

Special Meeting of the Audit Committee Minutes

28 March 2022

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 28 FEBRUARY 2022

Cr Stock moved that the minutes of the Audit Committee meeting held on 28 February 2022 be taken as read and confirmed. Seconded by Mayor Bria and carried.

2. STAFF REPORTS

2.1 DRAFT 2022-2023 BUDGET

REPORT AUTHOR: General Manager, Corporate Services
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4585
FILE REFERENCE: qA83737
ATTACHMENTS: A – D

PURPOSE OF REPORT

The purpose of this report is to present the Draft 2022-2023 Budget to allow the Audit Committee to provide comment and recommendations to the Council, prior to the Council's consideration and "in principle" endorsement of the Draft 2022-2023 Budget.

BACKGROUND

Section 123(8) of *the Local Government Act 1999*, requires the Council to adopt an Annual Business Plan and a Budget for the ensuing financial year after 31 May and except in a case involving extraordinary administrative difficulty, before 15 August.

The Draft Budget comprises of the Recurrent Budget, which incorporates the revenues and expenditure required to provide the "Business as Usual" services. The second component incorporates the Capital and Operating Project budget. The Operating Projects budget encompasses programs and activities that are outside the "business as usual" services and are considered discretionary in nature, i.e. the Council is under no obligation to provide the services, activities or programs or if required to undertake the activity, (Local Government Elections) are irregular in nature. Operating Projects may be one off activities or programs, an expansion of an existing service or program or proposals to introduce a new service or program. Operating projects are funded via Rate Revenue or a fee for service charge.

The Capital Works budget encompasses projects which renew, upgrade or create new infrastructure assets. Examples of projects are the Civil Infrastructure Whole-of-Life Program (renew), Playground/Reserve redevelopment (upgrade) and Artworks (new). Renewal Capital Projects are funded through Rate Revenue, via the depreciation charge, with new or upgrade works being funded through borrowings or cash reserves.

The Draft 2022-2023 Annual Business Plan, will be considered at the Council Meeting scheduled on 2 May 2022.

The Draft 2022-2023 Annual Business Plan and Budget will be released for public consultation for a period of twenty-one (21) days as required by *the Local Government Act 1999*.

RELEVANT POLICIES & STRATEGIC DIRECTIONS

The Council's long term strategic direction is outlined in *City Plan 2030: Shaping our Future*. The Draft 2022-2023 Annual Business Plan and supporting Draft 2022-2023 Budget, sets out the proposed services and programs and explains how the Council intends to finance its continuing activities which are proposed to be undertaken during the year.

The Council's Long Term Financial Plan (LTFP), is a key document in the Council's 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 and 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.

From an operational perspective, financial sustainability is being able to manage the conflict between keeping rate revenues increases to a reasonable level, maintaining existing service standards and spending on new services and major capital investments.

The Draft 2022-2023 Budget has been developed on the basis of ensuring that it will assist in delivering on the Councils Long Term Strategic direction and financial objectives set out in the LTFP.

FINANCIAL AND BUDGET IMPLICATIONS

For the 2022-2023 Financial year, the LTFP sets out an Operating Surplus of \$1.4 million, based on a Rate Revenue increase of 4.43%.

To ensure that the Council can deliver on its financial objectives as set out in the Council's Long Term Financial Plan, the Draft Recurrent Budget has been developed with reference to the budget parameters which were adopted by the Council at its meeting held on 17 January 2022.

The Draft Budget Operating Surplus includes \$362,000 from the Federal Governments Roads-to-Recovery Grant Funding Program. In respect to this Program, the Council receives funding annually from the Federal Government under the Roads-to-Recovery Program to undertake works over and above the Councils existing Civil Infrastructure Capital Works Program.

The Draft 2022-2023 Budget as presented in this report, will deliver an Operating Deficit of \$1.272 million (prior to the incorporation of any Rate Revenue increases) and a Net Surplus (after capital income) of \$7.738 million.

Based on a recommend rate revenue increase of 5%, which while higher than the Rate Revenue increase set out in the LTFP, it is within the target band of between 3% and 6%, the Draft Budget, as presented in this report will deliver an Operating Surplus of \$543,000 and a cash surplus of \$345,000 after the principal loan repayments.

EXTERNAL ECONOMIC IMPLICATIONS

As the State continues its recovery from the impacts of the COVID-19 pandemic, the decisions made by the Council with respect to the Draft 2022-2023 Budget and consequent rating decisions will have a financial impact on property owners and suppliers of goods and services to the Council. The level of impact will be dependent on the final decisions which the Council determines in respect to the service levels and the level of income required to meet the agreed service levels.

