered by the Council prior to consideration of the Mid-Year Budget Review Report.

The Regulations requires a Budget Update Report to include a revised forecast of the Council's operating and capital investment activities compared with estimates set out in the Adopted Budget, however it is recommended by the Local Government Association that the Budget Update Report should also include at a summary level:

- the year-to- date result;
- any variances sought to the Adopted Budget or the most recent Revised Budget for the financial year; and
- a revised end of year forecast for the financial year.

#### Mid-Year Review

The Mid-Year Budget Review must be considered by the Council between 30 November and 15 March (inclusive) in the relevant financial year. The Mid-Year Budget Review Report sets out a revised forecast of each item shown in its Budgeted Financial Statements compared with estimates set out in the Adopted Budget presented in a manner consistent with the Model Financial Statements. The Mid-Year Budget Review Report must also include revised forecasts for the relevant financial year of the Council's Operating Surplus Ratio, Net Financial Liabilities Ratio and Asset Sustainability Ratio compared with estimates set out in the budget presented in a manner consistent with the note in the Model Financial Statements entitled

### *Financial Indicators.*

The Mid-year Budget Review is a comprehensive review of the Council's Budget and includes the four principal financial statements, as required by the Model Financial Statement, detailing:

- the year to date result;
- any variances sought to the Adopted Budget; and
- a revised full year forecast of each item in the budgeted financial statements compared with estimates set out in the Adopted budget.

The Mid-year Budget Review Report should also include information detailing the revised forecasts of financial indicators compared with targets established in the Adopted Budget and a summary report of operating and capital activities consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*.

### **RELEVANT STRATEGIC DIRECTIONS & POLICIES**

The Council's Long Term Strategic directions are set out in *City Plan 2030 – Shaping our Future*. The Council's Long Term Financial Plan (LTFP), is a key document in the Councils Planning Framework. It is the primary financial management tool which links the Council's Strategic Plan, *City Plan 2030 – Shaping our Future*, Whole-of-Life Assets Management Plans, the Annual Business Plan and Budget.

The *2020-2021 Annual Business Plan* and Budget, sets out the proposed services, programs and initiatives for the 2020-2021 Financial Year and explains how the Council intends to finance its continuing services, programs and initiatives which are to be undertaken during the financial year. The 2020-2021 Adopted Budget estimated an Operating Deficit of \$798,455. The Operating Deficit was decreased as part of the Mid-Year Budget Review to \$651,547.

### **FINANCIAL AND BUDGET IMPLICATIONS**

The Third Budget Review, provides the opportunity to reflect any changes in projections based on the actual year-to-date results to February 2021 and forecast the 2020-2021 Operating result.

Details of material movements in the forecast from the Adopted Budget are contained in the Discussion section of this Report.

### **EXTERNAL ECONOMIC IMPLICATIONS**

This report provides information on the planned financial performance of the Council for the year ended 30 June 2021 and has no direct external economic impacts.

### **SOCIAL ISSUES**

Not Applicable.

### **CULTURAL ISSUES**

Not Applicable.

### **ENVIRONMENTAL ISSUES**

Not Applicable.

### **RESOURCE ISSUES**

Not Applicable.

## **RISK MANAGEMENT**

There are no risk management issues arising from this issue. All documents have been prepared in accordance with the statutory requirements.

## **COVID-19 IMPLICATIONS**

As Committee Members are aware, the development of the 2020-2021 Budget, was undertaken during an unprecedented time where the on-going health, social and economic impacts of the COVID-19 Pandemic were relatively unknown and the future impacts of the physical distancing measures introduced to address the health impacts remained uncertain and were changing rapidly.

For the period ended March 2021, the Council has spent \$185,000 on its response to the COVID-19 pandemic. This covers additional cleaning services across all Council facilities and the purchase of materials to ensure that appropriate physical distancing and other protective measure are in place to assure both staff and users of Council Services.

## **CONSULTATION**

- **Committee Members**  
Mayor Bria, Cr Minney and Cr Stock, as Elected Members, have considered the issues at the Council Meeting held on 3 May 2021, when the Council endorsed the Third Budget Update.
- **Community**  
Not Applicable.
- **Staff**  
Responsible Officers and General Managers.
- **Other Agencies**  
Not Applicable.

## **DISCUSSION**

### **Budget Review**

The 2020-2021 Adopted Operating Budget, projected an Operating Deficit of \$798,455. At the Council meeting held on 1 March 2021, the Council endorsed the Mid-Year Budget Update, which reported a forecast Operating Deficit of \$651,547.

Following the Third Budget Review, the Operating Deficit has decreased to \$168,575.

The material movements in the components that make up the Operating Surplus following the Third Budget Review are detailed below.

### **A. Recurrent Operating Budget**

As a result of the Third Budget Update, the Recurrent Operating Surplus is increased to \$781,609, an increase of \$279,700 on the Recurrent Operating Budget Surplus of \$501,909 reported at the Mid-Year Budget Review.

The major reasons for the movement in Operating Surplus are detailed in Table 1.

**TABLE 1: MAJOR VARIANCES IN RECURRENT OPERATING BUDGET – THIRD BUDGET REVIEW**

	Favourable/ (Unfavourable) \$
Employee expenses has been reduced to reflect the vacant positions that are not anticipated to be filled by 30 June 2021.	200,000
Following a review of the cash position, it is anticipated that no new long term borrowings will be drawn down prior to 30 June 2021, therefore, finance cost has been reduced to reflect interest payable on existing loans.	130,000
To date, there are a number of minor favourable variances across a broad range of account lines. The year-to-date variances have been taken as a permanent savings.	100,000
An increase in legal expenses to reflect the actual spend on legal proceedings relating to the scramble crossing at the intersection of the Parade and George Street, Norwood.	(150,000)
<p>This spend, to the end of March 2021, is split between the Chapley's and 166 The Parade (Coles) Judicial Review against the Council and the Department of Infrastructure &amp; Transport (\$112,500) and the Councils Judicial Review (\$35,000).</p>	

## B. Operating Projects

The Adopted Budget includes an estimate of operating project expenditure for the year under review and;

- previously approved and carried forward projects from the prior budget years; less
- an allowance for current year approved projects projected to be carried forward to subsequent budget years.

