

Audit Committee Minutes

23 May 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.*

City of Norwood Payneham & St Peters
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City of
Norwood
Payneham
& St Peters

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VENUE Mayors Parlour, Norwood Town Hall

HOUR 7.01pm

PRESENT

Committee Members Cr John Minney (Presiding Member)
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 Mayor Robert Bria

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 SPECIAL MEETING OF THE AUDIT COMMITTEE HELD ON 28 MARCH 2022

Cr Stock moved that the minutes of the Special Meeting of the Audit Committee held on 28 March 2022 be taken as read and confirmed. Seconded by Ms Sandra Di Blasio 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 2022-2023 DRAFT ANNUAL BUSINESS PLAN AND BUDGET

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager Corporate Service
CONTACT NUMBER: 83664585
FILE REFERENCE: qA75186/A397752
ATTACHMENTS: A - B

PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee for its information, the Draft 2022 -2023 Annual Business Plan, the Draft 2022-2023 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 15 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 the Special Council Meeting held on 9 May 2022, the Council endorsed the Draft 2022-2023 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 2022-2023 Annual Business Plan and supporting Draft Budget, sets out the proposed services and programs and initiatives for the 2022-2023 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 2022-2023 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

At the Special Council Meeting of Council held on 13 April 2022, the Council resolved to adopt the Minutes of the Special Audit Committee meeting held on 28 March 2022, which included the following Audit Committee recommendation in respect to the Draft 2022-2023 Budget, as set out below:

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 (i.e. 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:*

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

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

With respect to Part 3 of the Committee's recommendation, at its meeting held on 2 May 2022, the Council endorsed a recommendation from the Chief Executive Officer to amend the wording of Part 3 by removing the words "*to achieve a maximum increase for the Average Residential Ratepayer of \$50 per annum*", Part 3 now read as follows

That the Audit Committee recommends that the Rate Revenue increase for 2022-2023 be set between 5% and 6%.

The Chief Executive Officers recommendation was based on the position that at that time the Audit Committee considered the draft Budget, the City's property valuation (as advised by the Valuer-General) had not yet been received and therefore, no modelling of the draft 2022-2023 Budget on the '*average residential rate*' had been undertaken and therefore not in the position to understand the impact of the recommended rate revenue increase on the "average residential ratepayer".

The 'in-principle' adoption of the Draft 2022-2023 Budget by the Council for the purposes of community consultation, endorsed a rate revenue increase of 6%.

SOCIAL ISSUES

Nil.

CULTURAL ISSUES

Nil.

ENVIRONMENTAL ISSUES

Nil.

RESOURCE ISSUES

Nil.

RISK MANAGEMENT

At the time of writing this report, the State Government is yet to hand down its 2022-2023 Budget. As such, the Draft 2022-2023 Budget could be impacted upon by the decisions of the State Government.

The Draft 2022-2023 Budget as endorsed by the Council, is based on the following assumptions;

- 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 tonne; and
- no new fees and charges will be introduced.

Any adjustments to the draft Budget arising from State Budget will be incorporated when the details become available.

As part of its 2022-2023 Federal Budget, the Federal Government advanced 75% of the 2022-2023 Financial Assistances Grants to the Council in April 2022. The cash advance is aimed at providing Councils immediate access to funds to assist with the management of the cumulative impacts of floods and the COVID-19 pandemic. While this decision implies that the Council will only receive one (1) quarter of the Financial Assistance Grant in 2022-2023, past practice indicates that advance payments will continue, and as such the Draft Budget has been prepared on the assumption that the equivalent of four (4) quarterly payments will be received. However, if the past practice of advancing Financial Assistance Grants does not continue, the Council will be at risk of being unable to deliver its budgeted Operating Surplus. If the Federal Government does not advance Financial Assistance Grants payments from the 2023-2024 funding allocation, the Operating Surplus will be reduced by \$1.071 million, with a corresponding increase in the cash deficit of \$1.071 million. Since the commencement of advancing Financial Assistance Grant Funding in 2008 (in response to the Global Financial Crisis), with the exception of the 2015-2016 financial year, the Federal Government has made advance payments, however it is considered unlikely that the advance of three (3) quarters will continue and that the advance payments will return to two (2) quarters, which if this does eventuate, the Operating surplus will be reduced by \$435,000 and the cash deficit will increase by the corresponding amount.

Notwithstanding this, the preparation of the Draft 2022-2023 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*.

Should the 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 budgeted Operating result.

Notwithstanding this, the preparation of the Draft 2022-2023 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

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 the previous two (2) financial years. The Council's *Financial Hardship Policy* provides options for ratepayers with respect to the payment of rates.

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.

Independent Members, Ms Blasio and Ms O'Neill have been involved throughout the Budget preparation process through attendance at Information Briefings provided to Elected Members during the budget process.

- **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 18 May 2022 and concludes on 8 June 2022. In addition to written submissions, the community can attend a public meeting which is being held on 8 June 2022, 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

The Council's 'in-principle' adoption of the Draft 2022-2023 Budget, endorsed a rate revenue increase of 6% which forecasts an Operating Surplus of \$1.139 million (2021-2022: Operating Surplus of \$471,000) and a Net Surplus (after Capital Income) of \$11.189 million (2021-2022: \$4.641 million).

In addition to the savings recommended by the Audit Committee, a review of both the Draft Operating Budget and the Draft Capital Budget, with particular focus being on carry forward Operating and Capital projects and the Whole-of-Life Asset Management Works Programs has been undertaken.

As a result of this review, the Council endorsed additional operational savings of \$230,000, made up of the following:

- a savings target of \$50,000, to be delivered from the Service Reviews undertaken during the 2022-2023;
- deferring the commencement of Operating Projects, which are yet to commence (\$111,000)
- reduction in the carry-forward budget for the following projects:
 - implementation of parking controls emanating from the City-wide Parking Review (\$44,000);and
 - Feasibility Investigation for an additional level(s) on Webbe Street Carpark (\$25,000).