SOCIAL ISSUES

No Applicable.

CULTURAL ISSUES

Not Applicable.

ENVIRONMENTAL ISSUES

Not Applicable.

RESOURCE ISSUES

Not Applicable.

RISK MANAGEMENT

The Draft 2022-2023 Budget will be impacted upon by the decisions made by the Federal Government and State Government in their respective budgets. The Federal Government Budget is scheduled to be handed down on 29 March 2022, with the State Budget scheduled to be handed down in May.

As a result, the Draft 2022-2023 Budget presented in this report, has been developed 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 installments. The value of these payments has not been indexed;
- due to the 2022-2023 Supplementary Road funding to South Australia being advanced during the 2021-2022, it has been assumed that the 2022-2023 Federal Budget will not be advanced;
- 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 \$146 per tonnes; and
- no new fees and charges will be introduced.

Any adjustments to the Recurrent Budget arising from either the Federal or State Budgets will be incorporated when this information becomes available.

It should be noted that the cost escalation for materials and contracted services has been set at 2.25%. Given the economic pressure resulting from COVID-19, natural disasters and the current worldwide unrest, the inflationary impact on the Councils key inputs, the cost impacts on the delivery of Councils services and activities and delivery of the Capital works program, may be in excess of the 2.25% cost escalation parameter set by the Council at its meeting held on 17 January 2022.

Should these assumptions and other decisions upon which the Draft 2022-2023 Budget is based not eventuate, there is a possibility that the Council will not be in a position to deliver its proposed operating initiatives and projects or the budgeted Operating result.

Notwithstanding this, the preparation of the Draft 2022-2023 Annual Business Plan and Budget has been prepared to ensure the Council meets its legislative responsibility in accordance with the requirements of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*.

CONSULTATION

- **Elected Members**

An overview of the Draft 2022-2023 Recurrent Budget was provided to Elected Members and Audit Committee at an Information Briefing held on 2 March 2022.

An overview of the proposed Capital Works program and Operating Projects were presented to Elected Members and Audit Committee at an Information Briefing held on 16 March 2022.

- **Community**

The community will be provided the opportunity have input into the Draft 2022-2023 Budget through public consultation on the Draft Annual Business Plan, which is scheduled from 9 May 2022 through to 1 June 2022.

- **Staff**

The preparation of the Draft 2022-2023 Budget has been completed with the involvement of the Chief Executive Officer, General Managers and council staff responsible for budget management.

- **Other Agencies**

Not Applicable.

COVID-19 IMPLICATIONS

The focus in developing the Draft 2022-2023 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*, as such the Draft Budget has been prepared on the premise that the programs, services and activities that were suspended or cancelled over the last two (2) years will be delivered.

The Draft Budget does not provide for the continuation of COVID-19 financial relief, as provided in previous two (2) financial years. The Council's *Financial Hardship Policy* provides options for ratepayers with respect to the payment of rates.

DISCUSSION

The Draft 2022-2023 Budget is based on the continuation of existing services and priorities, as determined by the Council, being appropriately resourced and that the Council can maintain the service standards for its existing services to support the delivery of the Strategic Objectives outlined in the Council's *CityPlan 2030: Shaping our Future* and that those services receive appropriate funding.

The key driver therefore is to develop a Budget that not only contributes to the Council's broader strategic objectives of achieving *Community Well-being*, but also ensures that the Council is managing its financial resources in a sustainable and equitable manner and to ensure that future financial shocks can either be avoided or managed in a measured way, so that the funding requirements are balanced with ensuring that the community does not face unreasonable increases in their annual rates contribution.

Budget Parameters/Assumptions

In developing the Draft 2022-2023 Budget, the following principles and assumptions have been applied:

- the Recurrent Budget be prepared based on the provision of existing services, programs and activities;
- the cost escalation for Material, Contracts and Other Expenses has been set at a maximum of 2.25%;
- Wages and Salaries increases are based on the Council's Enterprise Agreements; and
- fees and charges not set by Legislation are increased by 2% at a minimum.

Based on the Draft Recurrent Budget and the Operating and Capital Works Program as set out in this report, it is recommended that a 5% Rate Revenue increase be considered for the 2022-2023 Financial Year.

Budget Overview

Table 1 below sets out the Draft Budget, based on the recommended Rate Revenue increase of 5% will deliver an Operating Surplus of \$543,000.

The Recurrent Budget, which incorporates the revenues and expenditure required to provide the "Business as Usual" services provide a surplus of \$2.382 million, which will be used to fund the delivery of the proposed Operating Projects, which are set out **Attachment A**, additional interest costs to cover the additional finance costs associated with borrowings required to fund the delivery of the proposed Capital Works Program, which is contained in **Attachment A**.

