

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON TUESDAY 31 MAY 2016**



PRESENT

Mr Greg Connor, Ms Kathryn Presser, Councillor Raelene Telfer and Councillor Tim Gard.

In Attendance

Mr Adrian Skull	Chief Executive Officer
Mr Vincent Mifsud	General Manager Corporate Services
Ms Abby Dickson	General Manager City Development
Mr Tony Lines	General Manager Operations
Ms Kate McKenzie	Manager Corporate Governance
Mr Ray Barnwell	Manager Finance
Ms Fiona Harvey	Manager Strategy and Innovation
Ms Liz Byrne	Manager, Community and Cultural Development
Ms Sherie Walczak	Unit Manager Risk
Ms Deborah Horton	Unit Manager Performance & Improvement
Ms Marg Edgecombe	Unity Manager, Community and Cultural Development
Mr Justin Jamison	KPMG
Mr Jared Lawrence	KPMG

1. OPEN MEETING

The meeting commenced at 2.03 pm. The Chair welcomed all those present to the meeting.

The Committee noted that Mr Owens was unable to be present at the meeting and it was appreciated that he had provided comment/feedback via email.

2. KAURNA ACKNOWLEDGEMENT

We begin by acknowledging the Kaurna people, the traditional custodians of this land and pay our respects to their elders past and present.

3. MEMBERS DECLARATION OF INTEREST

The Chair asked if any Member wished to disclose an interest in relation to any item being considered at the meeting. No interests were disclosed.

It was noted that several Committee Members (including the presiding member) and staff had attended the conflict of interests training at the Local Government Association regarding the new legislative provisions. The Committee noted that information had been prepared and distributed to Elected Members and requested that the same information be forwarded to the independent members for information.

Action: forward the conflict of interest information distributed to Elected Members to the Independent Members of the Committee.

4. CONFIRMATION OF MINUTES

4.1 Confirmation of Minutes for the Finance and Audit Committee held 8 March 2016 Report Reference: FAC310516R4.1

Moved Councillor Gard, Seconded Ms Presser that the minutes of the Finance and Audit Committee meeting held on 8 March 2016 is confirmed as a true and correct record of proceedings.

Carried Unanimously

5. BUSINESS ARISING

5.1 Review of the Business Arising from previous meetings of the Finance and Audit Committee Report Reference: FAC310516R5.1

The statement identifying business arising from the previous meetings of the Committee was reviewed and progress achieved against identified actions was noted.

6. ELECTED MEMBER REPORT

6.1 Elected Members Report Report Reference: FAC310516R6.1

The Committee noted the information provided within the report. Councillor Telfer raised the following points:

- Council has focused on infrastructure projects and in addition to the hours spent at Council meetings, an additional 20 hours has also been spent at Elected Member Forums progressing these projects.
- The Council adopted the Section 48 prudential management report for Edwardstown Sports and Community Centre at a Special Meeting of Council on 8th March 2016. Council is now focusing on the Section 48 prudential management report for Mitchell Park Sports and Community Centre which will be considered by the Committee at a special meeting scheduled for Monday, 20 June 2016. It is likely that 2 more projects will progress to this stage before the end of the calendar year.

The Committee acknowledged Councillor Telfer's verbal update and noted that the affordability and funding capacity for these projects will need to be considered further as the projects progress. The Committee also acknowledged that the 20 hours of Elected Member Forum time would have had a multiplying effect on management time, meaning that many more hours would have been spent by staff preparing for these forums.

Councillor Gard also acknowledged the team work involved in progressing these projects to date and congratulated management, staff and Council on their achievements. Councillor Gard raised that the items identified within the executive summary were planned and prioritised early in the Council term, creating the opportunity for Council to take advantage of the funding opportunities as the projects have been spade ready.

Finally, Councillor Gard advised the Committee that Council resolved at its meeting on the 24th May 2016 to write to the Valuer General to seek equity in the property valuation process across the state.

7. REPORTS

7.1 Deloitte Audit Engagement for the Year Ending 30 June 2016 Reference No: FAC310516R7.1

The Committee noted that:

- Ms Penny Wood from Deloitte would not be in attendance as she was unavailable.
- This was the final year of the Deloitte contract and the Committee would be receiving a report later in the year regarding the tender process. It was noted that the timetable from the internal audit tender could be used as a base line.
- The interim audit would commence on the 20th June, with the final audit being conducted in August. The audited Statutory Accounts will be presented to the Committee in October.