A review of the Carried Forward Capital Works budget have identified savings of \$2.479 million, from the deferral of projects to future years. However, the review of the 2021-2022 Capital Works Program, undertaken as part of the third Budget review, has identified an additional \$1.290 million of asset renewal works to be carried forward. The net impact is a reduction in the carry-forward Capital projects of \$1.189 million. In addition, a review of the 2022-2023 Whole-of-Life Asset Renewal program has identified works to the value of \$1.447 million which can be deferred without impacting service delivery. The total savings which have been identified are \$2.636 million.

Budget Overview

Table 1 below sets out the proposed Operating Surplus of \$1.139 million, based on a Recurrent Operating Surplus of \$2.660 million, an Operating Deficit relating to Operating Projects (including 2020-2021 Carry Forwards) of \$1.163 million and an additional \$357,000 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 2022-2023 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 2022-2023	Carry Forward s 2021- 2022	Operating Projects 2022-2023	Capital Projects 2022-2023	Proposed 2022-2023
	\$	\$	\$	\$	\$
INCOME					
Rates	39,920,982	-	-	-	39,920,982
Statutory charges	2,006,750	-	-	-	2,006,750
User charges	3,737,711	-	-	-	3,737,711
Grants, subsidies and contributions	2,515,869	-	492,298	-	3,008,167
Investment income	45,500	-	-	-	45,500
Other income	517,740	-	-	-	517,740
Net loss joint ventures & associates	15,444	-	-	-	15,444
Total Income	48,759,996	-	492,298	-	49,252,294
EXPENSES					
Employee costs	15,974,750	-	108,000	-	16,082,750
Materials, contracts & other expenses	18,276,188	213,394	1,334,000	-	19,823,582
Finance costs	515,000	-	-	357,424	872,424
Depreciation & amortisation	11,158,733	-	-	-	11,158,733
Net loss Joint Ventures & Associates	175,360	-	-	-	175,360
Total Expenses	46,100,031	213,394	1,442,000	357,424	48,112,849
OPERATING SURPLUS / (DEFICIT)	2,659,965	(213,394)	(949,702)	(357,424)	1,139,445
Net gain (loss) on disposal or revaluation of assets	-	-	-	25,000	25,000
Amounts specifically for new or upgraded assets	-	-	-	10,024,823	10,024,823
NET SURPLUS (DEFICIT)	2,659,965	(213,394)	(949,702)	9,692,399	11,189,268
OTHER COMPREHENSIVE INCOME					
Change in revaluation surplus- infrastructure, property, plant & equipment	-	-	-	2,000,000	2,000,000
Total Other Comprehensive Income	-	-	-	2,000,000	2,000,000
TOTAL COMPREHENSIVE INCOME	2,659,965	(213,394)	(949,702)	11,692,399	13,189,268

On a full accrual basis, the capital expenditure will not affect the operating result before capital revenues, except through future years' depreciation and financing costs on any associated loan borrowings. Grant income which has been received and which relates to Capital Projects, will however, be included as Capital Income within the Budgeted Income Statement, after the Operating Surplus/ (Deficit) as required by the Model Financial Statements prescribed by the Local Government Act 1999.

Details of the Capital and Operating Projects endorsed as part of the Draft 2022-2023 Annual Business Plan and Budget is contained in *Appendix One: Key Initiatives & Projects* of **Attachment B**.

Financial sustainability underpins the Council's Financial Goals and Outcomes which are set out in the Councils LTFP. 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.

With the additional savings identified by the Council, the Draft Budget, as contained in **Attachment A**, is reporting a cash surplus of \$1.189 million, however this is based on new borrowings of \$30 million required to fund the strategic projects and asset upgrades set out in the Annual Business Plan.

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 6% increase in rate revenue. The Financial Statements also provide comparisons with the 2021-2022 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 2022-2023 Financial year.

Borrowings

The Council must manage its indebtedness to ensure that its liabilities and associated costs are met without impinging on the Councils financial sustainability. To monitor its performance in the use of debt, the Council uses the Net Financial Liabilities Ratio and the Debt Servicing Ratio. Net Financial Liabilities Ratio measures the extent of what is owed by the Council less any liquid assets (i.e. cash or receivables) of the Council, are met by its operating revenue.

Net financial liabilities is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable in future as well as taking account of a Council's cash holdings and invested monies.

The target set in the Long-term Financial Plan is for the Net Financial Liabilities to be less than or equal to 75% of operating revenues.

To fund the proposed net capital expenditure (inclusive of carry forwards) \$49.6 million, the Council will be required to borrow in the order of \$30 million to fund the program and achieve a minor cash surplus. The significant increase in borrowings will result in a Net Financial Liabilities ratio of 81.5% which is in-excess of the financial target set in the Long-term Financial Plan. Given the significant increase in borrowings and the future capital expenditure set out in the Council's *Infrastructure and Asset Management Plans* and the *Long-term Financial Plan*, the Council will continue to exceed the financial target set for Net Financial Liabilities over the life of the current Long-term Financial Plan, with the Net Financial Liabilities projected to exceed 100% by the 2026-2027 financial year.

While the ideal is that the Net Financial Liabilities ratio not exceed 100% of operating income, subject to the Council's ability to service its financial obligations, the indebtedness can exceed 100% in order to provide additional services to its community through acquisition of additional assets, however the extension of the Net Financial Liabilities greater than 100%, together with an increasing Debt Servicing Ratio for an extended period of time, is not the desired result. As such the Council does need to be aware that sustained levels of new capital investment, together with associated borrowings, will impact on the Council's ability to maintain its financial sustainability into the future.