The total operating expenditure is \$48.2 million, with \$36.2 million (75%) of the total expenditure being more readily influenced by the decisions made as part of the budget process. The remaining \$12 million (25%) of expenditure relates to Ownership costs, which are a result of past investment decisions in respect to the upgrading existing assets or building new assets. While the ownership expenditure associated with the Council's past Capital Works program cannot be influenced or changed in the current year, the annual increase in future ownership costs is influenced by the decisions made in respect to the amount of expenditure incurred in 2022-2023 on the investment in the renewed, new and upgraded assets. As such decisions regarding the current year projects need to be made in the context of the future impact on operating expenditures and Rate increases.

It should be noted, that while the cost the finalise or undertake the 2021-2022 Operating Projects to be carried forward into the 2022-2023 Draft Budget are included to determine the Draft 2022-2023 Operating Surplus, the funding to undertake these projects are to be sourced from cash reserves.

In addition, at the time of writing this report, the Council is yet to receive the draft budget from its Regional Subsidiaries. The Council is required to report the Councils share of the Regional Subsidiaries operating results and while this will have an impact on the Council's reported Operating Result, this is a non-cash transaction that does not have an impact on the Councils cash position.

TABLE 1: 2022-2023 PROPOSED STATEMENT OF COMPREHENSIVE INCOME

	Recurrent Budget 2022-2023	Carry Forwards 2022-2023	Operating Projects 2022-2023	Capital Projects 2022-2023	Proposed 2022-2023
	\$	\$	\$	\$	\$
INCOME					
Rates	39,622,188	-	-	-	39,622,188
Statutory charges	2,006,750	-	-	-	2,006,750
User charges	3,737,711	-	-	-	3,737,711
Grants, subsidies and contributions	2,335,869	-	492,298	-	2,828,167
Investment income	45,500	-	-	-	45,500
Other income	517,740	-	-	-	517,740
Net loss joint ventures & associates	-	-	-	-	-
Total Income	48,265,758	-	492,298	-	48,758,056
EXPENSES					
Employee costs	15,974,750	-	108,000	-	16,082,750
Materials, contracts & other expenses	18,235,688	429,238	1,444,000	-	20,108,926
Finance costs	515,000	-	-	350,000	865,000
Depreciation & amortisation	11,158,733	-	-	-	11,158,733
Net loss Joint Ventures & Associates	-	-	-	-	-
Total Expenses	45,884,171	429,238	1,552,000	350,000	48,215,409
OPERATING SURPLUS / (DEFICIT)	2,381,587	(429,238)	(1,059,702)	(350,000)	542,647
Net gain (loss) on disposal or revaluation of assets	-	-	-	25,000	25,000
Amounts specifically for new or upgraded assets	-	-	-	8,984,823	8,984,823
NET SURPLUS (DEFICIT)	2,381,587	(429,238)	(1,059,702)	8,659,823	9,552,470

2022-2023 Recurrent Budget Overview

In setting the general parameters for the preparation of the Draft 2022-2023 Budget, the Council endorsed budget parameters which set the maximum combined increase in the overall budget of 2.25%. Overall, the Recurrent Operating Expenditure compared to the 2021-2022 Adopted Recurrent Budget, exclusive of Ownership Costs is 1.85%. It should be noted that given the extent of the proposed Capital Works Program, it is proposed to increase capitalization of the staff costs for the Council's existing staff responsible for the delivery of the Capital works program. As detailed in Table 2 below, the draft Recurrent Budget meets the budget parameters with the exception of Materials and Services, which has been unfavorably impacted by increases in waste collection costs, insurance premiums and contract rates for a number of key services.