It was queried if the audit may be an opportunity for benchmarking or identifying potential systems of improvement. The Committee suggested that as this audit has a defined scope for the statutory year end accounts, this is beyond the scope but there is opportunity to benchmark through other means such as the LGA, Council Solutions, internal audit and/or service reviews.

Moved Councillor Gard, Seconded Councillor Telfer that the Finance and Audit Committee:

1. Considered the outline of Deloitte's audit strategy for the 30 June 2016 audit.
2. Noted the scope of the audit to be carried out by Deloitte for the year ending June 2016.
3. Notes that the Chief Executive Officer will execute the acknowledgement of the engagement letter.

Carried Unanimously

7.2 Annual Business Plan 2016/17 and Long Term Financial Plan Reference No: FAC310516R7.2

The Committee noted that the Annual Business Plan was presented to the Committee on the 8th March and had subsequently been endorsed by Council for public consultation. The public consultation concluded on the 24th May 2016 with one deputation being received at the Council Meeting which related to available support consideration for pensioners.

The following matters were raised and discussed by the Committee:

- The employee assumption of 2%, included in Council's adopted Financial Assumptions is pivotal and only a minor variance is required to have a significant effect on the forward projections in the Long Term Financial Plan (LTFP).
- The Operating Surplus ratio graph on page 58 of the agenda does not show Councils desire to fund capital and highlights the importance of having a primary focus on Council's cash position, as this incorporates all funding requirements including capital.
- Local government is responsible for both operational service delivery and renewing existing infrastructure (ie. this represents core business). This can be quite different

to other industries. The financial ratios should not be considered in isolation from one another. Cash needs to be considered as a primary focus.

- The LTFP provides a guide over ten years and Council needs to be conscious that circumstances and forward projections can change very quickly. There are items that have yet to be included and it is highly unlikely that the Council will have a \$78m accumulated cash balance at the end of the Plan as is currently forecast within the report.
- Council has reduced gross operating costs by the order of \$3 - \$4m over the past 2 years, which is equivalent to a rate decrease of approximately 5+% and has created an increased cash surplus. The Operating Surplus ratio has been growing as costs have reduced, providing Council with the opportunity to fund more capital projects.
- The proposed rate increase of 2.75% plus 1% growth in conjunction with significant operational cost savings therefore creates the capacity to fund capital projects.
- Council needs to focus on operating and capital renewal costs first and then consider remaining cash available to fund capital projects, which may include the need to service new loans.
- The Plan reflects a four-year period where the Council is forecast to be in a cash/funding deficit in those years, but with fully cashed back reserves as a result of accumulated cash holdings.

The Committee noted that the Plan forecasts borrowings increasing up to \$19.6m at a time when council is also forecast to have more than \$19m in cash backed reserves. As such some consideration should be given to the Debt to Equity ratio and noting that the interest on new loans could be just under \$100k per year. Some guidance would be beneficial regarding what is a reasonable level of debt. The Committee agreed that intergenerational equity needs to be considered in conjunction with what is best economically.

The Committee noted that the report clearly demonstrated the impact of decisions as they relate/impact on Council's projected cash/funding surplus or deficit.

7.4 Cost Sharing with Councils **Reference No: FAC310516R7.4**

The Committee noted the report and suggested that this is a good approach. The Committee queried whether the Potential Cost Sharing Initiative items listed in Appendix 1 were achievable? Advice was provided that as local government organisations don't compete against each other for business it is therefore possible to work together to provide services that are mutually beneficial and value for money. The balance needs to be right to ensure that City of Marion services aren't compromised when trying to achieve better cost sharing across Councils. It is important to ensure that an appropriate cost benefits analysis is completed and that a strong focus is placed on larger \$ value opportunities in the first instance.

The Committee queried if there is opportunity to use the 'value add' services offered by KPMG as part of their tender submission to bring in experiences from others Council. It was agreed that KMPG would be approached regarding this.

The Committee suggested that the next step would be to consider what funding is required to progress potential opportunities to the next stage. There are good cost sharing examples, such as the Southern Region Waste Resources Authority, that when done well can create the opportunity for significant return on investment for the Council. It was also noted that a number of the initiatives could be progressed through the Service Review Program.