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 the endorsed principle, the rate revenue increase should be 7.1%, comprising:

- a Rate Revenue indexation factor of 5.1% (based on March CPI);
- new assessment growth of 0.5%; and
- an indexation factor to account for the future renewal and servicing costs of major capital works of 1.5%.

However, the LTFP sets a maximum rate revenue increase of 6%.

Due to commencement of the second transitional stage of the *Statutes Amendment (Local Government Review) Act 2021*, pursuant to Regulation 6 (ec) of the *Local Government (Financial Management Regulations) 2011*, the Council is now required to include in the Annual Business Plan a *statement on the average change in the expected rates for the financial year (expressed as a whole number of dollars) for each land use category declared, as a permissible differentiating factor, compared to the expected rates for each category for the previous financial year as set out in the annual business plan for that previous financial year as opposed to the change in the rate for the 'average residential property'*.

Applying the new methodology, the Average Rate for Residential Land use is \$1,793 which is an increase of \$144 per annum or 8.7% on 2021-2022. The Average Rate for each land use is detailed in Table 2 below.

TABLE 2: AVERAGE RATE PER LAND USE

Land Use	2022-2023			2021-2022			Average Rate	
	Revenue (net of rebates)	Revenue %	Average Rate	Revenue (net of rebates)	Revenue %	Average Rate	Increase Decrease	% change
Residential	31,098,817	80.61%	1,793	28,551,709	78.61%	1,649	144	8.7%
Exempt -Residential	466,678	1.21%	9,929	547,264	1.51%	11,169	-1,239	(11.10%)
Commercial	5,858,510	15.19%	2,626	6,092,723	16.77%	2,732	-106	(3.89%)
Industrial	317,199	0.82%	2,218	345,086	0.95%	2,348	-129	(5.51%)
Vacant Land	519,721	1.35%	1,704	468,870	1.29%	1,717	-13	(0.78%)
Other	316,061	0.82%	3,633	313,048	0.86%	3,440	193	5.60%
Primary Production	1,679	0.00%	1,679	1,759	0.00%	1,759	-80	(4.55%)
Total	38,578,665		1,914	36,320,459		1,807	107	5.9%

For 2022-2023, the Capital Values have increased (as advised by the Valuer-General) across the City of Norwood, Payneham & St Peters by 23.4%, which is predominately driven by the increase in the Capital Value of residential properties by 27.2%. The Capital Value increase for commercial properties is 11.7%. The impact of the difference in the movement of capital values, has resulted in a residential rate increase in excess of the overall rate revenue increase of 6%, due a 1.9% (\$707,000) increase in the rates revenue being collected from the residential sector.

Going forward, the impact of the valuation growth, either through a general valuation increase or new development, is excluded from the determination of the average rate increase, however the rate increase does take into account the increase in assessment (i.e. new properties). As such, the average rate increase will closer reflect the endorsed rate revenue increase, adjusted for the change in the number of assessments.

While the average rate increase of 5.9% is in line with the Adelaide CPI, the actual rates payable by a rate payer will vary according to individual property valuations, the land use, and whether there has been any new development or capital improvement on the land.

Applying the principle of the “*average property*”, for the 2022-2023 financial year, the “*average residential property*” is valued at \$866,00, compared to the 2021-2022 “*average residential property*” value of \$686,000, an increase of 26.2%. Given the increase in property values, the Council is budgeting for a decrease in the rate-in-the-dollar of 14.9%, which for the “*average residential property*” results in a decrease of \$294 per annum, however with the increase in rates payable resulting from the 26.2% increase in capital value, being \$404 per annum increase, the net increase in rates payable for the “*average residential property*” is \$116 or 7.4%. The average commercial property, which is valued at \$1.080 million will be required to pay \$2,514, a decrease of \$133 or 5.1%.

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 upper rate revenue increase target as set out in the LTFP or the rate revenue increase, whichever is the greater, 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 2021.

For the 2022-2023, for eligible residential ratepayers, the increase in rates payable will be capped at 12%. Given the extent of the Capital Value increase for the residential properties it is estimated Rate Capping Rebates will be in the order of \$350,000.

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 2022-2023 Financial Year and the proposed funding of those activities, the Draft 2022-2023 Annual Business Plan endorsed for public consultation is included in **Attachment B**.

Following consideration of the submissions by the Council on 21 June 2022, the final 2022-2023 Annual Business Plan will be put forward for adoption, followed by the 2022-2023 Annual Budget at the Council Meeting to be held on 4 July 2022.

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 2022-2023 Annual Business Plan and Budget as presented in **Attachment B**, will deliver an Operating Surplus of \$1.139 million based on a 6% 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 Surplus of \$1.513 million.

The proposed Rating Strategy and the Draft Budget as presented in this report, is based on sound financial management principles, which will contribute to the Council achieving its goals and objectives as set out in the suite of Strategic Planning documents.

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.

Ms Brigid O'Neill moved:

It is recommended that the report be received and noted.

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.2 2021-2022 THIRD BUDGET REVIEW

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: q64901/A150308
ATTACHMENTS: A

PURPOSE OF REPORT

The purpose of this report is to provide the Council 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 March 2022 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 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, the Annual Business Plan and Budget.

The *2021-2022 Annual Business Plan* and Budget, sets out the proposed services, programs and initiatives for the 2021-2022 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 2021-2022 Adopted Budget estimated an Operating Surplus of \$471,000. The Operating Surplus was decreased as part of the Mid-Year Budget Review to \$185,300.