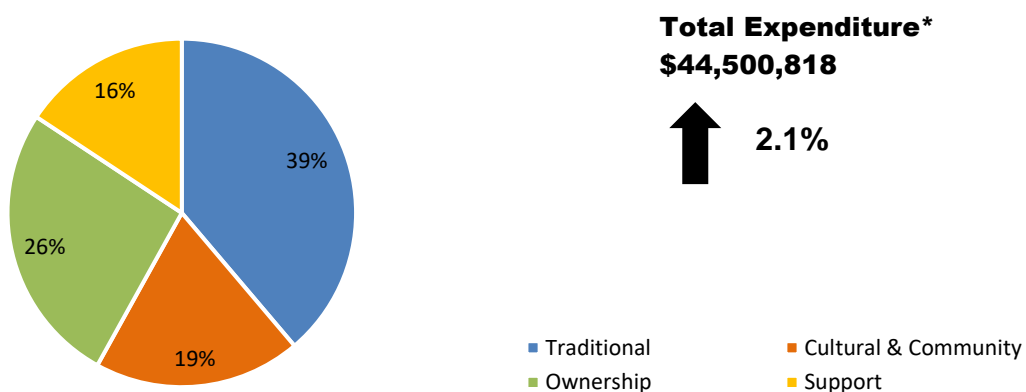
TABLE 2: BUDGET PARAMETERS

	2022-2023	2021-2022*	Movement	% change	Budget Parameter
User Fees	\$3,737,711	\$3,618,720	\$118,991	3.3%	✓
Statutory Charges	\$2,006,750	\$1,865,875	\$140,875	7.6%	✓
Employee Expenses	\$15,974,750	\$15,898,652	\$76,098	0.48%	✓
Material & Services	\$16,817,935	\$16,333,626	\$484,309	3.18%	✗

* Adjusted for impact of Payneham Swimming Centre Closure

As detailed in Figure 1 below, services, programs and activities delivered through the Recurrent Budget (excludes operating projects), can be classified into *Traditional Services*, which are the provision of a range of services, programs and infrastructure to meet the needs and expectations of the community. A number of these services are the responsibility of the Council by virtue of the requirements of the *Local Government Act 1999* and other relevant legislation. Other services, which are classified into *Cultural and Community*, are provided by the Council in response to the community's expectations and/or needs. Together, these services represent 58% (\$25.8 million) of the draft Recurrent Budget. These services, programs and activities are supported by the Councils' *Governance and Administration* structure. These support services represent 16% (\$7.0m) of the draft Recurrent Budget. The final component of the Recurrent Budget is Ownership Costs (\$11.6m). As previously mentioned, these costs are being now incurred as a result of past investment decisions in long term assets and as such the Council has little influence over the value of these costs for the current year. These future costs, can however be influenced, by the decision that are made with respect to the level of capital investment in new and upgraded assets when considering the 2022-2023 Projects Budget.

FIGURE 1: COMPONENTS OF DRAFT RECURRENT BUDGET

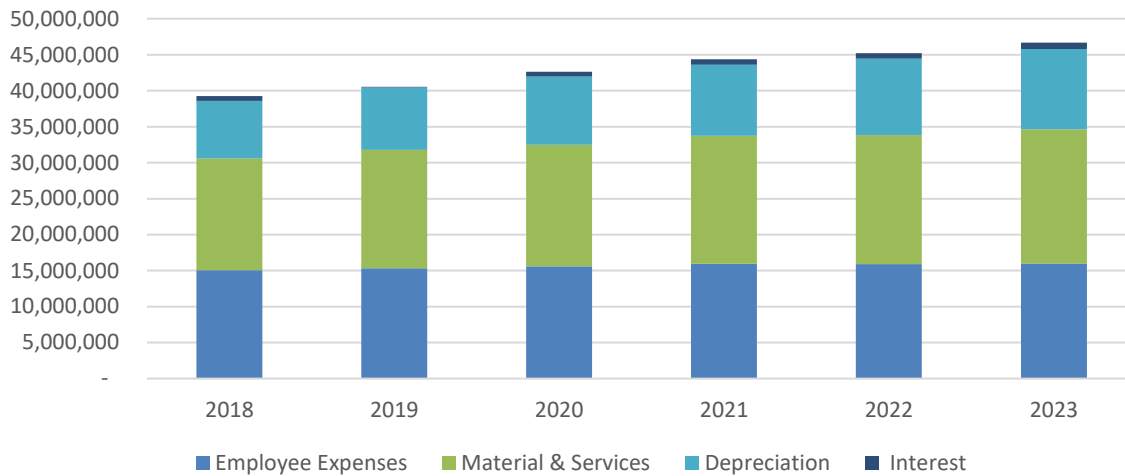


* excludes Regional Landscape Levy

The service, programs and activities which make up each element of recurrent budget is contained in Table 3 below and **Attachment B**.