Carried Forward estimates (from prior financial years) are reviewed upon finalisation of the Annual Financial Statements. Additional expenditure required for non-completed Operating Projects at the end of the Financial Year, is incorporated in the Budget as part of First Budget Update.

Taking into account the Carried Forward Operating Project expenditure and new projects which have been endorsed by the Council, the 2020-2021 Adopted Operating Projects Budget forecast a cost to the Council of \$1.597 million.

Carried Forward Operating Project Expenditure was estimated as part of the Adopted Budget to be \$0.338 million. Following the First Budget Update, the value of carried forward expenditure is \$0.604 million. The increase in the Carried Forward Budget, is due to projects not progressing as anticipated or the commencement of some projects being deferred.

The Mid-Year Budget Update forecast the cost of Operating Projects to be \$1.737 million. The Third Budget Update is estimating that the cost of Operating Projects to be \$1.533 million, with a decrease of \$0.203 million. The reduction reflects the operating projects not expected to be finalised by 30 June 2021.

The Operating Projects, and expenditure not expected to be incurred in the 2020-2021 is detailed in Table 2 below.



**TABLE 2: OPERATING PROJECTS NOT EXPECTED TO BE COMPLETED IN 2020-2021**

SERVICE INITIATIVE	\$
<i>The Parade &amp; George Street Scramble Crossing</i> is currently suspended due to legal proceedings.	83,272
Feasibility Assessment of Additional Level on the Webbe Street Parking.	50,000
Development of the <i>Tree Management Policy &amp; Strategy</i> and the <i>People Place &amp; Activity Strategy</i> has commenced, however community consultation is not anticipated to be finalised by 30 June 2021. Budget allocation relates to cost associate with consultation, and documentation finalisation.	50,000
The project of <i>Age Friendly Wayfinding Strategy</i> has commenced, however the installation of signage may be delayed to early 2021-2020 Financial Year	20,000
<b>TOTAL OPERATING PROJECTS NOT EXPECTED TO BE INCURRED IN THE 2020-2021</b>	<b>203,272</b>

### C. Capital Projects

The Council adopted a Capital Budget of \$19.936 million for 2020-2021, which comprised funding allocations for New Capital Projects involving new or the upgrading of existing assets (\$4.127 million), the renewal/replacement of existing assets (\$10.146 million) and Carried Forward Projects from 2019-2020 (\$5.457million).

The Mid-Year Budget Update forecast the cost of Capital Projects to be \$22.787 million. Following the Third Budget Update, the Capital Project expenditure is forecast to decrease to \$17,861 million, a reduction of \$4.927 million. The budget variations identified in the Third Budget Review are detailed in Table 3 below:

**TABLE 3: MAJOR VARIANCES IN CAPITAL PROJECT BUDGET – THIRD BUDGET REVIEW**

Capital Project	Increase/ (Decrease) \$
The reconstruction of Dequetteville Terrace Footpath, which was scheduled to be undertaken this financial year, has been deferred 2023 due to a multi-story development proposed by Chasecrown to be undertaken at this location. Works will be undertaken following the completion of the property redevelopment and in line with the <i>Kent Town Design Framework</i> .	(165,000)
A number of Capital Projects are not anticipated to be completed by June 30 2021 and are required to be carried forward to 2021-2022. The full list of projects being carried forward are detailed in Table 4.	(4,761,407)

**TABLE 4: CAPITAL PROJECTS NOT EXPECTED TO BE COMPLETED IN 2020-2021**

Capital Project	\$
The construction of Second Creek Outlet Upgrade has commenced, with works expected to be completed by September 2021.	950,000
George Street Upgrade and Scramble Crossing has been deferred due to the legal proceedings associated with the scramble crossing at the intersection of The Parade and George Street. Notwithstanding this, the preparation of detail design and construction documentation will commence in the next few weeks.	810,000
The drainage works on the Third Creek require the Council to establish an easement across private properties. The works will not commence until negotiations with the impacted property owners is finalised.	700,000
Drainage Infrastructure Works:	718,862
<ul style="list-style-type: none"> <li>• Trinity Valley Drainage Design (\$418,682) – the project was delayed due to the Melbourne COVID-19 lockdown;</li> <li>• The Parade West (\$300,000) – the location of works is adjacent to Prince Alfred College and to minimise the impact on the school traffic the work is scheduled to be undertaken during July school holidays</li> </ul>	
Works has commenced on the detailed design for the following projects however, the documentation is not anticipated to be finalised prior to 30 June 2021:	335,000
<ul style="list-style-type: none"> <li>• \$150,000 for the Parade Master Plan;</li> <li>• \$150,000 for Burchell Reserve Upgrade;</li> <li>• \$35,000 for St Peters Street Upgrade</li> </ul>	
The Parade Median Streetscape Upgrade –works are being aligned with The Parade Master Plan and DIT works.	300,000
Stephen Street (Norwood) Improvements – commencement of works is dependent on the completion of the private development (Norwood Green).	250,000
The Parade West Streetscape Upgrade Kent Town – this project has been adversely impacted due to unforeseen stormwater drainage works which are required to be completed prior to the streetscape works.	163,000
Major Public Art Funding Program –the artwork scheduled to be installed during the 2021-2022 Financial Year	146,762
Norwood Library Strategic Review & Concept Plan – preliminary investigation has commenced, however final concepts are not anticipated to be delivered prior to 30 June 2021 as these concepts are now integrated with the proposed upgrade of the Norwood Concert Hall.	100,000
Commencement of the following two (2) Master Plans have been deferred to 2021 – 2022 Financial Year, as the projects have been reprioritised as part of the recently endorsed Long Term Financial Plan:	85,000
<ul style="list-style-type: none"> <li>• \$50,000 for Adey Reserve Master Plan;</li> <li>• \$35,000 for Hannaford Reserve Master Plan.</li> </ul>	
Recreation & Open Space Infrastructure Work:	81,548
<ul style="list-style-type: none"> <li>• \$55,000 for Osmond Terrace Median Landscaping (Cannon);</li> <li>• \$26,548 for Protuberance Garden Beds along Osmond Terrace footpaths (Irrigation).</li> </ul>	
Standby Power for St Peters Library, has been deferred as solar options are now being investigated.	78,550
Private Laneway:	30,650
<ul style="list-style-type: none"> <li>• \$15,050 for Rosemont Lane Design;</li> <li>• \$15,600 for Salisbury Design.</li> </ul>	
Authority Version Upgrade –Online Leave Work Patterns.	12,035
<b>TOTAL CAPITAL PROJECTS NOT EXPECTED TO BE INCURRED IN THE 2020-2021</b>	<b>4,761,407</b>

