

**MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING
HELD ON MONDAY 8 MAY AT 11.00am**

PRESENT: Mr G Strawbridge(*Chair*) via *Teams*, Ms P Christie via *Teams*, Mr L Kozlovic via *Teams* and Cr P Borda (Council Member proxy)

OFFICERS IN ATTENDANCE: Chief Executive Officer (*Mr J Commons*)
Director Corporate Services (*Ms K Jarrett*)
Director Infrastructure (*Mr K Clark*)
Director City Growth (*Ms J Ballantine*) – via *Teams*
Manager Finance (*Mr G Jennings*) – via *Teams*
Finance Coordinator (*Mrs S Vigar*) – via *Teams*
Manager Governance (*Ms I Adair*)
Manager Legislation (*Ms A Malone*)
Manager People and Culture – (*Ms Sue King*)
Projects and Partnership Lead – (*Mr S Sathasilvam*) – via *Teams*
Manager Assets and Planning (*Ms R Nottle*) – via *Teams*
Manager City Development (*Ms J Perone*) – via *Teams*
Manager Capital Works Delivery (*Mr T Bayly*) – via *Teams*
Executive Coordinator – Corporate (*Ms L Symons*)

**COUNCIL MEMBERS
IN ATTENDANCE:** Mayor Phill Stone

ACKNOWLEDGEMENT

The Chair acknowledged that the meeting was being held on Barngarla and Kurna land and gave thanks for the use of this land.

1. STANDING ITEMS

1.1 Welcome and Apologies

Apologies – Cr Peter Klobucar
Leave of Absence – Nil

1.2 Declaration of Members' Conflict of Interests

Ms Christie advised that she is a member of the Audit and Risk Committee for the Local Government Association of South Australia (LGASA) which covers the Audit and Risk for LGASA Mutual Services.

It was agreed that this did not preclude Ms Christie from the discussion at item 3.1 'Insurance Overview' on the Agenda given the subject matter of the overview.

1.3 Committee Members and Auditors Discussion

Nil

1.4 Minutes of Previous Meeting – 3 April 2023

The Chair noted that confidential items from the previous meeting were not included within the minutes distributed with the Agenda papers, but that the full minutes had been distributed on the 20 April to Committee Members.

Moved Ms P Christie, Seconded Mr L Kozlovic

AC4681-2023

That the Audit and Risk Committee confirm the minutes of the Audit and Risk Committee meeting held on 3 April 2023 as a true and correct record of the meeting subject to the inclusion of the confidential items noted above.

Carried

1.5 Business Arising from Previous Meetings

Items completed as outlined in Business Arising from previous meetings as well as the updates made to the External / Internal Reviews Workplan inclusive of definitive dates for the completion of items were noted.

The Committee's Work Program was noted as being comprehensive and will be reviewed at each meeting to ensure a focus is maintained on the quality of considerations as opposed to quantity.

Moved Ms Pat Christie, Seconded Cr P Borda

AC4682-2023

That the Audit and Risk Committee notes the progress of actions taken to address items of business arising from previous meetings of the Audit and Risk Committee as well as external reviews.

Carried

2. ITEMS FOR DECISION

2.1 Budget Review 2022-23 Quarter 3

The Chief Executive Officer provided an update on Council's consideration of the Committee's feedback concerning the Council's long term financial sustainability and suggested budget repair options.

Information provided by the Chief Executive Officer against each of the suggested options included:

1. A higher rate increase including consideration of breaking the nexus between rate increases linked to CPI

Council has considered a range of rate increases including as high as 11.5%. In the context of the city's socio-economic conditions, this increase is considered too high. The proposed increase of 8.5% is thought to be a more acceptable and accessible increase in the context of historic rate rises and the current level of inflation.

Removing the nexus between CPI and rate increases has commenced with budget information being presented to the community based on a per week basis for the average ratepayer at \$2.30 and through budget documentation having a focus on why CPI is driving increased costs, alongside other factors.

