

MINUTES OF THE AUDIT COMMITTEE MEETING

HELD ON MONDAY 9 MAY 2022 AT 11.00AM VIA MICROSOFT TEAMS

PRESENT: Mr A Rushbrook (*Chair*), Cr B Simpson, Cr S Stuppos and Mr P Klobucar

OFFICERS IN ATTENDANCE: Chief Executive Officer (*Mr J Commons*)
Director Corporate Services (*Ms K Jarrett*)
Manager Finance (*Mr G Jennings*)
Finance Coordinator (*Mrs S Vigar*)
Manager Governance (*Mrs I Adair*)
Executive Coordinator – Corporate (*Ms L Fisher*)

1. Acknowledgement

The chair acknowledged that the meeting was being held on both Barngarla and Narungga land and gave thanks for the use of this land.

2. Attendance Record

Apologies – Mayor C McLaughlin
Leave of Absence – Nil

3. Declaration of Members' Conflict of Interests – Nil

4. Minutes of Previous Meetings

4.1 *Confirmation of the Minutes of the previous Audit Committee Meeting held on Tuesday 8 February 2022.*

Moved Cr B Simpson, Seconded Mr P Klobucar

AC334-2022

That the Minutes of the previous Audit Committee Meeting held on Tuesday 8 February 2022, as per copies supplied to Members, be adopted as a true and correct record to that meeting.

Carried

4.2 *Confirmation of the Minutes of the previous Special Audit Committee Meeting held on Monday 4 April 2022.*

Moved Cr S Stuppos, Seconded Cr B Simpson

AC335-2022

That the minutes of the previous Special Audit Committee Meeting held on Monday 4 April 2022, as per copies supplied to Members, be adopted as a true and correct record to that meeting.

Carried

4.3 Business Arising

Director Corporate Services advised that Item 2 – Risk Profile/Action Plan – has been deferred until the July Audit Committee Meeting to allow review by Executive Management Team.

Manager Finance advised regarding the Work Programme that the Interim Audit Report was still under development as the Audit had only recently taken place and that it would be presented at the July Audit Committee Meeting. No concerns had been identified.

5. Deputations/Presentations – Nil

6. Reports – Council Officers

6.1 Corporate Services – Ordinary Reports

6.1.1 Quarter 3 Budget Review

Manager Finance highlighted that the Federal Government had paid three quarters of the Financial Assistance Grants in advance which has impacted Council's operating position. The Airport operating position could not be offset due to passenger reductions following COVID-19 restrictions, but some recovery is currently being experienced. Project timings have also been updated.

Discussion was held on the Quarter 3 Budget Review with the following comments being made:

- Clarification was provided in terms of spending on the Whyalla Recreation and Leisure Centre, noting the break down and timing of funding of the various works
- the Workers Compensation rebate of \$100,000 was required to be recognized as a reduction in expenditure.
- Recovery of rates was holding steady, with there being no indication that debt is increasing
- Council had received five quarters of Financial Assistance Grants
- The decrease of new and upgraded assets was due to the timing of the receipt of grant funding
- Adjustments to future years' budgets were noted as being consistent with discussions from the Committee's last meeting concerning the Council's financial position.

Moved Cr B Simpson, Seconded Cr S Stuppos

AC336-2022

The Audit Committee:

1. recommend to Council the adoption of the Quarter 3 Budget Review, identifying an adjusted operating deficit of \$1,173,000 and an estimated cash position at the end of reporting period of \$229,000;
2. recommend to Council that the 2021-22 Annual Business Plan and Budget and Long-Term Financial Plan be amended to reflect the variances, noting that the budget position is

consistent with previous projections, with the exception of reduced airport income, which could not be offset.

Carried

6.1.2 Treasury Management Policy Review

Manager Finance highlighted that the only update to the Treasury Management Policy was increasing the target to 50% of Council loans to be fixed, with a target range of 30%-70% to allow for cash flow movements.