The revised Budgeted Financial Statements and Financial Indicators as a result of the Third Budget Update are included in **Attachment A**.

**OPTIONS**

Not Applicable.

**CONCLUSION**

Nil

**COMMENTS**

Nil

**RECOMMENDATION**

That the Third Budget Update Report be received and noted.

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*Mayor Bria moved:*

*That the Third Budget Update Report be received and noted.*

*Seconded by Cr Stock and carried unanimously.*

## 6.3 BORROWING & INVESTMENT PERFORMANCE FORECAST FOR YEAR ENDED 30 JUNE 2021

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**REPORT AUTHOR:** Accountant  
**GENERAL MANAGER:** General Manager, Corporate Services  
**CONTACT NUMBER:** 8366 4585  
**FILE REFERENCE:** qA155792  
**ATTACHMENTS:** A

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### PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with information on the management of the Councils' borrowings and investment performance, for the year ended 30 June 2021.

### BACKGROUND

Pursuant to Section 140 of the *Local Government Act 1999* (the Act), the Council is required, at least once in each year, to review the performance (individually and as a whole) of its investments.

This report provides a summary of the outstanding debenture loans as at 30 June 2021, together with the outcome of the Councils investment performance.

### RELEVANT STRATEGIC DIRECTIONS & POLICIES

The Council's *Treasury Management Policy* which was adopted by the Council on 2 March 2020, requires a Treasury Management performance report to be presented to the Audit Committee, at least annually.

### FINANCIAL AND BUDGET IMPLICATIONS

The financial implications arising from this report, relate to the Councils ability to meet loan instalment payments inclusive of interest when they fall due.

Through its annual budget process, the Council ensures that sufficient cash flow is maintained to service its financing obligations.

### EXTERNAL ECONOMIC IMPLICATIONS

Nil.

### SOCIAL ISSUES

Nil.

### CULTURAL ISSUES

Nil.

### ENVIRONMENTAL ISSUES

Nil.

### RESOURCE ISSUES

Nil.

### RISK MANAGEMENT

The risk management issues relate to the Councils ability to meet loan instalment payments when they fall due. This risk is minimised by the Annual Budget process which recognises the timing of cash requirements and the revenue required to manage the Councils operations.

## CONSULTATION

- **Committee Members**  
Not Applicable.
- **Community**  
Not Applicable.
- **Staff**  
Nil.
- **Other Agencies**  
Not Applicable.

## DISCUSSION

### Borrowings

Pursuant to Section 134 of the *Local Government Act 1999*, the Council can enter into financial arrangements as deemed appropriate by the Council, to borrow monies to fund recurrent operations and capital expenditure requirements.

The Council's policy is to borrow on a fixed interest basis for the term of the loan to fund Capital Projects. To minimise future financing costs, the current funding strategy is to utilise surplus funds in the first instance, with short-term funding needs being met through the utilisation of the Cash Advance Drawdown (CAD) facility held with the Local Government Financing Authority (LGFA).

As at 30 June 2021, the balance of outstanding borrowings is forecast to be \$10.3 million. The balance comprises five (5) active fixed interest rate loans. The Council has approved loan borrowings to the value of \$20.4 million which are yet to be drawn down. In addition, the Council has two (2) Cash Advance Drawdown (CAD) variable rate facility, held with the Local Government Financing Authority. Due to Covid-19, LGFA offered the Council a discounted convertible cash advance debenture loan facility where the interest rate is 0.75% off of the current standard variable interest rate of 2.05%. This discounted facility is a completely new facility and is effective for three (3) years from the date of drawdown. This facility will expire by 17 August 2023.

The active fixed interest loans have been provided by the Local Government Financing Authority. The loan terms range from fifteen (15) years to twenty (20) years, with the respective interest rates varying between 2.4% pa and 6.77% pa.

A listing of the Council's active loans is contained in **Attachment A**.

From 1 May 2020 to 30 April 2021, there was one (1) finalised loans. Debenture 17 matured on 15 November 2020 and was taken out in 2005 for the purposes of undertake 2010-2011 Infrastructure Work. The total principal payments and interest payments were \$3 million and \$1.117 million respectively. Debenture 13, which was taken out to fund 2005-2006 infrastructure works is due to mature on 15 June 2021. The total principal payments and interest payments were \$4.185 million and \$2.526million respectively.

Given the current cash reserves and projected timing of the capital expenditure, it is not anticipated that other Long Term Borrowings will be required before 30 June 2021, however there may be a need to draw down on the CAD facility to cover cash needs between June 2021 and the first quarter rates payments, which are due in September 2021.

Principal repayments made on long term active loans for the year to 30 June 2021, are forecast to be \$1.5 million.

The details of the movement in the loan balances are contained in **Attachment A**.

## **Investments**

Pursuant to Section 139 of the *Local Government Act 1999*, the Council can invest monies under its control.