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 March 2022 and forecast the 2021-2022 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 2022 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

Since the re-opening of the South Australian border on 23 November 2021 and the emergence of the Omicron variant of COVID-19, a number of businesses have been impacted by the increase in the number of COVID-19 cases and capacity restrictions introduced by State Government. To support the local businesses, a Financial Assistance Package was approved by the Council at its Meeting held on 17 January 2022. The financial impact of the Financial Assistance Package, was taken into account as part of the Mid-Year Budget review that was endorsed by the Council at its meeting held on 7 March 2022.

CONSULTATION

- **Elected Members**

The Council considered the First Budget Update and the Mid-year Budget review at its meetings held on 6 December 2021 and 7 March 2022 respectively.

- **Community**

Not Applicable.

- **Staff**

Responsible Officers and General Managers.

- **Other Agencies**

Not Applicable.

DISCUSSION

Budget Review

In determining the Adopted Operating Surplus, the Council considers the financial resources which are required to provide the ongoing services, programs and facilities (Recurrent Operating Budget), which encompass the basic responsibilities, which the Council is required to provide under the *Local Government Act* and other relevant legislation, plus ongoing services and programs as a result of community needs and expectations.

Such on-going services include regulatory services, such as animal management and parking management, street cleaning and rubbish collection, maintenance of basic infrastructure including roads, footpaths, parks, public open space, street lighting and storm-water drainage, development planning and control, library and learning services, community support programs, environmental programs, community events, community recreational facilities and home assistance service.

In addition, the Council considers the funding requirements associated with the introduction of new services or the enhancement to existing services (Operating Projects).

The 2021-2022 Adopted Operating Budget, projected an Operating Surplus of \$471,000. At the Council meeting held on 7 March 2022, the Council endorsed the Mid-Year Budget Update, which reported a forecast Operating Surplus of \$185,000.

Following the Third Budget Review, the Operating Surplus has increased to \$1.356 million.

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

A. Recurrent Operating Budget

For 2021-2022, the Recurrent Operating Budget forecast a Recurrent Operating Surplus of \$1.064 million. Following the First Budget Update and the Mid-Year Budget Review, the Recurrent Operating Budget Surplus was reduced to \$933,500.

As a result of the Third Budget Update, the Recurrent Operating Surplus is increased to \$1.663 million. 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) \$
As part of the 2022-2023 Federal Budget, the Federal Government announced that it is advancing 75% of the 2022-2023 Financial Assistance Grants. Past practice has been for the Federal Government to advance 50% of future years Financial Assistance Grants. The additional 25% cash advance is aimed at providing Councils immediate access to funds to help manage the cumulative impacts of floods and the COVID-19 pandemic.	533,000
Adjust Rate Rebates and Rate Capping expenses to the level calculated as part of the annual Rates Notice generation process.	140,000
Following a review of the cash position and the review of the Capital Works Program, it is anticipated that no new long-term borrowings will be drawn down prior to 30 June 2022, therefore, finance cost has been reduced to reflect interest payable on existing loans only.	60,000
Reduction in payments to external service providers of Home Support services to anticipated payments for the year.	50,000
General Savings across administration costs such as printing & stationary, cash collection and postage.	56,000
Given the increase in property sales, the number of Rate & Property Searches has increased. The Rate Search Income has been increased to reflect anticipated activity for the remainder of the year.	20,000
Legal expenses has been increased to reflect the actual expenditure on legal proceedings and settlement costs associated with to the scramble crossing at the intersection of the Parade and George Street, Norwood.	(100,000)

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 2021-2022 Adopted Operating Projects Budget forecast a cost to the Council of \$955,000, inclusive of carry forward project expenditure of \$203,000.

Following the First Budget Update, the value of carried forward expenditure was increased to \$510,000. 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 \$1.170 million. The Third Budget Update is estimating that the cost of Operating Projects to be \$760,000, a decrease of \$410,000.

The reduction reflects the operating projects not expected to be finalised by 30 June 2022, coupled with completed projects being delivered under budget.

The Operating Projects, and expenditure not expected to be incurred in the 2021-2022 is detailed in Table 2 below.

TABLE 2: OPERATING PROJECTS NOT EXPECTED TO BE COMPLETED IN 2021-2022

Service Initiative	\$
Authority Content Migration to Councils EDMS, Objective ECM is proposed to be deferred to 2023-2024 due to other priorities and resourcing of the IT and Corporate Records team.	58,400
The development of the <i>City-wide Parking Policy</i> was delivered under budget. Excess funds were carried forward to implement any necessary changes emanating from the review. A review of how parking controls are enforced is being undertaken in-house, with \$10,000 from the savings to be carried forward to the 2022-2023 Financial Year.	53,870
Ehive - Cultural Heritage Collections Project – the digitisation of the Council’s Cultural Heritage collection is being deferred, with delivery proposed to be undertaken in 2023-2024.	52,570
Due to the planting season, \$50,000 of the Additional Street tree planting program will be carried forward to the 2022-2023 financial year.	50,000
Initial investigations on the feasibility assessment of additional level on the Webbe Street Parking has commenced however the full investigations are not anticipated to be finalised by 30 June 2022.	50,000
Development of the <i>People, Place and Activation Strategy</i> has commenced with the work undertaken to date being delivered by internal resources. The Budget allocation relates to cost associate with consultation and finalisation of the documentation which is not anticipated to be completed by 30 June 2022.	30,000
Review of the <i>Public Art Strategy</i>	30,000
Development of the <i>Tree Management Policy & Strategy</i> was delivered under budget. Excess funds have been carried forward to the 2022-2023 financial year to implement the year one actions set out in the Strategy.	20,000
The project of <i>Age Friendly Wayfinding Strategy</i> has commenced; however the installation of signage will not be installed prior to 30 June 2022.	20,000
Resilient East Project	13,000
TOTAL OPERATING PROJECTS NOT EXPECTED TO BE INCURRED IN 2021-2022	377,840

C. Capital Projects

The Council adopted a Capital Budget of \$26.972 million for 2021-2022, which comprised funding allocations for New Capital Projects involving new or the upgrading of existing assets (\$8.081 million), the renewal/replacement of existing assets (\$14.089 million) and Carried Forward Projects from 2020-2021 (\$4.801million).