During discussion, it was noted that the target range is interpreted via monthly reviews of the percentage of loans that are fixed against cashflow projections. The setting of borrowing levels was also clarified as being set by the annual budget, noting that recent changes to the Local Government Act will require a resolution of Council each year setting the borrowing level for that year. Levels of borrowing are also determined by council's capacity to service loans, with the current borrowings target being set at 80% of annual income.

Moved Cr B Simpson, Seconded Mr P Klobucar

AC337-2022

The Audit Committee recommend the updated Treasury Management Policy to Council for adoption.

Carried

6.1.3 Quarterly Report – Procurement

The large increase in non-local procurement was noted as being largely due to major projects including the airside airport works.

In this regard, the exemption provided for the project management contract for airside works was due to internal staffing changes and the timing of the works commencing.

Moved Cr S Stuppos, Seconded Cr B Simpson

AC338-2922

The Audit Committee receive and note the Procurement Quarterly report.

Carried

7. Consideration of Confidential Items

7.1 Corporate Services

7.1.1 Feedback on ESCOSA proposed Framework and Approach

Moved Cr S Stuppos, Seconded Cr B Simpson

AC339-2022

Pursuant to Section 90(2) and (3)(j) of the Local Government Act 1999, the Audit Committee orders that the public be excluded from the meeting with the exception of Justin Commons; Chief Executive Officer, Kathy Jarrett; Director Corporate Services, Grant Jennings; Manager Finance, Sandra Vigar; Finance Coordinator, Irene Adair; Manager Governance and Lisette Fisher; Executive Co-ordinator – Corporate for Agenda Item 7.1.1 – Feedback on ESCOSA proposed Framework and Approach.

The Audit 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 Audit Committee will receive and consider information the disclosure of which would divulge information provided on a confidential basis by a public authority, being the Local Government Association of SA (LGA).

Carried

Moved Cr S Stuppos, Seconded Cr B Simpson

AC340-2022

That formal meeting procedures be suspended for a period of 15 minutes for the conduct of a workshop regarding Council's feedback on the Local Government Rates Oversight Scheme.

Carried

Formal meeting procedures were suspended at 11.36am

Discussion was held on the matters raised associated with the proposed ESCOSA Local Government Rates Oversight Scheme with the following points being highlighted:

- Looking at the proposal, it appears to be an expensive data analytics exercise, and there is the risk that the advice provided will lack the insights to substantiate the price. Council receives their annual external audit for a cost that is less than one third of the proposed cost for this process, which appears to indicate that the price is far too high.
- While not necessarily a concern to Whyalla specifically, being a medium sized Council, it does seem to be counterproductive that the scheme will be charged to all councils evenly, rather than on a graduated or per capita basis. This will have substantial negative financial impacts on some small regional councils, for a scheme that purports to exist to increase financial performance.

- One of the items outlined in the approach is that direct analysis will not be made between councils. While it is understood that no-one wants this exercise to become a simple scorecard of performance amongst councils, surely there is some merit from ESCOSA undertaking some comparisons. The approach talks about looking at efficiency, but how is this possible without comparison? If this is only undertaken by looking at a council over time, in effect the modelling would reward an organisation that had more “fat” in the budget to begin with. Is this a desirable outcome?
- The scheme mentions the use of the SEIFA index as an input to the analysis. Doesn't this infer that at some level a comparison is being made between councils?
- Any scheme of this nature has to take into account that every council is at a very different position in its life cycle, including the movement towards better financial sustainability that has been occurring across the industry over the past 15 years or more. Looking at the annual increase in rates supports the ubiquitous fallacy that the existing position is where it should be. In many cases councils are constantly playing catch-up.
- The scheme appears to misunderstand what the Long Term Financial Plan (LTFP) is. It is just what it says, a plan. It is a tool to assist a council to understand its capacity and the impacts of decision making. Councils are responsible for overseeing a complex environment and regularly make important decisions with significant ongoing impacts, often outside of the annual budget process. This is not a problem if the decision is made with good information. The scheme seems to envision a world where councils adopt a LTFP and then nothing changes from that point forward.
- The definition of Intergenerational Equity given with the Framework paper is solely focused on the economic factors and not any of the other important considerations, e.g. the environment.
- Local Government is much more complicated than other industries that currently fall within the purview of ESCOSA, not the least of which is that every decision is made within a wholly political context. It remains to be seen how long ESCOSA will take to build up the knowledge to provide insightful advice to the industry. This adds weight to the argument about keeping the scheme small to begin with, with ESCOSA using the opportunity to focus on knowledge building.
- Of particular concern to Whyalla, is whether the Scheme has been designed in a way that can sufficiently deal with the often complex and interdependent relationship between councils and the local communities they serve in regional areas. Like much of what occurs in South Australia, there is a risk that the scheme will be highly focused on metro Councils and their set of circumstances. If implemented well, a Scheme of this type has the potential to assist regional councils in their decision-making process and consultation with the community on difficult issues. Hopefully that will be the case.