The Council's *Treasury Management Policy* allows for surplus funds which cannot be applied to reduce existing borrowings to be invested. Surplus funds are to be invested either:

- a. "At Call" with the Local Government Finance Authority; or
- b. fixed term investment products, where the term of the investment does not exceed a point in time where the funds could be applied to defer new borrowings or reduce existing borrowings.

For the 2020-2021 financial year, surplus funds are invested "At Call" with the Local Government Finance Authority. The balance of funds invested at 30 April 2021 was \$4.159 million. Interest earned on funds which have been invested, was \$17,092.

In addition to the 'At Call' account, the Council manages the 'St Peters RSL Trust Account'. The balance of Trust Account at 30 April 2021 was \$42,495. Interest earned to 30 April 2021 was \$156.

## **OPTIONS**

Not Applicable.

## **CONCLUSION**

Nil.

## **COMMENTS**

Nil.

## **RECOMMENDATION**

That Borrowing and Investment Report be recommended to the Council for endorsement.

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*Cr Stock moved:*

*That Borrowing and Investment Report be recommended to the Council for endorsement.*

*Seconded by Ms Brigid O'Neill and carried unanimously.*

## 6.4 GOVERNANCE ARRANGEMENTS – REGIONAL SUBSIDIARIES

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**REPORT AUTHOR:** General Manager, Corporate Services  
**GENERAL MANAGER:** Chief Executive Officer  
**CONTACT NUMBER:** 8366 4585  
**FILE REFERENCE:** qA63320  
**ATTACHMENTS:** A - D

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### PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a record of information which has been provided to the Council since the last meeting.

### BACKGROUND

At the Audit Committee meeting held on 21 January 2010, it was resolved:

*“That reports be prepared by the General Managers responsible for each Regional Subsidiary on any matters of concern within the Subsidiary, for consideration by the Audit Committee in lieu of the distribution of minutes etc.”*

### RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

### FINANCIAL AND BUDGET IMPLICATIONS

The emphasis of this report is to provide the Audit Committee an overview of the Draft 2021-2022 Budgets of the Council’s Regional subsidiaries which have been considered the Council.

The Councils Draft 2021-2022 Budget includes the respective cost of services which are delivered on behalf of the Council by the respective Regional Subsidiary and the Council’s share of the respective Regional Subsidiary operating result.

The Budget implications are discussed in the Discussion section of this report

### EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable.

### SOCIAL ISSUES

Not Applicable.

### CULTURAL ISSUES

Not Applicable.

### ENVIRONMENTAL ISSUES

Not Applicable.

### RESOURCE ISSUES

There are no resource issues arising from this report.

## RISK MANAGEMENT

There are no risk management issues arising from this report.

## CONSULTATION

- **Committee Members**  
Cr Minney is a Board member of ERA Water and Highbury Landfill Authority. Cr Mike Stock is a Board member of East Waste. Ms Brigid O'Neill is a member of the Audit Committee of ERA Water. Ms Sandra DiBlasio is a member of the Audit Committee of East Waste.
- **Community**  
Not applicable.
- **Staff**  
Chief Executive Officer  
General Manager, Urban Services.  
General Manager, Urban Planning and Environment.
- **Other Agencies**  
Not Applicable.

## DISCUSSION

### Eastern Health Authority (EHA)

EHA have advised that the key priorities for the Authority for the 2021-2022 Financial year include:

- implementation of the Regional Public Health Plan, '*Better Living, Better Health*' as it applies to EHA;
- continuing to undertake the necessary public health functions on behalf of Constituent Councils to protect the health and well-being of the community during the COVID-19 Pandemic. Other COVID-19 priorities include:
  - the participation in Local Government COVID-19 meetings and forums to ensure consistency of approach in relation to public health and operational matters;
  - review of the Business Continuity Plan in light of the COVID-19 Pandemic; and
  - ensure operational activities (inspections, investigations, immunisation services etc.) are undertaken in line with required social distancing and hygiene measures to protect EHA employees and the community.
- promotion of EHA's online immunisation appointment booking system;
- conduct immunisation surveys to gain client feedback for use in development of the 2021 Clinic Immunisation Timetable;
- implement improvements to the recalls and reminders for overdue immunisation clients; and
- undertake the organisation service review which considers the current scope and delivery of public and environmental health services by EHA to its Constituent Councils.

While the Authority's Charter does not require the Constituent Councils to endorse the Draft Budget, by virtue of the endorsement of the Business Plan, the Council is also ostensibly endorsing the EHA Draft Budget.

EHA's main source of income to fund its operations is contributions from its Constituent Councils. To deliver the Annual Business Plan, EHA requires contributions of \$1,828,263 (which equates to a 2.1% or \$33,589 increase on 2020-2021) to fund the operational expenditure, with the respective Councils contribution being based on the weighted activities across nine (9) categories which are detailed in **Table 1** below.



**TABLE 1: ACTIVITY WEIGHTING**

Activity Description	Activity Weighting	NPSP Share
Administration	12.5%	2.5%
Number of Food Premises	35.00%	13.08%
Swimming Pools	2.00%	0.60%
Cooling Towers	6.50%	2.24%
Supported Residential Facilities	6.50%	1.30%
Environmental Health Complaints	7.00%	2.08%
Hairdresser/Beauty	6.50%	2.44%
Year 8/10/11 Enrolments (Vaccinations)	15.00%	4.68%
Average Number of Clients Receiving Vaccinations	15.00%	4.60%

It should be noted that the Council's ownership share of EHA has decreased from 32.74% to 31.27%, a decrease of 2.48%, driven by a reduction in proportion of environmental health complaints and school enrolment numbers.

As a receiver of services from EHA, the Council's Draft 2021-2022 Budget includes a funding allocation for the provision of environmental health services of \$571,786 for its share the operational service review. Given that EHA are forecasting a break even operating result, the Council's draft 2021-2022 Budget does not need to be adjusted to include this Council's share of the EHA Operating result. A copy of the Authority's draft Annual Business Plan and Budget is contained in **Attachment A**.

