TheBarossaCouncil

MINUTES OF THE MEETING OF AN AUDIT AND RISK COMMITTEE
held on Tuesday 7 March 2023 commencing at 4.08pm
in the Council Chambers, 43-51 Tanunda Road, Nuriootpa.

MINUTES

1. AUDIT AND RISK COMMITTEE

1.1 Welcome
By Mr Brass – meeting declared open

1.2 Members Present

Mr Peter Brass, Mrs Ellen Ewing, Mr Ian Swan, Crs Heidi Thompson and Bruce Preece

1.3 Leave of Absence

Nil

1.4 Apologies for Absence

Nil

1.5 Minutes of previous meetings – for confirmation:

MOVED Mr Swan

That the Minutes of the Audit Committee held on Thursday 4 August 2022 at 1.00pm and the Special Audit and Risk Committee meeting held on Thursday 3 November 2022 at 9.00am, as circulated, be confirmed as true and correct records of the proceedings of those meetings.

SECONDED Ms Ewing **CARRIED AR2022-26/1**

2. MATTERS FOR INFORMATION

2.1 Nuriootpa Centennial Park Authority - Audit Committee Minutes

2.2 Mid-Year Budget Review

2.3 Audit Plan March 2023 Update

2.4 Quarterly Risk Management Report - Quarter 2 2022-2023

3. DEBATE AGENDA

3.1
TREASURY MANAGEMENT REVIEW
23/9135

MOVED Mr Swan

That Audit and Risk Committee receive and note Council's 2022 Treasury Management activities.

SECONDED Cr Preece **CARRIED AR2022-26/2**

PURPOSE

Pursuant to Section 140 of the *Local Government Act 1999*, and in accordance with Council's Treasury Management Policy, Council must undertake an annual performance review of its Treasury Management activities.

REPORT

Discussion
The key principles within Council's Treasury Management Policy are as follows:

Council will:

- Maintain target ranges for its Net Financial Liabilities ratio;
- Generally, only borrow funds when it needs cash and not specifically for particular projects;
- Not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- Apply any funds that are not immediately required to meet approved expenditure (including funds that are required to be expended for specific purposes but are not required to be kept in separate bank accounts) to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

Comments regarding the 2022 performance with regard to the above principles are outlined below:

Net Financial Liabilities Ratio
Council's policy regarding its net financial liabilities is that they shall not exceed 100% of total operating revenue (adopted February 2010).

As at 30 June 2022, Council's net financial liabilities represented 4% of total operating revenue, and it is projected to increase to 49.8% as at 30 June 2023 (as per December

2022 Budget Review). Accordingly, Council is currently operating within its policy threshold.

Loan Borrowings

Council's policy relative to loan borrowings states that the use of internal reserves be considered prior to consideration of external loan borrowings. The total variable borrowings for Nuriootpa Centennial Park Authority and Council that are currently available is $5m and only $100k has been drawn down on these facilities. There have been no new fixed debenture loans in the calendar year ended 31 December 2022.

The use of internal cash reserves has continued to be used in funding Council's capital works programs and has subsequently minimised the net interest cost to Council.

A summary of the fixed interest rate borrowings provided though the Local Government Finance Authority are shown below:

Debenture Loan Summary				
No.	***Loan Amount***	***Interest Rate***	***Final Payment Date***	***Principal Outstanding as at 31 December 2022***
105	7,000,000	7.02%	16/11/24	3,582,799
106	2,000,000	6.85%	15/04/26	660,526
108*	515,000	6.20%	15/01/34	368,470
109*	125,000	5.30%	15/09/29	70,490
112*	180,000	4.25%	15/12/27	99,427
113*	80,000	4.50%	15/02/28	48,355
114	1,750,000	3.60%	15/08/28	1,123,850
116**	1,000,000	2.05%	15/06/30	768,784
119*	330,000	3.75%	15/03/37	321,705
120*	300,000	5.1%	15/07/32	300,000
				7,344,406

* Loans approved by Council, provided for the Community to Clubs, Societies or Groups. The repayments to Council are on schedule for the community loans outstanding - a total principal balance at 31 December 2022 of $1,208,447.