The First Budget Update forecast the cost of Capital Projects to be \$30.594 million. The increase is predominately due to a number of projects which were initially anticipated to be completed by 30 June 2021 being delayed or still being in progress as at 30 June 2021. Following the Mid-Year Budget Review, the Capital Project expenditure is forecast to increase by \$289,952 to \$30.884 million. Following a review of the status of the Capital works Program, the Capital projects to be completed by 30 June 2022 is anticipated to be \$16.197 million, with project expenditure of \$14.687million to be carried forward to future years. Details of Projects to be carried forward to be undertaken in the 2022-2023 Financial Year are detailed in Table 3 below.

TABLE 3: PROJECTS TO BE CARRIED FORWARD TO 2022-2023

Capital Project	Increase/ (Decrease) \$
River Torrens Linear Park Path Upgrade The reconstruction of the shared path along the River Torrens Linear Park between the intersection of Battams Road/Ninth Street Royston Park and Twelftree Reserve, Collage Park, encompassing a section of the path that passes through Dunstan Adventure Playground. \$1.350 million of grant funding will also be carried forward.	1,945,000
St Peters Street Streetscape Upgrade – As previously advised, works have commenced with the project due to be completed by 31 December 2022.	700,000
The Parade Master Plan was endorsed by the Council in May 2019. Stage 2 encompasses the design development for the Parade between Fullarton Road and Portrush road, and detail design and construction documentation for George Street between the intersection of The Parade and Webbe Street. Funds carried forward relate to the George Street Construction and finalisation of Stage 1 detailed design.	889,000
Burchell Reserve Upgrade The redeveloped Burchell Reserve will establish a contemporary setting, whilst improving the amenity of the Reserve through new community tennis courts, seating, refurbished toilets and landscaping that would create a gathering point for the community and encourage social interaction. Construction works scheduled to commence in September 2022 and to be completed by June 2023.	2,060,000
Payneham Memorial Swimming Centre The redevelopment of the Payneham Memorial Swimming Centre, as per the Council's Swimming Centres Strategy and endorsed concept plans, with carried forward funds being carried forward to completed detailed design.	2,500,000
Quadrennial Public Art Project - Installation of the Major artwork.	146,800
Norwood Library Strategic Review & Concept Plan – preliminary investigation has commenced; however final concepts are not anticipated to be delivered prior to 30 June 2022.	100,000
Borthwick Park Creek improvements.	400,000
Building Works Program:	728,500
<ul style="list-style-type: none"> • Solar installation at St Peters Library, St Peters Childcare Centre & Pre-school and the Glynde Depot (\$208,550). Works have been tendered and awarded however works will not be completed by 30 June 2022. • Norwood Town Hall Airconditioning upgrade (\$520,000). Due to the lead times for the delivery of the air-conditioning units works will not be completed by 30 June 2022. 	
Civil Infrastructure Works Program – Awaiting works designs, which are subject to traffic review and drainage designs.	1,134,761
Design and construction of the traffic management devices along Langman Grove to resolve traffic management issues associated with Langman Grove, Briar Road and Turner Street, Felixstow, as per the recommendation from the Traffic Management Committee	148,000
Minor Projects	253,740

In addition, the following Capital Projects set out in Table 4 below will be deferred to be undertaken in future Financial Years.

TABLE 4: CAPITAL PROJECTS TO BE CARRIED FORWARD TO FUTURE YEARS

Capital Project	\$
Following a review of the Stormwater Drainage Program, the Trinity Valley Stormwater Drainage Upgrade – Stage 1 is now scheduled to be undertaken in the 2024-2025 Financial Year.	1,950,000
Stephen Street (Norwood) Improvements – commencement of works is dependent on the completion of the private development (Norwood Green). Following discussions with the developers, due to on-going construction and site access by heavy vehicles occurring via Stephen Street, works have been deferred to the 2024-2025 financial year.	250,000
To ensure that the proposed upgrades reflects current trends and delivers on the needs and expectation at the time of delivery, the commencement of the following two (2) Master Plans have been deferred, as the delivery of the projects have been reprioritised as part of the recently endorsed Long Term Financial Plan: <ul style="list-style-type: none"> • \$50,000 for Adey Reserve Master Plan; • \$50,000 for Hannaford Reserve Master Plan. • 	100,000
Concept Design for Norwood Swimming Centre - Works at the Norwood Swimming Centre are not scheduled to commence until 2026-2027 as per the LTFP. Given the timespan between the development of the Masterplan and the delivery of works, to ensure that the proposed concept reflects current technologies and delivers on the needs and expectations at the time of delivery, it is recommended that the preparation of the Masterplan be deferred.	47,075
Minor Projects	60,710

Regulation 9 (1) (b) of the Regulations states the Council must consider:

“between 30 November and 15 March (both dates inclusive) in the relevant financial year—a report showing a revised forecast of each item shown in its budgeted financial statements for the relevant financial year compared with estimates set out in the budget presented in a manner consistent with the Model Financial Statements.”

Further Regulation 9 (2) of the Regulations states the Council must consider:

“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 revised Budgeted Financial Statements and Financial Indicators as a result of the Mid-Year Budget Update are included in **Attachment A**.

OPTIONS

Not Applicable.