2. Deferring project expenditure and/or making project expenditure conditional on the delivery of service review outcomes

Council has considered the timing of project expenditure and determined to retain the current program to prepare for the transformation of the city in the immediate future. Council is of the view that these resources are required to deliver stepped change in Council's future revenue growth through new development. However, should revenue growth not materialise, a reduction in resources has been factored into the Long Term Financial Plan (LTFP) from 2025/26 via a reduction in three (3) management positions and 25% reduction in capital expenditure.

3. Reducing service levels

A program of service reviews is now being developed to ensure any service level changes are based on informed decisions. Until service review outcomes are known, maintaining current service levels is the prevailing view, in line with community expectations.

4. Increasing income from other sources

This has been reviewed and the only material income sources aside from rates are fees and charges from the Airport and Child Care services. Both of these are already planned to increase for next year. In terms of grant funding, Council will actively work with the Spencer Gulf Region and State Government in preparing a submission to the Federal Government, in line with the Federal Government Federal Growth and Partnership Program where it is hoped additional funding will be secured.

5. Rationalising and disposing of underperforming assets

Council agrees with this suggestion, and a workshop is scheduled for 22 May 2023 to review building stock and address legacy issues.

The Chief Executive Officer advised that the approved monies for the Child Care Centre were a significant reduction from the initial tender response and that it would be funded via increasing the Child Care fees and charges. It was noted that the Child Care Centre is part of Council's early service review program.

The Manager Finance provided an overview of the third quarter budget review highlighting three (3) key items which have negatively impacted Council's position:

1. The final estimates for interest costs. Interest rates have moved very quickly this year resulting in increased interest expense. Interest rate increases have been built into the LTFP, and therefore this is not impacting on future year budgets.
2. The airport is still experiencing challenges although income is recovering to pre COVID levels in areas such as carparking and leases for car hire.
3. Another key cost pressure has been illegal littering, which will start to be addressed with funds for waste education being included in the 2023/24 budget.

It was noted that while projections for 2025/26 and beyond have materially changed, this is only due to the updated assumptions around staffing and a 25% reduction in capital spend. Capital costs are increasing, however the key variances in the 3rd quarter budget review are operational in nature and a greater focus and sense of urgency should be applied to addressing the financial issues.

The continued discomfort with the unsustainable position of the Council, current and projected financial position and performance was noted.

Moved Cr P Borda, Seconded Mr L Kozlovic

AC4683-2023

That the Audit and Risk Committee, noting the underlying repair required to the budget:

1. Recommend the Budget Review 2022-23 Quarter 3, identifying an operating deficit of \$2,737,000 and an estimated cash position at end of reporting period of \$172,000, be submitted to Council for adoption; and
2. Recommend that the 2022-23 Annual Business Plan and Budget and Long-Term Financial Plan be amended to reflect the variances.

Carried

2.2 Request for Proposal for Service Review and Internal Audit Services

The Director Corporate Services provided a summary of the proposed approach to seeking Service Review and Internal Audit Services commenting that this program:

- would contribute to Council's budget repair considerations over time.
- assist Council in determining whether service levels at their current standard are at the right level and if not, what changes need to be made
- be procured via an open market approach rather than a select tender.

Discussion was held on the proposed scope of services and the importance of having a clear focus and priorities as well as the level of detail contained in the proposal. It was noted that the timing of the procurement process would be brought forward to meet July Council meeting timeframes.

Moved Mr L Kozlovic, Seconded Mr P Christie

AC4684 – 2023

That the Audit and Risk Committee:

Subject to the inclusion of the feedback provided, endorses the issuing of the request for proposal as attached.

Carried

2.3 Procurement and Contract Management Policy

The Manager Finance advised Council's Procurement framework has been reviewed over the past 12 months working with the SA Government in a procurement partnership approach. Key changes/elements include:

- An increase to the thresholds for each procurement process.
- The introduction of acquisition plans for all procurements over \$40,000.
- Maintaining the weighting for local purchases.