** NCPA debenture loan

Variable interest rate borrowings (Cash Advance Debentures)

A new loan CA118 was taken out in 2021 for a community loan to Nuri Futures Association. A summary of the variable interest rate borrowings is shown below:

Cash Advance Debentures Summary						
No.	***Council/ NCPA***	***Total Facility Loan Amount***	***Total amount borrowed***	***Current Interest Rate***	***Facility End Date***	***Principal Outstanding as at 31 December 2021***
CA70	Council	1,000,000	0	**	15/04/23	0
CA115	Council	3,000,000	0		15/05/30	0
CA117	Council	900,000	0		15/10/23	0

CA118	Council	100,000	100,000	5.05%	16/08/31	92,000

* COVID special rate for 3 years only

** Interest rates vary depending on loan term and will apply upon drawdown of loans

Council Funded Loans

Council has previously approved external loans not included in the Debenture Loan Summary table that have been paid from Council funds:

1) Barossa Valley Machinery Preservation Society Inc
2) Nuriootpa Centennial Park Authority (NCPA). The current adopted long-term financial plan (LTFP) includes a $130k repayment in 2022/23 and the loan is to be fully repaid during 2023/24. The NCPA loan repayment schedule is subject to an annual review of their LTFP, checking the operational and capital expenditure, cash flow requirements and the financial sustainability of the business. The NCPA loan is charged at the current cash advance loan interest rate. The Council Funded loan summary is shown in the following table:

Council Funded Loan Summary

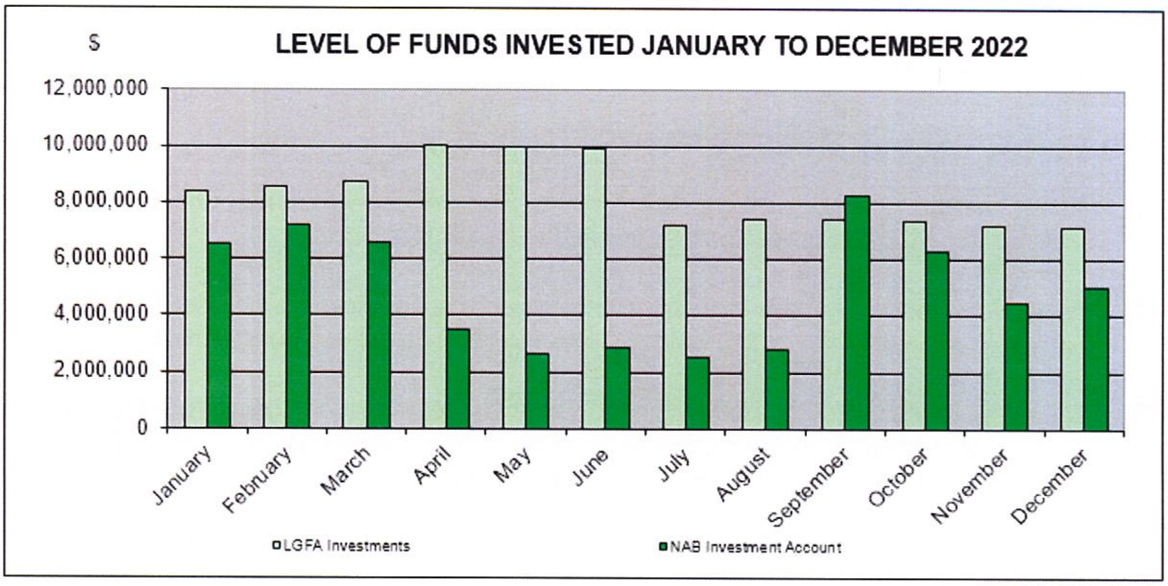
Name.	***Total Facility Loan Amount***	***Current Interest Rate***	***Facility End Date***	***Principal Outstanding as at 31 December 2021***
Barossa Valley Machinery Preservation Society Inc	25,000	4.30%	8/11/28	16,254
Nuriootpa Centennial Park Authority	650,000	5.05%	2023/24	260,000
				276,254