CONCLUSION

Nil

COMMENTS

Nil

RECOMMENDATION

1. That the Third Budget Update Report be received and noted.
 2. That the Audit Committee recommends to the Council that pursuant to Regulation 9 (1) and (2) of the Local Government (Financial Management) Regulations 2011, Budgeted Financial Statements and Financial Indicators as contained within **Attachment A** be adopted.
-

Ms Brigid O'Neill moved:

1. *That the Third Budget Update Report be received and noted.*
2. *That the Audit Committee recommends to the Council that pursuant to Regulation 9 (1) and (2) of the Local Government (Financial Management) Regulations 2011, Budgeted Financial Statements and Financial Indicators as contained within Attachment A be adopted.*

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.3 SERVICE REVIEW PROJECT

REPORT AUTHOR: Chief Executive Officer
GENERAL MANAGER: Not Applicable
CONTACT NUMBER: 8366 4539
FILE REFERENCE: qA75186
ATTACHMENTS: Nil

PURPOSE OF REPORT

The purpose of this report is to advise the Committee of the proposed Service Review Project which will be undertaken by the Council.

BACKGROUND

The *Local Government Act 1999*, provides that Council can examine and report on the financial management or the efficiency and economy with which the Council manages or uses its resources to achieve its objectives.

Reviewing the efficiency and economy of an organisation are ostensibly service reviews.

The best and most prudent, efficient, structured and objective way of undertaking service reviews is to agree on and have in place a program of what needs to be reviewed and then agree on how the respective service will be reviewed.

Over the years, a number of service reviews have been undertaken by the Council. The most recent examples are the Street & Footpath Sweeping Program, the Home Library Service and a review of On-Street Parking Management is currently in progress. These reviews have been undertaken as part of the organisations Business Excellence Program.

At its meeting held on 4 April 2022, the Council resolved the following with respect to the Service Review Project:

1. *That the conduct of the Service Review Project over a three (3) year period commencing in the 2022-2023 financial year, be endorsed.*
2. *The Council notes that \$100,000 has been included on the draft 2022-2023 Budget for the purposes of undertaking the first year of the Service Review Project.*
3. *The Council notes that a report setting out the scope of the Service Reviews and the suggested and recommended services, programs and process to be reviewed, will be prepared for the Council's consideration at the June 2022 Council Meeting.*

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

An allocation of \$100,000 has been included in the draft 2022-2023 Budget.

In addition, the draft 2022-2023 Budget includes a dividend of \$50,000, which is an estimate of the savings which could be delivered through the reviews which are undertaken in the 2022-2023 Financial year.

CONSULTATION

- **Elected Members**
The Council formally adopted the Service Review project at its meeting held on 4 April 2022.
- **Community**
Not Applicable.
- **Staff**
Not Applicable.
- **Other Agencies**
Not Applicable.

DISCUSSION

It is proposed to implement the Service Review Project over three (3) years, commencing in the 2022-2023 Financial year. As part of the project, the Council will determine (based upon advice and recommendation of staff) the high priorities and which services/programs/processes it wishes to review.

Following this, the Council's Audit & Risk Committee is proposed to have oversight of the Service Review Project, which will also entail making recommendations to the Council following consideration of any outcomes and recommendations of the respective reviews.

Whilst some of the service reviews will be undertaken *'in house'* there will be a need to engage specialist consultants as required (depending on the service/program/process which are proposed to be reviewed).

To fund the Service Review Project (which will commence in 2022-2023), an allocation of \$100,000 has been included in the draft 2022-2023 Budget, with a corresponding dividend of \$50,000. Given both the financial and service improvements which are likely to be derived from the Service Review Project, these funds will be well spent.

The Service Review Project will be coordinated by the Chief Executive Officer.

OPTIONS

Not Applicable.

CONCLUSION

Subject to the Council endorsing the Service Review Project (and allocating funds as contained in the draft 2022-2023 Budget), a report which sets out the scope of the Service Review Project, the review schedule and the service/programs/processes which are proposed to be reviewed, will be prepared for the Council's consideration and endorsement.

COMMENTS

Nil

RECOMMENDATION

That the report be received and noted.

Cr Stock moved:

That the report be received and noted.

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.4 BORROWING & INVESTMENT PERFORMANCE FORECAST FOR YEAR ENDED 30 JUNE 2022

REPORT AUTHOR: Accountant
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: qA392651
ATTACHMENTS: A

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 2022.

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 2022, 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 2022, the balance of outstanding borrowings is forecast to be \$9.4 million. The balance comprises four (4) active fixed interest rate loans. The Council has approved loan borrowings to the value of \$28.6 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 2.3%. 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 6.1% pa.

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

From 1 May 2021 to 30 April 2022, there was one (1) finalised loan. Debenture 14 matured on 15 September 2021 and was taken out in 2006 for the purposes of undertaking the 2011-2012 Infrastructure Works. The total principal payments and interest payments were \$500,000 and \$303,861.6 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 2022 and the first quarter rates payments, which are due in September 2022.

Principal repayments made on long term active loans for the year to 30 June 2022, are forecast to be \$930,000.

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 2021-2022 financial year, surplus funds are invested "At Call" with the Local Government Finance Authority. The balance of funds invested at 30 April 2022 was \$6.459 million. Interest earned on funds which have been invested, was \$18,356.

In addition to the 'At Call' account, the Council manages the 'St Peters RSL Trust Account'. The balance of Trust Account at 30 April 2022 was \$42,495. Interest earned to 30 April 2021 was \$113.

OPTIONS

Not Applicable.

CONCLUSION

Nil.

COMMENTS

Nil.

RECOMMENDATION

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

Cr Stock moved:

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

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.5 GOVERNANCE ARRANGEMENTS – REGIONAL SUBSIDIARIES

REPORT AUTHOR: General Manager, Corporate Services
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4585
FILE REFERENCE: qA75186/A397642
ATTACHMENTS: A - C

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 2022-2023 Budgets of the Council’s Regional subsidiaries which have been considered the Council.