### East Waste

The East Waste Draft 2020-2021 Budget has been developed based on a Common Fleet Costing methodology, with Common Fleet Costs, which predominately relate to collection costs, being charged to Constituent Councils based on the cost to undertake the collection of each Council's waste streams. The allocation of the Common Fleet Costs is based on the GPS System utilised by East Waste.

In addition, where Constituent Councils utilise East Waste for other services such as Contract Management Services (Disposal and Resource processing) and Waste Bin Maintenance, these services are on charged to Councils at cost.

The Draft 2021-2022 Budget is reporting an Operating Surplus of \$16,000. The Council's share of the draft Operating Surplus is \$2,288, which is based on an ownership share of the Authority of 14.3%.

The Authority's collection costs have increased by 2.35% on the 2020-2021 Budget, however for this Council, the collection cost has increased by 7.8%, which is significantly higher than the overall increase in the East Waste collection costs. East Waste have advised that the higher than average increase for our Council is due to two key factors, these being:

- A new charge for the collection of waste bins in narrow streets (\$60,000). East Waste has advised that without permanent parking controls within the narrow streets which allow ease of access for the Waste Collection trucks it is no longer feasible, logistically or reputationally, to continue with the existing collection practices. However, it should be noted that to date, East Waste has yet to articulate the basis upon which the new charge has been calculated.
- An increase in Organics collections, which has contributed to an increase in the common fleet collection percentage, from 16.52% to 16.93% for the current financial year.

The Council's Draft Waste Management Budget, reflects a proposed Common Fleet fee of \$2.204 million (2020-2021 \$2.098 million) to be charged for the collection of this Councils waste streams, which include Domestic waste, Green Organics, Recyclables, Public Litter Bins, Illegal Dumping and pre-booked Hard Rubbish Collection. The year-on-year increase in the Common Fleet Cost is 5.42%, which is made up of the Council share of the increased common fleet costs (\$44,880), offset by a slight reduction in the Council's share of Common Fleet Costs from 16.6% to 16.5% (\$46,302)

While the East Waste Budget includes income from disposal costs, the disposal charges are a “pass through” cost from East Waste to each Constituent Council; as such the Council’s proposed budget for the disposal of the Council’s streams is based on the Council’s estimate of waste which is collected and processed as opposed to the East Waste estimates.

The East Waste Draft 2021-2022 Annual Plan is contained in **Attachment B**.

### **ERA Water**

The Draft Budget assumes that 305ML of water will be sold in the 2020-2021 Financial year, with the first 205ML of the available water, being sold to the Constituents Councils on a take or pay basis and the balance (91.5ML) being made available for third parties. The water sold to Constituent Councils will be priced at the SA Water price, which is forecast at \$2.85/kl. Forecast income from Constituent Councils is in the order of \$594,000. It should be noted that due to the take or pay basis, Constituent Council pre-pay their respective water allocations in July.

The third party water sales, are assumed to be made at 85% of the SA Water price, with the income forecast at \$261,000 and represent 30% of total water sales for 2021-2022.

Operating costs are forecast to be \$642,000 which includes Employee Expenses of \$250,000. Fixed Operating costs of \$123,000 and other variable operating costs of \$269,000 to operate and maintain the Scheme. The Scheme’s operational costs include mechanical and electrical operations and maintenance support provided by an external contractor, licence fees, water testing, utilities costs and administration costs such as insurances, audit fees and general administrative costs.

The ERA Water Draft 2021-2022 Budget includes Capital Expenditure of \$150,000, which includes \$100,000 to support additional connections to external customers, and \$50,000 as a general provision for capital works.

The Draft 2021-2022 Budget is forecasting an Operating Deficit of \$600,000. This Councils share of the Operating Deficit, which will be required to be included in the Councils 2021-2022 Budget is \$200,000. While ERA Water is budgeting for an Operating Deficit, ERA Water has sufficient access to cash to fund the expenditure shortfall and therefore, there will be no capital contributions required to be made by the Constituent Councils.

The Draft Budget includes water sales to this Council of \$217,440, which is based on water consumption of 76.67ML. The Council’s Draft 2021-2022 Budget include a budget estimate of \$366,000, which includes water sourced from SA Water and ERA Water for the Councils reserves, parks, medians and sporting grounds.

A copy of the Draft Budget is contained in **Attachment C**.

### **Highbury Landfill Authority**

The Draft Budget includes expenditure items associated with the post-closure requirements which include:

- monthly monitoring of landfill gas and annual monitoring of ground water across the landfill site;
- site maintenance, which includes ongoing maintenance for fire control, fencing and access track maintenance; and
- administration costs such as insurance, utilities, Council rates and general administration of the Authority.

The Authority is required to oversee the management of the site until a steady state of conditions in respect to the gas emissions is maintained, which could be more than 25 years.

The Post Closure Provision, relates to anticipated future liability to manage the post closure of the landfill.

The Authority will require a Capital Contribution of \$200,000 from the Constituent Councils to fund the Post-Closure Provision expenditure, which includes monitoring and site maintenance costs. This Council's share of the Capital Contribution is \$80,714.

The Council's Draft Budget will also incorporate the Councils Share (40.4%) of the Authority's projected Operating Deficit of \$8,264 with this Council's share of the deficit being \$3,305.

A copy of the Draft Budget is contained in **Attachment D**.

#### **OPTIONS**

Nil.

#### **CONCLUSION**

Nil.

#### **COMMENTS**

Nil.

#### **RECOMMENDATION**

That the report be received and noted.