Investments

Council currently holds investments with National Australia Bank (NAB) and the Local Government Finance Authority (LGFA). Council's total investments as at 31 December 2022 were:

	Variable Interest Rate $'000	***≤ 1 year Fixed $'000***	***> 1 year ≤ 5 years $'000***	***> 5 years $'000***	***TOTAL $'000***	***Interest Rate Range 2021***
LGFA	4,162	3,000	0	0	**7,162**	3.04% to 3.77%
NAB Investment A/c	5,060	0	0	0	**5,060**	
TOTAL	**9,222**	**3,000**	**0**	**0**	**12,222**	

The level of funds invested during the year is presented in the graph below. The graph excludes Council's separate operating bank account which was maintained at minimum working capital levels in accordance with the Policy. Due to the uncertainty of COVID19, investments were not fixed with the LGFA during this time, but Council utilised the NAB investment account. Fixed investments with the LGFA are likely to be built up over the coming months, depending on cash flow requirements and any changing situations with COVID19.



ATTACHMENTS OR OTHER SUPPORTING REFERENCES

Nil

Supporting references
Treasury Management Policy

COMMUNITY PLAN / CORPORATE PLAN / LEGISLATIVE REQUIREMENTS

Community Plan

How We Work - Good Governance

Corporate Plan

6.4. Ensure that decisions regarding expenditure of Council's budget are based on an assessment of whole of life costs, risks associated with the activity and advice contained within supporting plans.

Legislative Requirements
Local Government Act 1999, Section 140

FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

Financial
A review of investments and borrowings is required as per the Treasury Management Policy and Local Government Act.

COMMUNITY ENGAGEMENT

No separate consultation is required under Council's Public Consultation Policy.

3.2
LONG TERM FINANCIAL PLAN 2023/24 TO 2032/33 AND ANNUAL BUDGET AND BUSINESS PLANNING TIMETABLE, NEW INTIAITVE INCLUSION, INDEXATION AND ASSUMPTIONS 2023/24
23/10450

MOVED Cr Preece

That Audit and Risk Committee receive and note:

(1) The Operating Expenditure for Contractors, Materials and Other expenses indexation to be applied as contained within this report.

(2) That New initiatives will not be considered according to previous processes, rather the alternative processes outlined in the report are supported.

(3) The timetable for Council workshops and Council meetings for the annual review, consideration and adoption of the Long-Term Financial Plan 2023/24 to 2032/33 and the Annual Budget & Business Plan 2023/24.

SECONDED Mr Swan **CARRIED AR2022-26/3**

PURPOSE

As per the Long Term Financial Plan 2023/24 to 2032/33 and Annual Budget And Business Planning Timetable, New Initiative inclusion, Indexation and Assumptions 2023/24 endorsed by Council in December 2022. The Audit Committee needs to receive and can provide comment regarding the management of new initiatives/ideas, application of indexation and budget setting assumptions is required to ensure Council meets key milestones for the annual review and adoption of the Long-Term Financial Plan (LTFP) 2023/24 to 2032/33 and the consideration and adoption of the Annual Budget & Business Plan (AB&BP) 2023/24.

REPORT

Discussion
As part of the 2023/24 draft budget preparation Council has at a strategic discussion to set the general service requirements and larger expenditure programs in detail for the next few years and at a summary level for the remaining years of the LTFP. As listed in this draft timetable a Strategic discussion was to be held as a workshop after the Council meeting on the 24 January 2023.

Indexation and Assumptions
Each annual review process provides an opportunity to introduce new assumptions or enhance the information base as required, using the existing indexation and assumptions.