Discussion was held on the draft Procurement and Contract Management Policy with the following being a summary of matters raised:

- Unsuccessful tenderers are provided detailed feedback on request, noting that instances where local contractors are unsuccessful is likely to be due to higher costs.
- Consideration could be given to introducing a sliding scale for local weighting and weighting for other regional-based companies to increase the overall regional capacity and regional service delivery.
- The test for whether value for money is received when exemptions are provided is shown in the Quarterly Procurement Report included later in the agenda.
- It was agreed that Psychometric Testing would be removed from the exemption list. (Schedule 1)
- It was further agreed that the contract management section is to be updated to include when a formal contract is required and associated contract sign-off requirements.

Moved Mr L Kozlovic, Seconded Cr P Borda

AC4685 – 2023

That the Audit and Risk Committee recommends the Procurement and Contract Management Policy to Council for adoption subject to the inclusion of amendments discussed above.

Carried

2.4 Privacy Policy

The Manager Legislation advised the draft Privacy Policy has been based on the principles of State Government agencies given South Australia does not have a privacy act.

It was noted that State Records have recently released a privacy strategy that will not change the privacy principles but will look at privacy culture and building privacy considerations into risk decisions. There may be more movement on this strategy and State Records have asked Local Government to comment.

It was agreed that:

- consistency between clauses regarding the collection of personal information is required
- Council's contract templates are to include reference to this Policy
- reporting and escalation provisions within the Policy, when material breaches occur is required.

Moved Cr P Borda, Seconded Ms P Christie

AC 4686 – 2023

That the Audit and Risk Committee recommends the Privacy Policy to Council for adoption subject to inclusion of amendments identified above.

Carried

Adjournment of Meeting

Moved, Mr L Kozlovic, Seconded Ms P Christie

AC4687 - 2023

That the Audit and Risk Committee Meeting be adjourned for 15 minutes for a refreshment break.

Carried

The Audit and Risk Committee Meeting adjourned at 12:32 pm

Moved Cr P Borda, Seconded Ms P Christie

AC 4688 – 2023

That the Audit and Risk Committee Meeting reconvenes.

Carried

The Audit and Risk Committee Meeting reconvened at 12:46 pm

3. ITEMS FOR NOTING

3.1 Insurance Overview

The Manager Governance advised the Insurance Overview report provides an overview of the Whyalla City Council self-insurance arrangements via Local Government Risk Services (LGRS). This overview includes the three LGRS schemes, Local Government Association Worker Compensation, the Local Government Association Mutual Liability Scheme and the Local Government Association Asset Mutual Fund.

A new report as a summary of insurance activity will be presented to the July Committee meeting.

The Director Corporate Services advised that the mutual liability scheme is for public liability and if there are matters that relate to the employee there is the workers compensation scheme, but for employee-related matters there is no coverage.

The Director Corporate Services advised that an annual review of its asset base and risk profile, and JLT who are skilled and experienced in this area provide advice on the level of insurability.

Moved Cr P Borda, Seconded Mr L Kozlovic

AC4689-2023

That the Audit and Risk Committee note the Insurance Overview report.

Carried

3.2 Quarterly Procurement Report Jan-March

The Finance Manager advised that the key areas of these reports are the procurement exemptions and the local purchase arrangements, open tender and purchase orders.

The Finance Manager also advised local procurement can be skewed by large or specialized projects and the number of local purchases is a good indication of the intent to purchase locally. The number of exemptions is considered at a normal level.

Complaints are generally low and as part of the procurement review with the State Government, local suppliers were engaged to provide feedback.

Moved Ms P Christie, Seconded Mr L Kozlovic

AC4690-2023

That the Audit and Risk Committee note the Quarterly Report – Procurement January to March 2023.

Carried

3.3 Quarterly Procurement Report Sept-Dec

The Finance Manager provided additional information on the exemption for \$690,000 associated with the Northern Coastline work.

It was agreed that consideration be given to walk-away clauses being included in Council's future contracts as a mitigation to possible risk exposures associated with defined events.

Moved Cr P Borda, Seconded Ms P Christie

AC4691-2023

That the Audit and Risk Committee note the Quarterly Report – Procurement September to December 2022.