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*Ms Brigid O'Neill moved:*

*That the report be received and noted.*

*Seconded by Mayor Bria and carried unanimously.*

## 6.5 CYBER SECURITY REVIEW

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**REPORT AUTHOR:** Project Manager, ICT Solutions  
**GENERAL MANAGER:** General Manager, Corporate Service  
**CONTACT NUMBER:** 8366 4510  
**FILE REFERENCE:** qA69707/A121719  
**ATTACHMENTS:** Nil

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### **PURPOSE OF REPORT**

The purpose of this report is to provide the Audit Committee with the requests of a review which examined the arrangements established by the Council to manage cyber security.

### **BACKGROUND**

Information and Communications Technology (ICT) systems play an important role in the day-to-day operations of a Council. Cyber security is the practice of protecting networks, computer systems and data from unauthorised access or malicious attack.

Due to the operational and personal nature of the information collected and controlled by the Council, cyber security is an important inherent risk that must be effectively managed. Robust cyber security controls are critical for Councils in the delivery of its commitment to protect its community, employees and operations from cyber threats.

Avoiding disruption to operations from security threats such as ransomware, maintaining the integrity of operational ICT systems and protecting personal information and commercial data are vital to the Council in delivering its services securely and maintaining the public's trust. As the community demands greater connectivity and more personalised interactions, cyber security is no longer just nice to have – it is expected.

### **RELEVANT STRATEGIC DIRECTIONS & POLICIES**

Not Applicable.

### **FINANCIAL AND BUDGET IMPLICATIONS**

The opportunities for improvements recommended within in this report may have financial and budget implications, which will be assessed as part of the implementation of the proposed solution. Where additional funding is required, the request for funds will be presented as part of the standard budget reviews.

### **EXTERNAL ECONOMIC IMPLICATIONS**

Nil.

### **SOCIAL ISSUES**

Nil.

### **CULTURAL ISSUES**

Nil.

### **ENVIRONMENTAL ISSUES**

Nil.

### **RESOURCE ISSUES**

Implementation of recommended improvements is managed by existing staff.

## RISK MANAGEMENT

Nil

## CONSULTATION

- **Committee Members**  
Not Applicable.
- **Community**  
Not Applicable.
- **Staff**  
Manager, Information Services.
- **Other Agencies**  
Not Applicable.

## DISCUSSION

The Auditor-Generals Department (AGD) recently undertook an 'Examination of Cyber Security' at the City of Prospect, the Port Augusta City Council and the City of Port Adelaide Enfield. The objective of the examination was to assess the effectiveness of the respective Councils' Cyber Security environment.

In each review, the Auditor General sought to understand the cyber maturity of the Council's ICT environment and to examine whether it effectively managed its ICT resources through appropriate internal controls. These controls are needed to mitigate the cyber security and technology risks within the Council.

Local Government does not have in place any mandatory cyber security arrangements, such as ICT Control Frameworks or Standards, however as best practice, individual Councils should develop and have in place ICT control policies and procedures outlining the minimum controls.

The AGD consider key references for examining the effectiveness of cyber security are:

- the South Australian Cyber Security Framework; and
- guides developed by the Commonwealth Government's Australian Signals Directorate (ASD).

The review undertaken examined whether each Council had established and adhered to appropriate processes and structures for managing cyber security across the four (4) key areas, these being:

- security governance;
- system security;
- change management; and
- back-up operations and disaster recovery.

The AGD review also involved a vulnerability assessment of the Council's external facing website and any associated webserver(s).

At each Council that was examined, the AGD concluded that '*important control elements to mitigate cyber security and technology risks were not operating effectively*'.

While the findings were specific to the individual Councils that were examined, the following items were found to be common to all three (3) Councils:

- gaps in or insufficient coverage of cyber security related policies, procedures and standards;
- no formal ICT risk register or appropriate reporting on risks;
- insufficient management of risks and contracts over third party service providers;
- weaknesses in password controls and privileged access management practices;
- insufficient user access management practices or reviews;
- lack of or gaps in cyber security user awareness training;
- gaps in or insufficient change management controls;
- insufficient security patches and overall patch management;
- unsupported software still in use (i.e. older operating systems or software components); and
- no ongoing review or assurance over ICT controls.

Other significant findings, included:

- insufficient end user device security;
- gaps in, or no evidence of back-up and disaster recovery plans and associated testing of such plans;
- web applications using vulnerable software libraries;
- some web based documents require greater security controls; and
- information security incident response plans not established.

Following the release of the Auditor-General's report and using the combined reports as a guide, the Council's Manager, Information Services and the Project Manager, ICT Solutions, undertook a self-assessment of the Council's own effectiveness in mitigating cyber security and technology risks.

The review focussed on the following practices, broken down into the same four key areas used in the AGD reports. Where a practice should be improved further details are provided in the Improvements section.

### **Security Governance**

- Cyber Security Policy

The Council does have in place Information Management policies and guidelines which address IT security however, the Council does not have a specific Cyber Security policy or strategy.

- ICT Risk Register

While the Council has in place an Information Security Committee (ISC) which reviews information security incidents and recommend improvements to mitigate against future incidents are tracked, there is no formal ICT risk register monitored by the ISC.

- Maintaining Information Security Awareness

Security Awareness training has been undertaken and participation tracked in the past, however this is not part of a regular Corporate Training or refresher Program. Cyber Security awareness is however, included as part of the IT induction program for new employees. One-on-one training has been undertaken in response to individual user actions where successful spear-phishing attacks have resulted in compromised Council network credentials.

- Third party service providers risk assessment

The Council's utilises Software as a Service (i.e. third party service providers) in very limited situations, as such are not considered high risk, therefore security performance reviews of third party service providers, to date have not been undertaken.

- Vulnerability assessments

Vulnerability assessments are only conducted following high risk or significant changes to edge devices, specifically Firewall appliances. If a change does not occur for a significant period of time the associated assessment also does not take place.

## **System Security**

- System patching

Network device updates and critical security patching occur on an ad-hoc basis. When applied, updates are applied manually, outside of core business hours.