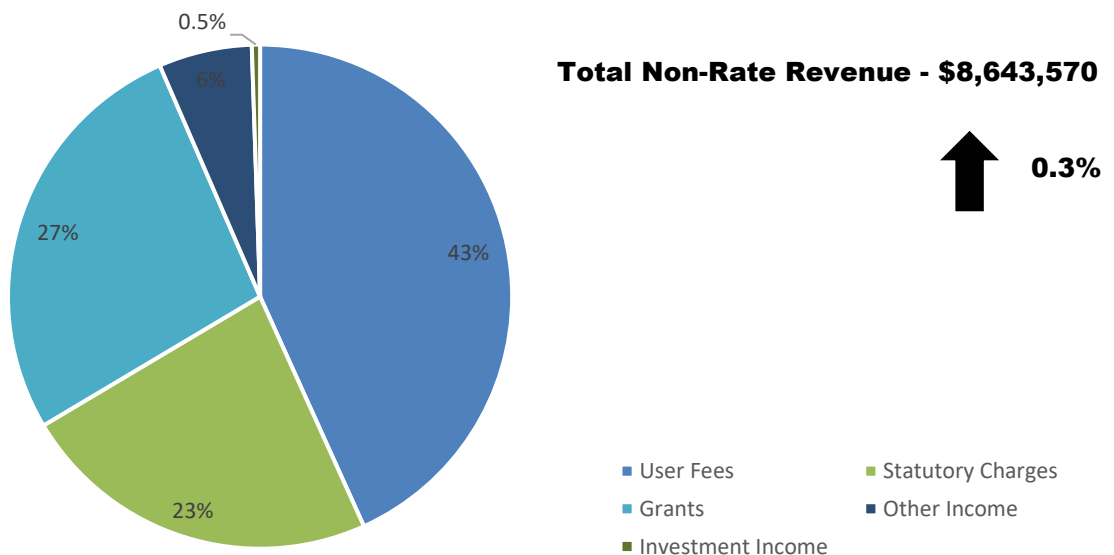
The cost elements of the Recurrent Budget as detailed in Figure 2 below, are Employee Expenses, which represent 35%, Material, Contracts & Other Expenses, which represent 40%, Depreciation which represents 24% and Finance Costs (excluding any new borrowings) which represent 1% of the total draft Recurrent Budget. Over the past five years, Material, Contracts & Other Expenses and Finance costs, as a percentage of the total recurrent budget have been consistent, where as Employee Expenses have been decreasing from 38% of the total budget to 35% and ownership costs increasing from 20% to 23% of the total Recurrent Budget. The overall Recurrent Budget increase for 2022-2023 is 2.1%, with the increase being driven predominately by depreciation expense. It should be noted that the Payneham Memorial Swimming Centre will be redeveloped during 2022-2023 and will close at the end of the 2021-2022 Swimming Season. In comparing the overall Recurrent Budget increase for 2022-2023, the 2021-2022 Adopted Budget has been adjusted to reflect the impact of the Swimming Centre closure.

FIGURE 2 : COST ELEMENTS



Rate revenue is the Council's major source of income and funds in the order of **80%** of the Council's operating expenditure. The balance is funded from non-rate revenue which is predominately made up of User Charges (45%) which incorporate Child Care Centre fees, Swimming Centre charges, Hire and Lease fees associated with Council facilities, HACC Services; Grant Income (27%) and Statutory Charges (21%) which incorporates Dog Registration fees, Parking Infringements, Residential Parking permits, Planning & Development fees, Hoarding Licences, Outdoor Dining permits. Non-rate revenue represents 20% of the Council's total revenue, with the \$8.726 million being factored into the draft Recurrent Budget.

FIGURE 3: BREAKDOWN OF NON-RATE REVENUE



Revenue derived from the Council's main sources of non-rate revenue (statutory and user charges) has remained stable over the last five (5) years. The static and /or diminishing nature of other revenue sources means that the Council is increasingly dependent on Rate revenue to fund the provision of services and programs.

User Charges includes fees payable for the use of the Council's discretionary services and facilities, with 86% of the Council's User Charges income being generated from the St Peters Child Care Centre & Pre-school, the Swimming Centre's and the Norwood Concert Hall.

Statutory Charges includes fees and charges that are set by legislation. In some circumstances, such as Parking Infringements, the fees charged are set at a fixed rate set out in the respective legislation, where as other legislation allows the Council to charge a fee with the value of the fee determined by the Council, up to a maximum limit as set out in the legislation (i.e. Dog Registration Fees). Income earned from Parking Expiration Notices is the main source (57%) of Statutory Charges Income.

Table 3 below sets out additional information on the Recurrent Operating Budget by functional area.