ACTION: Discuss with KPMG regarding how the value add services offered within the tender can be accessed to assist Council progress with some cost sharing initiatives.

ADJOURNMENT

The chair sought leave of the meeting and was granted for a short adjournment for approximately 5 minutes.

2.54 pm Meeting Adjourned
3.00 pm Meeting Resumed

7.8 Internal Audit Program – Scopes, Reviews and Monitoring Reference No: FAC310516R7.8

3.00 pm Mr Justin Jamieson and Mr Jared Lawrence from KMPG entered the meeting.

Mr Jamieson provided an overview of the program highlighting that they are progressing well through the work program and that they have been provided with good support to date. The Committee noted the Workforce Planning Review was currently being scoped and the Committee requested that KPMG ensure that this review creates tangible outcomes and is value for money.

Mr Lawrence provided an overview of the Building Insurance and Asset Valuation Review in Appendix 1 noting that:

- The review focused on the process for building assets included within a lease or license and addressed the insurance, valuation and how community groups are recharged insurance costs.
- The City of Marion has approximately 1,300 assets, valued at approximately \$90m, which includes its building portfolio. The cost to insure these assets is approximately \$125k per annum with the insurance being obtained through the Asset Mutual Fund, which all Council's in South Australia are a member.
- Financial and reputational risks were identified within the review.
- Management completed a review in late 2015 and a number of the recommendations within the report were already known to management.
- 6 moderate and 2 low recommendations were identified that mainly related to a break down in process. Further alignment between the insurance and asset valuation process is required to ensure accurate data.
- The recommendations are in progress and a number of the recommendations are being implemented as part of the 2016/17 insurance renewal.

Mr Jamison provided an overview of the Payroll report in Appendix 2 noting that:

- The review looked at the payroll cycle from start to finish and the process is a hybrid between a manual and automated system. The existing resources are lean which can make segregation of duties more difficult but management have established good internal controls to manage this.
- The review did not identify any major issues with process or any employee fraud.

- The first finding in the review related to amendments and adjustments of the master file and it was noted that more rigor and formality was required.
- The communication between Human Resources and Payroll could be improved.
- Improvement is required regarding the reconciliation process in ensuring that reconciliations are being prepared and reviewed in a timely manner, including the incorporation of a reconciliation register.
- Excessive and negative leave balances need to be better managed and this has now been a strong focus for senior management and the organisation. It is noted that there are some extenuating circumstances regarding these balances. It is important that all staff take at least two weeks consecutive leave each financial year as issues relating to fraud can occur when people don't take leave. It is also important for staff in financial roles take leave during the end of month processes for the same reason.

The Committee noted the comments and that there is further opportunity for fine tuning and automation of the current process. The Committee also commented that it would like to see regulator updates as to the progress and completion of the audit recommendations.

3.25 pm KPMG left the meeting.

7.5 Bi-Annual Performance and Effectiveness Review of the Finance and Audit Committee Reference No: FAC310516R7.5

The Committee noted that a performance and effectiveness review will provide the Committee the opportunity to seek honest feedback for improvement on its operation and management. The Committee suggested that the timeline and questions were appropriate. The Committee requested that key management also complete the survey to provide a more holistic view regarding how the Committee is operating. It was suggested that all of the Executive Leadership Team plus the Manager Corporate Governance, Manager Finance and Manager, Innovation and Strategy complete the survey.

The Committee queried if any of the auditors should be asked to also participate and it was agreed as they were contractors, and may have a conflict of interest, this was not appropriate.

The Committee noted that a final review of the questions would be completed before it is distributed and the outcomes would be presented to the October 2016 meeting.

7.6 WHS Annual Risk Report Reference No: FAC310516R7.6

The Manager Corporate Governance provided an overview of the report highlighting that in 2014 the Risk Team incurred a 75% turnover of staff. The team operated on reduced resources for an extended period of time whilst recruitment was occurring, which is reflected in the audit results for 2014/15 with only 39% of agreed actions completed. In 2015/16, 98% of agreed actions were completed with good progress being made across the organisation.

The Committee noted that the current Key Performance Indicator for the Lost Time Injury Frequency Rate (LTIFR) of a 1% reduction, is not acceptable and Council should consider a more appropriate target. The Committee also suggested it would be useful to compare information, statistics and trends from other Councils.