Carried

3.4 ESCOSA Advice

The Manager Finance summarised the report highlighting:

- The ESCOSA advisory scheme is part of the recent Local Government reforms. Every Council in South Australia will be reviewed every four years.
- In lieu of rate capping, ESCOSA will review Council's Long Term Financial Plan (LTFP) and Asset Management Plan for consistency and provide advice on improvements and deficiencies.
- There is a general question as to the value of the advice received for the cost of \$40,000 in comparison to the \$16,000 for Council's external auditors who are on-site for six days per year with three auditors with a comprehensive list of recommendations.

It was noted that Council should look to get as much benefit from this review process as possible, but that if little value is expected, the information should be gathered using minimal resources.

ACTION

It was agreed a deeper insight into the granular assumptions within the LTFP is required

Moved Ms P Christie, Seconded Cr P Borda

AC4692-2023

That the Audit and Risk Committee notes the ESCOSA review update report.

Carried

3.5 Interim Management Report

Discussion was held on the Interim Management Report particularly noting Management's 'no action to be taken' response to the high-risk item raised by the Auditors, being the process for measuring and recording airport passenger levy income.

ACTION

The Auditor to advise whether they are comfortable with Management's response to this risk as well as management's response to the other matters raised and associated remedy dates proposed.

Moved Cr P Borda, Seconded Ms P Christie

AC 4693-2023

The Audit and Risk Committee notes the external auditors Interim Management Report.

Carried

3.6 Finance Policies Review Schedule

The Manager Finance advised the overall work plan has been expanded to include policies that are now included in the policy schedule and are all up to date.

Possible additional policies for inclusion were outlined and it was noted they will be provided to the Manager Finance for consideration.

Moved Mr L Kozlovic, Ms P Christie

AC4694-2023

That the Audit and Risk Committee notes the report Finance Policies Review Schedule.

Carried

3.7 Transport Assets Revaluation

Discussion was held on the Transport Assets Revaluation report.

Moved Cr P Borda, Seconded Ms P Christie

AC4695-2023

That the Audit and Risk Committee notes the report Transport Assets Revaluation.

Carried

4. CONFIDENTIAL ITEMS

4.1 Unsolicited Proposal – Airport Land

Moved Mr L Kozlovic, Cr P Klobucar

AC 4696 – 2023

Pursuant to Section 90(2) and (3)(d) of the Local Government Act 1999, the Audit and Risk Committee orders that the public be excluded from the meeting with the exception of Justin Commons; Chief Executive Officer, Kathy Jarrett; Director Corporate, Kristen Clark; Director Infrastructure, Jade Ballantine; Director City Growth, Irene Adair; Manager Governance, Grant Jennings; Manager Finance, Sandra Vigar; Finance Coordinator, Tim Bayly, Manager Capital Works, Jodie Perone; Manager City Planning; Robyn Nottle; Manager Assets and Planning, Shivvaan Sathasivam; Projects and Partnerships Lead, Sue King; Manager People and Culture, Lisette Symons; Executive Coordinator – Corporate for Agenda Item 4.1 – Unsolicited Proposal – Airport Land

The Audit and Risk Committee considers that the requirement for the meeting to be conducted in a place open to the public has been outweighed in circumstances where the Council will receive and consider a report containing commercial information of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information.

Carried

Moved Mr L Kozlovic, Seconded Cr P Borda

AC 4697 – 2023

- 1.
2. having considered Agenda Item 4.1 – Unsolicited Proposal – Airport Land in confidence, under Sections 90(2) and (3)(b) of the Local Government Act 1999, the Council pursuant to Section 91(7) of the Act, orders that this Report including Annexures and the Minutes be kept confidential and not available for public inspection for a period of five (5) years, on the basis that it contains commercial information of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, notwithstanding that it will be reviewed annually in February of each year.

Carried

Moved Mr L Kozlovic, Seconded Ms P Christie

AC 4698-2023

That the Audit and Risk Committee returns to the public meeting.

Carried

5. MOTIONS WITH NOTICE

Nil

6 MOTIONS WITHOUT NOTICE

Nil

7. DATE OF NEXT MEETING – Monday 17 July 2023 at 11am

8. CLOSE – Meeting closed at 1.56 pm

Confirmed:

Presiding Member – May 2023