The main assumptions and indexation being considered during this early stage of budget preparation is the income and expenditure indexation. As included in the draft timetable, following receipt of updated valuation data, Council will review the proposed options for rate increases to ensure they are reasonable and ensure indexation for operational expenditure is appropriate.

Council staff will provide information for the cost of delivering services and any suggested changes to service levels ensuring income or charges for the services are appropriate. The final expenditure amounts may differ from the LTFP estimates for the 2023/24 year due to external influences such as service contracts, agreements where costs such as fuel prices, electricity and gas pricing contracts, State Govt. levies and contracted employee costs, ie. costs out of our control, including from pandemics, climate change and some areas of expenditure may be more or less than expected.

Council sets the expenditure budget required to meet its service provision and will make adjustments as needed for the benefit of its customers. An example of this was the required increase for service level requirements for tree trimming/planting, where Council approved an increase to the resource - input to expand the tree timing/planting - output and thereby providing green space/shade/environment - better outcome for the community.

The Budget from last year is used as the base for the 2023/24 draft budget and each budget manager then reviews to actual costs and trends to meet the existing service provision. If the actual costs are reduced from the base budget, it is a requirement that unless there were extenuating circumstances for the underspends, that next year's budget is also reduced.

The LGPI (Local Government Price Index) is used as a base for the LTFP and considering local needs and requirements to meet service levels. The Local Government Price Index (LGPI) increase for 12 months to 30 September 2022 was 6.7%; (noting the Adelaide CPI for the 30 September 2022 period was 8.4%, Australia CPI for the monthly - October 2022 period was 7.1% and possibly trending down). It is recommended at this time to ensure tension on budget management, the continued trend of an operating surplus that general indexation be limited to 2% unless contractual arrangement require otherwise.

For the purposes of this draft budget timetable, further impacts from the LG Reform Bill and Council requirements for information provision to the designated authority will start in the 2022/23 budget period with $12k pa for Local Government Advice from ESCOSA. The Barossa Council is scheduled in with the advisory scheme in the 2025-26 financial year. A Funding plan is required in the 2023-24 LTFP, the format and details will be provided by the LGA during 2023.

https://www.escosa.sa.gov.au/advice/advice-to-local-government

The following indexation base information is sourced from the adopted LTFP for the 2022/23 year.

Operating Income

Rate increases to fund and ensure service level provision is maintained in line with revised sustainability requirements.

General Rate revenue increases to existing ratepayers for the 2022/23 year was reduced to 3.75%, additional revenue for the growth in assessment numbers from last year is currently at 0.84%. An additional revenue amount of $140k to provide a Revaluation Initiative General Rate Cap (further detail within this section) was allocated. The temporary general rate revenue increase used to offset the Revaluation Initiative General Rate Cap expense can both be reversed for future years. For future operating results, general rate revenue was then budgeted to increase at 3% pa from 2023/24 onwards plus growth in assessment numbers ranging from 0.75% to 1.5% pa. During the preparation of the 2023/24 draft budget Council management will review the revenue and expenditure requirements and report this to Council. Council will then assess and approve the general rate revenue increases required to ensure Councils financial sustainability in the annual review of the LTFP.

During 2022/23, there was a net 8.81%, rate revenue increase for waste collection and disposal across the three waste services as a result of significant increases in Refuse and Green Organics collection and disposal costs. In the adopted LTFP the Waste Service Rate Revenue indexation service charge is set to increase for the forward years ranging from 2% to 3% plus growth for new services budgeted at 1% pa.

Community Wastewater Management Systems (CWMS) Service Rate Revenue indexation rates in the adopted LTFP was budgeted to increase in 2022/23 at 4% and forward years ranging from 0.5% to 2.25% plus growth for new services for the remaining years in the LTFP.

Service charge revenue is established to recover the cost to provide the services ensuring ongoing service delivery in a sustainable manner.

Other income indexation has a base increase of 2.0%.