Awareness of new and to what degree critical and important security updates are required varies significantly across Council devices (i.e. some devices will provide alerts advising of an update) where as for other devices, staff need to actively seek out information pertaining to security updates.

- Application whitelisting

Application whitelisting (ie a list of approved software applications or executable files that are permitted to be present and active on a computer system) technology is used consistently across the Councils virtual desktop environment providing a strong defence against malicious attacks from Malware and Ransomware.

- Password controls

Existing controls for “on premise services” is considered sufficient and include forced password changes every 90 days, good password length and character mixes. Remote access requires two (2) factor authentication (2FA).

For off-premise services (i.e. cloud based services), password controls vary significantly and depend on the service provider. Staff are required to maintain additional and separate passwords for software provided as a Service (SAAS), which increase the chance of password re-use and therefore exposure. A register of staff SAAS passwords is not kept and Single Sign on (SSO) features are not utilised.

Privileged accounts for administrator staff follow best practice with system accounts being stored in a central password management system and are separate from the staff’s respective standard user accounts. Standard user accounts provide system access based on their day-to-day operational role.

- System access

User access to Council systems is not periodically reviewed or audited and as such, exposing sensitive systems to anonymous access. Users are given access to core systems through role based privileges. User accounts may be left with elevated access and/or general access after contract termination, conclusion of back fill arrangement during periods of absences (i.e. annual leave or staff vacancies) or role changes, if the Information Services staff are not notified.

End-user device security for Council supplied devices allows for remote distribution, forced PIN access, remote wipe and location tracking. Council devices are managed with mixed levels of effectiveness and are updated in an ad-hoc manner. (i.e. when returned by the user rather than on a known schedule)

- Change Management

Patching too often or too early, without good reason, can create system outages and/or impact on IT services. Apple IOS and Windows desktop updates are known to significantly change or deprecate features that users rely upon.

There is no formal approval process for changes on critical systems including the Firewalls and other critical devices, most changes are approved verbally. Changes are stored as helpdesk support tickets and not as change requests.

- Backup operations, disaster recovery and incident response

The Council has both a *Business Continuity Plan* and an *IT Disaster Recovery Plan* in place, which includes specific Disaster Recovery action and testing plans. Evidence of testing walk-throughs is also apparent. The last Disaster Recovery Test was performed in May 2018, following a major IT environment upgrade.

- Vulnerability assessment

The Council completed an independent vulnerability assessment on 20 July 2020. All critical and high issues were reviewed and have been addressed. Reported security incidents have highlighted other significant vulnerabilities where documents were found on the Council website without sufficient security controls and a number of out-of-support devices were found operating against a Council legacy system, including an old parking ticket management system.

### **Opportunities for Improvements**

In response to the self-assessment of the Councils IT environment, a number of opportunities for improvements have been identified and are set out below:

#### Security Governance

- Develop a Cyber Security policy to complement the Council's existing Information Management Policies and Guidelines.
- Implement an ICT Risk Register with risks periodically reviewed and reported to the ISC and Audit Committee.
- Formalise an ongoing Cyber Security user awareness program, which may include employee participation tracking, phishing campaigns and policy awareness.
- When implementing or purchasing Software as a Service products, the procurement process to include, as part of the evaluation criteria, an assessment of new vendors against the cyber security risk it presents and if security performance reviews should be undertaken. The IT risk assessment should be based on the nature of the service, the extent of exposure and level of risk presented to the Council.
- Introduce regular independent vulnerability assessments, taking into account planned significant changes using a, whichever comes first, model.
- Develop an IT Asset Management Plan which identifies the different device and system types, the IT risk exposure and the change/update principles for each device and system.

#### System Security

- Introduce new or maintain existing tools to help identify current patch levels and apply updates systematically.
- Review current Single Sign-On strategy to move to an External Identity Provider model, allowing staff to re-use existing login credentials. Where possible, Single Sign-On should be applied to all Council approved systems.
- Where SAAS systems do not allow or support Single Sign-On, maintain a register of SAAS systems and users to ensure that logins are disabled as part of the Termination protocols. Include the service on the IT risk register.
- Introduce 2FA on all SAAS Council services, where applicable. Where unavailable, include the service on the IT risk register.
- Consider introducing manual audits or tools to assist in the review of privileged access accounts/groups.
- For mobile fleet devices, introduce a schedule of change. Which at a minimum identifies a configuration standard and push to ensure all devices are returned to site to achieve this standard. The ultimate aim should be full remote configuration of all Council mobile devices.



### Change Management

- Introduce a Patch Management calendar, adopting a risk based approach. Patch management process should include;
  - documentation of patching decisions, such as when to patch or not to patch and why;
  - details of business systems that require critical updates within a specific period;
  - timeframes in which the patches should be applied; and
  - testing and end-user acceptance protocols.
- If patching, where possible, evaluate changes and patches released by vendors in separate environments prior to applying the patch to the production environment.
- Consider introducing an update calendar for IOS and other similar devices. Ring-fence specific users to receive feature updates ahead of all users as part of a user acceptance phase.
- Define change types based on risk. For larger changes introduce formal acceptance windows and/or approval workflows, especially for core systems effecting a large user base (ie Authority, Objective) or with significant impact (ie Windows 10).
- High risk or significant changes should be approved and where possible, the person implementing the change should be separate from the approver (ie Windows images, Firewall changes, etc).

### **OPTIONS**

Nil.

### **CONCLUSION**

While the review which has been undertaken is an internal self-assessment, an independent review of the Council's IT environment was undertaken in August 2017, with the findings of that review assessing the IT controls and environment being Majority Effective. Notwithstanding this, it is acknowledged that the Council does have room for improvement to ensure that it is protected against cyber threats and attacks. The opportunities for improvements identified within this report will be implemented by the Information Services team in the coming months.

### **COMMENTS**

Full details of the findings can be found in the published Auditor-General Department reports available at [www.audit.sa.gov.au/publications/2021](http://www.audit.sa.gov.au/publications/2021).