The Councils Draft 2022-2023 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 Di Blasio 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 2022-2023 Financial year, are based on the focus areas set out Regional Public Health and Wellbeing Plan, '*Better Living, Better Health*', which include:

Public and environmental health services

- Continue to assist SAPOL and SA Health with monitoring and education of relevant COVID-19 Directions.
- Develop educational material to be communicated to Personal Care and Body Art premises on specific high-risk practices.
- Provide feedback to SA Health on the review of Public Health Regulations review as required.

Immunisation

- Promotion of EHA's public immunisation clinic program through channels identified in the EHA Marketing Plan.
- Continue to ensure the effective governance and delivery of EHA's public clinic immunisation program in accordance with the National Immunisation Program (NIP) Schedule.
- Deliver School Immunisation Program (SIP) in accordance with the SA Health Service Agreement contract.
- Develop a business case for the provision of immunisation services on behalf of non-Constituent Councils (dependent on available opportunities)

Food safety

- Prepare a report on the outcomes from the first twelve months of the SA Health voluntary Food Star Rating Scheme.
- Communicate and inform food businesses of the proposed legislative food management tools: food safety supervisor; food handler training and evidence that will come into effect within 12 months.
- Collate a biennial food safety newsletter training be distributed to EHA's food businesses.
- Provide tailored food safety training to workplaces upon request.

Governance and organisational development

- In consultation with Constituent Councils, review and revise the EHA business planning and reporting framework.
- Work with the Audit Committee and the Board to review and revise the financial indicators in the Long-Term Financial Plan.
- Create a Chief Executive group with Constituent Council CEOs to channel information and bilateral communication.
- Development of targeted quarterly performance report for Constituent Councils.
- Develop a presentation highlighting strengths and benefits of centralised service delivery model for Constituent Council Elected Members.

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 ostensibly endorsed 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 \$1,828,000 (which is a 0% increase on 2021-2022) to fund the operational expenditure.

Following the 2021 EHA Service Review, it was recommended that the administration fee of 12.5% be divided into fixed and variable components. The fixed portion of the administration fee of 5% is now shared equally (1% per council), while the variable component is calculated on a proportional basis, dependent on use. The impact of the change in methodology is that larger Councils now pay a slightly higher proportion of the administrative fee and smaller Councils pay less. As such, the Councils contribution has increased from 31.3% to 32.0%.

As a receiver of services from EHA, the Council's Draft 2022-2023 Budget includes a funding allocation for the provision of environmental health services of \$585,000, a 2.17% or \$12,500 increase on 2021-2022.

EHA are forecasting an Operating Deficit of \$49,000, with the Council's share of the EHA Operating result being \$15,660. It should be noted that budgeted Operating Deficit is an accounting deficit and the contributions requested from Constituent Councils will provide for a balanced operating cash budget.

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 is 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. It should be noted that as per the Authority's Budget Policy, the Common Fleet Cost includes an additional charge to incorporate a return on revenue, which is currently set at 1% of the Common Fleet Costing Charge.

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 2022-2023 Budget is reporting an Operating Surplus of \$108,000. The Council's share of the draft Operating Surplus is \$15,444, which is based on an ownership share of the Authority of 14.3%.

The Authority's collection costs have increased by 6.3% on the 2021-2022 Budget, however for this Council, the collection cost has increased by 6.4%, which is slightly higher than the overall increase in the East Waste collection costs. East Waste have advised that the increase in collection costs is due to:

- fuel costs due to the combined impact of the significant increase in the fuel price combined with the high AdBlue costs. The projected increase in fuel costs account for 60% of the overall cost increase for the 2022-2023 financial year; and
- an increase in employee expenses due to an increase in service requests, combined with the Enterprise Agreement increases and the mandatory increase in super contributions to 10.5%.

The Council's Draft Waste Management Budget, reflects a proposed Common Fleet fee of \$2.270 million (2021-2022 \$2.204 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.

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 2022-2023 Annual Plan is contained in **Attachment B**.

ERA Water

The Draft 2022-2023 Budget assumes that 253ML of water will be sold in the 2022-2023 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 (48ML) being made available for third parties with existing commitments and the City of Burnside taking 10 ML more than their take or pay allocation. 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 \$603,000.

The other water sales which are sold to third parties and Constituent Councils in excess of the take or pay allocation, are assumed to be sold at 85% of the SA Water price, with the income forecast at \$117,000 and represents 16% of total water sales for 2022-2023. The Budget assumes that 352ML will be available for sale in 2022-2023. ERA Water are pursuing opportunities for the additional water supply; however, the income budget does not assume any new connections.

Operating costs are forecast to be \$634,000 which includes Employee Expenses of \$251,500. Fixed Operating costs of \$127,500 and other variable operating costs of \$255,000 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.

At the Special Council Meeting held on 13 April 2022, the Council considered and endorsed the ERA Water draft Budget, which was based on a recapitalisation proposal comprising of a capital injection of \$3 million to be contributed in line with the ownership share plus a water security charge of \$1.250 million to be paid over five (5) years, with the contribution per Constituent Council being based on the take or pay water allocation.

The recapitalisation funds will be utilised to:

- expand the network and the number of connections to build scale over a five (5) year period, so that ERA Water has an operating cash break-even position;
- invest in assets to increase and or improve the reliability of supply;
- meet operating cash deficits over the five (5) year period; and
- pay down debt.

For the City of Norwood Payneham & St Peters, the total contribution requested as part of the recapitalisation proposal is \$1.475 million, which is made up of a \$1 million capital contribution and an annual water security charge of \$95,000, payable for five years.