Operating Expenditure
Operating expenditure indexation will be assessed individually for internal and external factors. All indexation quoted is from the adopted LTFP for 2022/23 and will be reviewed.

- Employee costs increase from 2023/24 and remaining years in the LTFP was set at 2%. The draft budget will use existing awards, recently approved enterprise bargaining agreements which are 3.5% year 1, 2.5% year 2 and 2.5% year 3 for SA Municipal Salaries Officers Award and the enterprise process for those under the Local Government Employees award, which is currently under negotiation. The budget will be set to align to both awards;
- Contractor, materials and other expenses will be reviewed to meet service requirements. The increase for these costs from 2023/24 and 2024/25 is set at 2.5% and the remaining years at 2%. Indexation will be adjusted to meet existing service requirements:
  - Selected costs are increased by indexation where agreements, contracts, licensing, arranged service charges, etc. provide for that option, along with costs outside of our control, inc fuel, postage; these will be considered where the relevant service provider(s) initiates the increases,
  - where costs will increase but the quantum is unknown a default increase in line with LGPI,
  - some areas of expenditure may actually be the same or less the expected; and
  - for changes to service provision, ie. increased number of services provided (eg. no. of waste collection(s)) or usage (eg. water usage at parks and gardens).

New Initiatives/Ideas

As briefly discussed with Council at induction, it is now recommended that Council move away from the existing New Initiatives process and instead undertake the following:

1. Strategic review meeting outlined above.
2. Identification of what priorities and projects Council wishes to have a more detailed assessment completed.
3. Review of past two years of initiatives not funded.
4. Officer new initiatives will be limited as normal to high risk or legislative compliance issues or to those that achieve efficiencies and savings, and will be managed by the Executive Leadership Team.

Once priorities for submissions are determined an assessment will be undertaken, this allows resources to only be used on those that Council approve to proceed to an analysis.

Council's existing programs include but are not limited to:

- Existing service provision, governance and administration
- Capital renewal/replacement
- Revaluation and condition assessment of assets to update the estimated replacement cost over the LTFP. Council's understanding and management will continually refine the operating result
- Heavy vehicle and Plant utilisation review
- Existing long-term projects including:
  - Climate Control – efficiency, financial and environmental benefits/requirements
  - Change Program – internal program for innovative and simple systems, processes and productivity improvements
- Infrastructure Asset Management Plans adopted 2021 – renewal spending plans
- Strategic Management Plans
- The Big Project(s)
- Transport renewal programs
- Asset maintenance and operational requirements

Timetable

The proposed timetable for the annual review/update of the Long-Term Financial Plan and the consideration/adoption of the Annual Budget & Business Plan is outlined in the table below:

What	**Activity**	**Date**
Council Meeting	Endorse AB&BP and LTFP Part timetable	20/12/22
Council Workshop	Review and discuss - EM's to be given the opportunity to put forward suggestions for the budget; ELT (Executive Leadership Team) to present budget process, available advisory groups' budget(s), priorities and pressures; strategic and long term aspirations; consider adopted long term indexing & assumptions, Ideas discussion	24/1/23