TABLE 3: DRAFT 2022-2023 RECURRENT BUDGET BY FUNCTION

Function	Expenditure	Income	Net Operating Surplus / (Deficit)
Rates	1,383,353	39,504,888	38,121,535
Traditional	17,269,553	2,897,341	(14,372,212)
Infrastructure Management	4,240,819	365,000	(3,875,819)
Waste & Recycling Services	4,536,706	43,000	(4,493,706)
Trees, Parks, Sports & Recreation	4,567,109	330,591	(4,236,518)
Economic Development, Regulatory Services, Environment & Planning	3,924,919	2,158,750	(1,766,169)
Cultural & Community	8,566,075	4,667,779	(3,898,296)
Community Services Health Aged & Youth Services	4,721,115	3,814,169	(906,946)
Libraries & Community Facilities	2,919,751	845,810	(2,073,941)
Community Events, Arts & Heritage	925,209	7,800	(917,409)
Governance, Communications & Administration	6,991,457	1,152,250	(5,839,207)
Governance,	1,941,262	340,000	(1,601,262)
Administration	4,459,927	792,250	(3,667,677)
Communications	590,268	20,000	(570,268)
Ownership	11,673,733	43,500	(11,630,233)
Total	45,884,171	48,265,758	2,381,587

2022-2023 Proposed Operating Projects

The Draft Budget, as detailed above in Table 1, incorporates a funding allocation for new Operating Projects to the value of \$1.553 million. Operating Project expenditure is offset by income of \$492,000, which includes Roads-to-Recovery Funding. As Committee Members are aware, Roads-to-Recovery Funding is utilized to fund the Civil Infrastructure Renewal Program.

The proposed Operating Projects for 2022-2023 have been broken down into a number of categories as detailed in Table 4 below:

TABLE 4: OPERATING PROJECT CATEGORIES

Operating Project Category	2022-2023 Proposed Operating Projects \$	2021-2022 Carry Forward Operating Projects \$
Proposed New Projects arising from:		
• Proposals submitted by Elected Members	36,000	-
• Events & Awards	218,000	-
• Traffic Management Initiatives	281,000	25,000
• Environmental Initiatives	52,000	13,000
• Council Operational Plans - <i>Smart Cities, Emission Reduction, Open Space & Playground Strategy etc.</i>	280,000	219,870
• Corporate & Governance	375,000	68,794
• Other	210,000	102,574
Total Operating Projects Expenditure	1,552,000	429,238

In addition to the new Operating Projects, there are a number of Operating Projects that were adopted as part of the 2022-2023 Budget, that are not anticipated to be completed by 30 June 2022. A review of the current year's Operating Projects has been undertaken and based on a review of year-to-date expenditure, the Draft Budget, as detailed above, includes a funding allocation for 2021-2022 Operating Projects to be carried forward of \$429,000. The Draft Budget will be adjusted accordingly following the 2021-2022 Third Budget Update. Operating Projects carried forward will be funded by cash reserves.

In undertaking the assessment of the proposed Operating Projects, the following projects are not recommended to be included within the Draft 2022-2023 Operating Projects Budget. The projects and the reasons for not supporting the funding submission are detailed below.

Part-time Biodiversity Officer

The funding submission proposed to employ a part time biodiversity officer to assist with Council's projects to restore native understorey vegetation in strategic locations, such as River Torrens Linear Park and other reserves and manage the Council's programs to remove synthetic grass from nature strips and verge greening program. The funding submission is not recommended as it is not considered that it will deliver the desired outcome as it does not address on-going resourcing required to undertake the desired planting. In addition, the management of the removal synthetic grass from nature strips and verge greening program, is essentially a program administration activity that requires a different skill set to a Biodiversity Officer.

A copy of the funding submissions is contained in **Attachment C**.

Budgeted Capital Projects

The Draft 2022-2023 Budget, as presented, incorporates Capital Projects to the value of \$ 51.3 million inclusive of 2021-2022 carry forwards and staff costs of \$1.280 million which are capitalised (i.e. staff involved in the delivery of the projects involving physical assets) and included in the final asset cost.

Of the proposed Capital Project spend, 54% relates to major asset upgrades that were adopted as part of the 2021-2022 Annual Business Plan, with the construction programs for the upgrades to commence and be finalised during the 2022-2023 financial year. In addition, the proposed Capital Budget includes one (1) new major upgrade project, the Cruickshank Reserve Facilities Upgrade. This project was endorsed by the Council at its meeting held on 7 March 2022 and has been submitted as the preferred project to be funded by the Federal Government Local Roads and Community Infrastructure funding program Phase 3. The Council has, on application, a funding allocation of \$889,000 to be spent by June 2023. While the initial cost estimate to undertake the works to construct a new multipurpose building to support tennis, netball and other recreation activities at the Reserve, was in the order of \$800,000, due to supply and other market pressures, the cost estimate to undertake the redevelopment is likely to be in the order of \$1 million. In addition, due to market pressure for labour and materials, there is a potential that the works may not be completed within the required timeframe, putting at risk the Council's access to the available funding.

This expenditure is offset by Capital Funding which incorporates grants and other revenues to the value of \$9.6 million, which results in a net cost to Council of \$41.6 million. The proposed Capital Projects for 2022-2023, have been broken down into a number of categories as detailed in Table 5 below.