### **RECOMMENDATION**

That the proposed improvements as set out in this report be endorsed and recommended to the Council for approval and implementation.

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*Mayor Bria moved:*

*That the proposed improvements as set out in this report be endorsed and recommended to the Council for approval and implementation.*

*Seconded by Cr Stock and carried unanimously.*

## 6.6 FINANCE POLICIES

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**REPORT AUTHOR:** Accountant  
**GENERAL MANAGER:** General Manager, Corporate Services  
**CONTACT NUMBER:** 8366 4585  
**FILE REFERENCE:** qA63320/A157317  
**ATTACHMENTS:** A - C

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### PURPOSE OF REPORT

The purpose of this report is to present finance related policies which have been reviewed to the Audit Committee, for consideration and endorsement prior to being presented to the Council for adoption.

### BACKGROUND

Pursuant to Section 125 of the *Local Government Act 1999*, the Council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the Council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the Council's assets, and to secure (as far as possible) the accuracy and reliability of the Council's records.

The 2020-2021 Audit Committee Work Program requires the Audit Committee to review the appropriateness of the range and content of the Council's financial policies and practices.

### RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable

### FINANCIAL AND BUDGET IMPLICATIONS

Not Applicable

### EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable

### SOCIAL ISSUES

Not Applicable

### CULTURAL ISSUES

Not Applicable

### ENVIRONMENTAL ISSUES

Not Applicable

### RESOURCE ISSUES

Not Applicable

### RISK MANAGEMENT

Documentation of policies relating to the Council's financial transactions improves transparency and ensures consistent treatment over subsequent reporting periods unless Accounting Standards or legislation changes.

## CONSULTATION

- **Committee Members**  
Not Applicable.
- **Community**  
Not Applicable.
- **Staff**  
Nil
- **Other Agencies**  
Not Applicable.

## DISCUSSION

In accordance with the Finance Policy Timetable, a review a number of policies, as contained in **Attachment A** to **C**, has been undertaken. Following the review, the amendments to the policies, as detailed in Table 1 below, are presented to the Committee for consideration and recommendation to the Council for adoption, subject to any amendment which may be considered appropriate by the Audit Committee.

**TABLE 1: PROPOSED POLICY AMMENDMENTS**

<b>Policy</b>	<b>Details of Proposed Amendment</b>
Credit Policy <b>(Attachment A)</b>	No changes recommended.
Expenditure Policy <b>(Attachment B)</b>	It is recommended that the delegation of authority for the Manager, Economic Development & Strategic Projects is moved from Managers Level 2 to Managers Level 1 due to the large scale of capital projects managed by the Manager, Economic Development & Strategic Projects.
Rating Policy <b>(Attachment C)</b>	Rate Capping to be set at two (2) times the rate revenue increase. Rate Capping to apply to residential properties only.

## OPTIONS

The Policies can be recommended to the Council for adoption with or without amendment.

## CONCLUSION

To ensure compliance with Section 125 of the Act, the Council must have in place appropriate policies, practices and procedures which assist the Council to carry out its activities in an efficient and orderly manner. It is important to ensure that the policies adopted by the Council are regularly reviewed to ensure that they reflect the current operating environment and continue to meet the Council's overall objectives.

## COMMENTS

Nil

## RECOMMENDATION

1. That the Audit Committee notes that the following policies have been reviewed and notes that no amendments are recommended:
    - Credit Policy;
    - Expenditure Policy & Delegation of Authority;
    - Rating Policy.
  2. That the Audit Committee notes that the Public Liability Insurance for Community Groups when Hiring Council Owned Facilities Policy has been reviewed and notes that minor amendments are recommended.
  3. That the Audit Committee recommends to the Council that the following policies be adopted:
    - Credit Policy (Attachment A);
    - Expenditure Policy & Delegation of Authority (Attachment B); and
    - Rating Policy (Attachment C).
- 

*Ms Brigid O'Neill moved:*

1. *That the Audit Committee notes that the following policies have been reviewed and notes that no amendments are recommended:*
  - *Credit Policy;*
  - *Expenditure Policy & Delegation of Authority;*
  - *Rating Policy.*
2. *That the Audit Committee notes that the Public Liability Insurance for Community Groups when Hiring Council Owned Facilities Policy has been reviewed and notes that minor amendments are recommended.*
3. *That the Audit Committee recommends to the Council that the following policies be adopted:*
  - *Credit Policy (Attachment A);*
  - *Expenditure Policy & Delegation of Authority (Attachment B); and*
  - *Rating Policy (Attachment C).*

*Seconded by Ms Sandra Di Blasio and carried unanimously.*

**7. CONFIDENTIAL REPORTS**

Nil

**8. OTHER BUSINESS**

**8.1 Confidential Matter**

*Mayor Bria moved:*

*That pursuant to Section 90(2) and (3) of the Local Government Act, 1999 the Committee orders that the public, with the exception of the Council staff present [Chief Executive Officer, General Manager, Corporate Services and Financial Services Manager], be excluded from the meeting on the basis that the Council will receive, discuss and consider:*

*(b) information the disclosure of which –*

- (i) could reasonably be expected to confer a commercial advantage on a person with whom the council is proposing to conduct business and prejudice the commercial position of the council; and*
- (ii) would, on balance, be contrary to the public interest;*

*and the Council is satisfied that, the principle that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.*

*Seconded by Cr Stock and carried unanimously.*

*Mayor Bria moved:*

*Under Section 91(7) and (9) of the Local Government Act 1999, the Council orders that the discussion be kept confidential until the matter is resolved.*

*Seconded by Ms Brigid O'Neill and carried unanimously.*

**9. NEXT MEETING**

Monday 26 July 2021

**10. CLOSURE**

There being no further business the Presiding Member declared the meeting closed at 8.28pm.

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**Cr John Minney**  
**PRESIDING MEMBER**

**Minutes Confirmed on** \_\_\_\_\_  
(date)