Moved Cr B Simpson, Seconded Cr S Stuppos

AC341-2022

That formal meeting procedures be suspended for a further 10 minutes for the conduct of a workshop regarding Council's feedback on the Local Government Rates Oversight Scheme.

Carried

Formal meeting procedures resumed at 12.03pm

Moved Cr Stuppos, Seconded Cr B Simpson

AC342-2022

1. The Audit Committee notes the administration's intention to make a submission supporting the Local Government Association (LGA) advocacy position in relation to the scheme established in section 122 of the Local Government Act 1999 under which the Essential Services Commission of SA (ESCOSA) will provide advice to councils in relation to strategic management plans, and notes the following concerns in response to the ESCOSA proposed framework and approach:
 - The scope of information requested by ESCOSA should be directly relevant to and used for the purpose of provision of advice regarding councils Long-Term Financial Plan, Infrastructure and Asset Management Plans and total revenue sources, in accordance with the requirements of section 122 of the Local Government Act 1999.
 - The first four years of operation of the scheme should be used to set a baseline for each council and then, using a risk-based approach, the scope of the review could be scaled up for a particular council if a need is identified. This is consistent with ESCOSA's espoused "better regulation" approach, which it describes as being risk-based, proportionate to the problem that is being addressed and subject to continuous improvement and monitoring.
 - The period for which historical data is provided should reflect the timeframe anticipated within the proposed scheme, i.e. four years, and a request for historical information for a longer period is not supported.
 - The costs associated with the proposed scheme are far in excess of what was anticipated, and the scope of the proposed scheme should be reduced to address the unreasonable costs.
 - The removal of the discretion provided in the Local Government Act 1999 for Council to determine the reasonable assumptions to be used in the development of the Long-term Financial Plan is strongly rejected. These assumptions may include consideration of the Local Government Price Index (which accounts for the costs of items usually purchased by councils as opposed to CPI which accounts for the costs of items usually purchased by households), endorsed Enterprise Bargaining Agreements, the ABS wage price index and other actual cost factors which collectively provide a more accurate representation of inflation pressures to be considered by Council.
 - The use of the term 'CPI constrained' will lead to unreasonable criticism of councils that justifiably increase rates greater than CPI and will have a practical effect of capping council rates to the CPI rate. 'Rate capping' was not supported by Parliament. The assertion that councils should be CPI constrained is rejected.
2. having considered Agenda Item 7.1.1 – Feedback on ESCOSA proposed Framework and Approach in confidence, under Sections 90(2) and (3)(j) of the Local Government Act

1999, the Audit Committee pursuant to Section 91(7) of the Act, orders that this Report and any Annexures to this Report be kept confidential and not available for public inspection until 30 June 2022 except insofar as is necessary to implement the decision.

Carried

- 8. Close of meeting – 12.19pm**
- 9. Date of Next Meeting – 18 July 2022**