TABLE 5: CAPITAL PROJECT CATEGORIES

Capital Project Category	2022-2023 Proposed Capital Projects \$
Whole-of-Life Capital Works Program	
• Road Resealing	4,591,018
• Footpath Reconstruction	897,338
• Kerb Reconstruction	1,779,290
• Stormwater Drainage Program (inc. carry forward budgets) *	9,534,205
Other Infrastructure Asset Renewal	2,196,000
Major Projects (inc. carry forward budgets)	28,796,960
Quadrennial Art Project (inc. carry forward budgets)	258,762
Non-Infrastructure Renewal	348,000
New IT Projects	174,400
Minor projects carried forward	1,403,645
Capitalisation of Salaries (existing staff)	1,280,124
Total Capital Projects Expenditure	51,259,743
Capital Funding	9,629,823
Net Cost	41,629,920

**includes \$2million carried forward for Trinity Valley Stage 1. A grant application for \$3.6 million has been lodged to assist in funding Stage 2 and Stage 3 of the Trinity Valley Drainage upgrade. Should the funding application be un-successful, the program will be scaled back.*

It should be noted, that while the Council's *Public Art Policy* states the Council will ensure the adequate and on-going funding of public art through the creation of a reserve fund where the equivalent of 1% of the Capital Works Budget (Civil Infrastructure Capital Works Program and Drainage Infrastructure Works Program) or \$50,000, whichever is the greater amount, is set aside annually for the purpose of funding a commissioned art work during the term of each Council, the *Public Art Policy* also states that the funding allocation is subject to annual budget deliberations.

A review of the current year Capital projects has been undertaken and based on a review of year to date spend and project timelines, the Draft Budget, as detailed above, includes a funding allocation for 2021-2022 Capital projects to be carried forward of \$11.6 million. The Draft Budget will be adjusted accordingly following the 2021-2022 Third Budget Update.

In undertaking the assessment of the proposed Capital Projects, the following projects are not supported to be included within the Draft 2022-2023 Capital Projects Budget. The projects and the reasons for not supporting the funding submission are detailed below.

Adey Reserve Masterplan

The 2021-2022 Budget contains a funding allocation of \$50,000 to develop a Masterplan for Adey Reserve. The Funding submission requests the funding allocation to be increased to \$60,000. The current funding allocation is considered adequate, as such the funding submission is not recommended for inclusion in the draft Budget.

Mary MacKillop Park Playground

The funding submission proposes the installation of a playground on Mary MacKillop Park to provide opportunities for further activation in this space and provide an ancillary recreational offering to users of the Norwood Swimming Centre. It is proposed that the playground be suitable for a range of ages and all abilities. Given the proximity to the Norwood Swimming Centre and the development of Norwood Swimming Centre Masterplan, the funding submission is not recommended as the redevelopment of the reserve should be considered as part of the Norwood Swimming Centre Masterplan.

A copy of the funding submissions is contained in **Attachment C**.

Borrowings

Proposed capital expenditure of \$51.3 million, as detailed in **Attachment A**, is proposed to be funded as follows:

- | | |
|--|---------------|
| • Use of depreciation recovered through rate revenue | \$ 11,158,733 |
| • Roads to Recovery Funding | \$362,000 |
| • Grant Funding and other capital funding | \$9,629,823 |
| • Borrowings and cash reserves | \$30,109,187 |

In determining the timing and the level of borrowings required to fund the capital program, consideration has been given to the cash flow requirements and to intergenerational equity between current and future users (that is, an asset is funded from loan borrowings which is paid off over the life of the asset rather than raising rate revenue from current rate payers to pay for the asset). Whilst these considerations have formed part of the budget model, they will be reviewed and reconsidered before the decision to commit to any borrowings.

Given the nature of the major projects to be undertaken, to minimise the interest costs and debt servicing needs, it is recommended that the Council utilise the Discounted Cash Advance Facilities in place to fund the cashflow required during the construction phases as opposed to the utilisation of the standard fixed period debenture loans.

OPTIONS

The purpose of this report is to provide the opportunity to provide comment on the Draft Budget prior to the Council considering and endorsing the Draft Budget. In this regard, the Audit Committee has the following options in respect to the consideration of this matter;

- endorse 'in principle' the Draft 2022-2023 Budget, set out in the Financial Statements contained in **Attachment D**, which incorporates the proposed Operating and Capital Projects contained in **Attachment A**; or
- recommend to the Council amendments to the Draft 2022-2023 Budget, set out in the Financial Statements contained in **Attachment D**, which incorporates the proposed Operating and Capital Projects contained in **Attachment A**.