What	Activity	Date
Council -Elected Members	Prioritisation for new ideas for analysis.	Approved at Council meeting 21 February 23
Administrative Budgets	Staff completion for administrative budgets.	28 February 2023
Council Workshop	Capital Expenditure review existing programs: Transport works LTFP - Renewal/Replacement programs TBP – Grant submissions and ongoing items Prepare Rates report including Rating Analysis of other Councils and consider other Council Rating Strategies.	1 March 2023
Audit Committee	AB&BP and LTFP review To review indexing and assumptions	Feb- March 2023
Council Workshop	New Ideas review for DDR; Council to assess DDR and inclusion in draft budget.	Mid-Late March 2023
Council Workshop	AB&BP and LTFP Review draft Operating Budgets & Capital Works submissions and LTFP	5 April 2023
Management & Staff	*During December to June, budget preparation, rating and valuation modelling*	Jan to June 2023
Council Workshop	AB&BP and LTFP Review draft Capital Works submissions and LTFP	May 2023
Council Workshop	Rating & Valuation Forecasting, valuation changes, rebates, RI General Rate Cap, rating options Final Operating and Capital Works review	May 2023
Audit Committee	AB&BP and LTFP review and endorse for consultation - by email	May 2023
Special Council Meeting	Endorse draft Nuriootpa Centennial Park Authority Budget (NCPA endorsed April) Endorse draft AB&BP and LTFP for public consultation Must be on our web page May*	May 2023
	Council internet provision for web submissions, at least 21 days	May – June 2023
	Public Notice (if local papers a Wednesday) Submissions period – 3 weeks	May to June 2023
Special Council Meeting / Other process**	Process for the public to present/provide budget submissions in line with legislative/other requirements. *21 days after the draft A&BP is available on the web!	June 2023
Council Meeting	AB&BP and LTFP Consideration of public submissions	June 2023
Special Council Meeting	Adopt AB&BP and LTFP, Valuation and Rating (if changes from consultation then this meeting may need to be changed.)	June-July 2023

**New Initiatives discussions, processes and workshops will be included if Council approves to consider them for the 2023/24 budget processes.*

ATTACHMENTS OR OTHER SUPPORTING REFERENCES

Nil

Supporting references

Nil

Policy

Budget & Business Plan and Review Policy:
https://www.barossa.sa.gov.au/Media/Default/Council/Strategies,%20Policies%20and%20Bylaws/Budget%20&%20Business%20Plan%20and%20Review%20Policy.pdf

LGA Information papers – No. 8 Long-term Financial Plan and No. 13 Annual Business Plan; register to logon and access:
https://www.lga.sa.gov.au/home

COMMUNITY PLAN / CORPORATE PLAN / LEGISLATIVE REQUIREMENTS

Community Plan

How We Work - Good Governance

Corporate Plan

6.2. Ensure that Council's policy and process frameworks are based on principles of sound governance and meet legislative requirements.
6.3. Align operational strategy to strategic objectives and measure organisational performance to demonstrate progress towards achieving our goals.
6.4. Ensure that decisions regarding expenditure of Council's budget are based on an assessment of whole of life costs, risks associated with the activity and advice contained within supporting plans.
6.9. Provide access to Council's plans, policies and processes and communicate with the community in plain English.
6.16. Provide contemporary internal administrative and business support services in accordance with mandated legislative standards and good practice principles.

Legislative Requirements

Local Government Act 1999 Section 123
Local Government (Financial Management) Regulations 2011

FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

Financial

The Budget and LTFP indexation, assumptions and timetable are integral parts of financial planning to ensure an organised and thorough process is undertaken.

The cost of capital and risk is to be assessed for application to CWMS operations.

Resourcing and risk is embedded in Council current resourcing and risk profile.

COMMUNITY ENGAGEMENT

Included as part of the draft 2023/24 Budget & Business Plan consultation and adoption process.

4. CONFIDENTIAL AGENDA

Nil

5. URGENT OTHER BUSINESS

- Verbal update regarding the re-appointment of Independent Members. A report will go to the next Ordinary Council Meeting.
- Budget Review process is due for review.
- The Audit & Risk Committee Draft Budget is being prepared and will be presented to Council with the complete Budget. It contains the normal allocation for Members training to allow for new Members and refresher for existing Members, along with Sitting Fee Budget.
- New External Auditors will commence this year and at this stage have not provided the Audit Plan for the 2022-23 Financial Year. Once received it will be provided to Audit & Risk Committee Members.

6. NEXT MEETING

To be determined.

7. CLOSURE

Mr Brass declared the meeting closed at 4.32pm.

Confirmed at Audit and Risk Committee Meeting on the next meeting to be advised.

Date: 21/6/23 Chairperson: P.A. Brass