The ERA Water Charter requires the ERA Water Board (the Board), prior to it adopting its Draft Budget, to obtain unanimous approval of its Draft Budget from all Constituent Councils.

Following feedback from the City of Burnside on the draft budget, the Board reviewed its draft budget to ensure that it would receive unanimous approval from all Constituent Councils.

The main change from the draft Budget endorsed by this Council at the Special Council meeting held on the 13 April 2022, is a reduction in capital injection required from this Council and the City of Burnside from \$1 million to \$200,000 for the 2022-2023 financial year.

This amendment brings the capital contribution in-line with that of the Town of Walkerville. It should be noted, that the total capital contribution by the three (3) Constituent Councils, to be paid as part of the recapitalisation of ERA Water remains at \$3 million. It is unknown at this stage regarding the timing of future contributions, (i.e., future capital contributions for this Council and the City of Burnside may be in-line with the original five (5) payment schedule set for the Town of Walkerville or there may be a request that balance of \$800,000 be made in 2023-2024 financial year).

As a result of the proposed reduced capital injection:

- the forecast debt as at 30 June 2023 will increase from \$13.839 million to \$15.270 million, which while still within the debt cap of \$15.3 million, does not allow for any contingency should the assumptions, upon which the budget is predicated on, not holding true;
- the increased debt levels, coupled with a change in the interest rate on the Cash Advance Debenture facility, will increase the interest expense by \$31,000 to \$358,000; and
- the provision for Capital works will decrease from \$850,000 to \$350,000. It is proposed that the capital works undertaken during the year will be funded on a business case and feasibility assessment, as such a provision of \$300,000 has been allowed for in the Operating Budget to engage consultants to assist with the development of the business and feasibility assessment for capital projects.

The revised ERA Water Budget continues to forecast a small cash surplus however due to the reduction of the capital contribution to \$600,000 (i.e. \$200,000 for each Constituent Council), which is \$1.6 million less than the initial draft Budget, ERA Water is not in a position to repay borrowings which were originally set at \$1.355 million.

The revised Draft 2022-2023 Budget is forecasting an Operating Deficit of \$803,000 and increase of \$324,000 on the original draft Budget. This Councils share of the Operating Deficit, which will be required to be included in the Councils 2022-2023 Budget will increase by \$108,000 to \$267,667.

The Draft Budget includes water sales to this Council of \$220,477 which is based on the consumption of 76.67ML. The Council's Draft 2022-2023 Budget includes a budget estimate of \$380,000, which includes water sourced from SA Water and ERA Water for the Councils reserves, parks, medians and sporting grounds, the water security charge of \$95,000 and the capital contribution of \$1 million.

The Councils Draft 2022-2023 Budget will be amended to reflect the increase in the share of the Operating Deficit and the lower capital contribution, thereby reducing the Council's cash needs by \$800,000 for the 2022-2023 Financial Year.

The revised Draft ERA Water Budget is being considered by the Council at its meeting scheduled for 6 June 2022. It is recommended that the Audit Committee recommends to the Council that the revised Draft ERA Water Budget be approved.

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

Highbury Landfill Authority

At the time of writing this report, the Council is yet to receive the Draft 2022-2023 budget for the Highbury Landfill Authority.

OPTIONS

Nil.

CONCLUSION

Nil.

COMMENTS

Nil.

RECOMMENDATION

1. That the report be received and noted.
2. That the Audit Committee recommends to the Council that the revised Draft 2022-2023 ERA Water Budget be approved.

Ms Brigid O'Neill moved:

1. *That the report be received and noted.*
2. *That the Audit Committee recommends to the Council that the revised Draft 2022-2023 ERA Water Budget be approved.*
3. *The Audit Committee recommends that the Council seek clarification from the City of Burnside regarding its change in position on the re-capitalisation of ERA Water.*

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.6 FINANCE POLICIES

REPORT AUTHOR: Accountant
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: fA16462/A397771
ATTACHMENTS: A - C

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 2021-2022 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

Policy	Details of Proposed Amendment
Financial Hardship Policy (Attachment A)	No changes recommended.
Expenditure Policy (Attachment B)	<p>Due to position title changes the following updates have been made:</p> <ul style="list-style-type: none"> • Financial Services Manager update to Manager Finance; and, • Team Leader, Customer & Regulatory Services update to Team Leader, Regulatory Services. <p>It is recommended the changes set out below be made due to realignment of positions:</p> <ul style="list-style-type: none"> • Technical Officer Field Services is removed from Responsible Officer Level 1 as position no longer exists; • New position created under Responsible Officer Level 2 for Coordinator, Events & Marketing. <p>The specified delegation for the Corporate Stationary as set out in Schedule 2 is recommended to be removed due to the restructure of the Team Leader, Customer & Regulatory Services position. The financial delegation now sits with the Manager, Finance subject to the transaction limit set out in Schedule 1.</p>
Rating Policy (Attachment C)	No changes recommended.

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:
 - Financial Hardship Policy; and
 - Rating Policy.
 2. That the Audit Committee notes that the Expenditure Policy & Delegation of Authority 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:
 - Financial Hardship Policy (**Attachment A**);
 - Expenditure Policy & Delegation of Authority (**Attachment B**); and
 - Rating Policy (**Attachment C**).
-

Cr Stock moved:

1. *That the Audit Committee notes that the following policies have been reviewed and notes that no amendments are recommended:*
 - *Financial Hardship Policy; and*
 - *Rating Policy.*
2. *That the Audit Committee notes that the Expenditure Policy & Delegation of Authority 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:*
 - *Financial Hardship 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
Nil

9. NEXT MEETING
Monday 25 July 2022

10. CLOSURE

There being no further business the Presiding Member declared the meeting closed at 8.10pm.

Cr John Minney
PRESIDING MEMBER

Minutes Confirmed on _____
(date)