CONCLUSION

The Draft 2022-2023 Budget as presented in this report is based on the Council continuing to deliver its existing services, program and activities.

To ensure that a responsible budget is set, the Council has adopted a series of Budget Parameters, to guide Council Staff in preparing their respective budget estimates. As detailed in this report, the Draft 2022-2023 Recurrent Budget has been delivered with reference to these guidelines and where the parameters have not been achieved, the reasons have been provided.

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.

From an operational perspective, financial sustainability is being able to manage the conflict between keeping rate revenues increases to a reasonable level, maintaining existing service standards and spending on new services and major capital investments.

Decision regarding the Draft 2022-2023, need to take into account the impact on the Council's ability to continue to meet its operational and financial outcomes in the future. With reference to the financial targets set out in the Long-Term Financial Plan, Table 6 sets out the performance of the Draft 2022-2023 Budget, as set out in this report, against the LTFP Financial Outcomes.

TABLE 6: LONG TERM FINANCIAL PLAN TARGETS

Outcome	Measure	Target	Draft Budget	
A Balanced budget	Operating Ratio <i>Measures the Councils Operating result, whether that be a surplus or deficit as a percentage of operating revenues</i>	Between 0% and 10%	1.1%	✓
Rate Stability	Rate Revenue Increase <i>The annual increase in revenue generated from general rates</i>	Between 3% and 6%	5%	✓
Infrastructure and Asset Management	Asset Sustainability Ratio <i>Measures the rate at which the Councils assets are being renewed or replaced against the Infrastructure & Asset Management Plan</i>	Between 90% and 110% <i>on a rolling three (3) year average</i>	130%	✗
Debt Management	Net Financial Liabilities Ratio <i>Measures the percentage operating revenues that would be required to settle the net amount owed by the Council.</i>	Less than 75%	84%	✗
	Debt Servicing Ratio <i>Measures the Councils commitment to interest costs and debt repayments are met by general rate revenue</i>	less than 15%	6%	✓

COMMENTS

If Committee Members have any questions in relation to specific budget items or proposed allocations, please do not hesitate to contact the General Manager, Corporate Services on 8366 4585, prior to the meeting as these discussions may assist in resolving any enquiry prior to the meeting.

RECOMMENDATION

That the report be received and noted.

Short Term Suspension of Proceedings

At 7.03pm the Presiding Member, with the approval of two-thirds of the Committee Members present, suspended the meeting procedures pursuant to Regulation 20(1) of the *Local Government (Procedures at Meetings) Regulation 2013*, for one (1) hour to enable informal discussion regarding the Draft 2022-2023 Budget.

Resumption of Proceedings

The meeting resumed at 8.03pm.

Mayor Bria moved:

1. That the Audit Committee notes the Draft 2022-2023 Budget is ambitious, with minimal buffer for delays in project delivery or cost over-runs.
2. That the Audit Committee recommends that the Council determines by resolution that once the 2022-2023 Budget is adopted, no further projects be approved by the Council unless fully funded (ie. Grants/ Fee for Service) and that the Council adhere to the budget management principles considered by the Council at its meeting held on 17 January 2022, namely:
 - no new recurrent operating expenditure or projects approved without being matched by an increase in operating revenue (i.e., Grants/ Fee for Service) or a reduction in expenditure, elsewhere within the Council's operations;
 - expenditure over-runs are offset by deferral of discretionary expenditure or savings elsewhere within the Council's operations;
 - income shortfalls to be matched by operating expenditure savings; and
 - no new capital expenditure that requires additional borrowings.
3. That the Audit Committee recommends that the Rate Revenue increase for 2022-2023 be set between 5% and 6%, to achieve a maximum increase for the Average Residential Ratepayer of \$50 per annum.
4. That the following Operating Projects not be funded as part of the Draft 2022-2023 Budget:

• Investment Prospectus	\$20,000
• Smart City Technology Plan	\$80,000
• 25 Years of NPSP	\$25,000
5. That the funding allocation for the following Operating Projects be reduced by the following amounts:

• Tour Down Under	\$50,000
• Review of Access & Inclusion Plan	\$10,000

Seconded by Ms Brigid O'Neill and carried unanimously.

[The above highlighted resolution was amended at the Council meeting held on 2 May 2022. Refer to Item 11.5, Page 32 of the Council Minutes dated 2 May 2022].

3. NEXT MEETING

The next meeting of the Audit Committee will be held on Monday 23 May 2022.

4. CLOSURE

There being no further business the Presiding Member declared the meeting closed at 8.35pm.

Cr John Minney
PRESIDING MEMBER

Minutes Confirmed on _____
(date)