The Manager Corporate Governance advised:

- That management monitors the LTIFR monthly through the Executive Leadership Team and the WHS Committee.
- The City of Marion performance is measured against the top 8 metropolitan Councils (Group A Councils) across South Australia. The current average LTIFR for the Group A Council's is 8.8.
- The review of the KPI for the LTIFR is warranted and needs to be managed taking into account organisational culture, staff well-being and improved processes.

The Committee suggested that safety should be a focus for Council and Council should consider a WHS item as part of its agenda as an on-going item.

The Committee also noted that WHS is being further integrated through the organisation and is included as part of Work Area Planning, Professional Development Plans for staff, etc

The Committee noted the report and requested that an interim report be provided in six months as a means to update the Committee.

ACTION: Include within the work plan for the December 2016 meeting an update report regarding WHS.

7.7 Business Continuity Management

Reference No: FAC310516R7.7

The Committee noted the Business Continuity Management Policy and Framework and suggested that it would be useful to also review the Plan. The Unit Manager Risk advised that the Plan is in draft and work is currently being undertaken to align the Community Emergency Management Plan (CEMP) with the Business Continuity Plan (BCP).

The Committee noted that the BCP had not been formally tested since 2010 but a number of incidents had occurred over the past few years where the BCP had been activated. This include power outages and the relocation of City Services staff when the new building was occupied.

The Committee recommended that once the new BCP was in place that appropriate testing occur. It was recommended to undertake this through an external provider such as Local Government Risk Services or an audit firm such as KPMG to allow for all staff with responsibility under the BCP to take part.

The Committee recommended that the Business Continuity Policy and Framework be submitted to Council for consideration and adoption with amendment to diagram 4 to state the role of the Committee is to provide guidance and not direction.

ACTION: the Business Continuity Plan be presented to the Committee in August 2016.

7.9 Service Review Framework and Process

Reference No: FAC310516R7.9

The Unit Manager, Performance and Improvement provided an overview of the report highlighting that the Service Review framework has been established after a significant amount of research including benchmarking with other Councils. The approach for service reviews includes a two stage process. Stage 1 is integrated within the work area planning process which requires the completion of a service statement. The service statement provides baseline data and assesses the service against three criteria being commercial viability, public value and innovation. At the conclusion of the service statements, the data

will be used as an indicator to develop a plan for those services that are recommended to progress to a stage 2 review. This will be developed in conjunction with the Committee and adopted by Council. It is anticipated that twelve stage 2 reviews will be undertaken each financial year.

The Committee noted that all services across the Council will complete a stage 1 review by the end of June 2016. The Committee congratulated the team on the progress and innovative approach but suggested that the process may need further refinement as it evolves.

7.10 Service Review Progress Reports Reference No: FAC310516R7.10

The Committee noted the report and in particular the scope for the library review. The timing for the Library Review was questioned and the Committee suggested that 12 months is too long. It was also noted that the Council had requested a study of the libraries be completed by October 2016.

It was noted that the review is visionary and will establish the library services for potentially the next ten – twenty years or more. The review is complex as there are over 50 staff across the three library sites. Appropriate consultation and engagement will be required with staff and the community as the review progresses.

7.11 Service Review – Living Kurna Cultural Centre Reference No: FAC310516R7.11

The Committee noted the report and commented that it was very comprehensive. An overview was provided by the Unit Manager, Community and Cultural Development stating that the Living Kurna Cultural Centre (LKCC) was a unique service offer by the City of Marion. An Aboriginal Consultant and a Community Engagement Expert was engaged to assist with the review due to the cultural sensitivities and to work through a range of management models.

The Committee agreed that the Council needs to consider how the LKCC is being managed and noted there is passion for the centre. The Committee agreed that either option 2B (transition to Kurna) or 2C (Tender to third party) seemed like the logical progression. The Committee did note that if Council wished to progress with 2C, consideration should be giving to the criteria of the tender to ensure that the value to the Kurna community is not lost. The Committee suggested it may need to be a select tender rather than open and the appointment of the right group/person is critical.

The Committee also suggested that there may be further opportunity for the indigenous community to build on what currently exists with matters such as indigenous coaching/mentoring, business skills, Indigenous tourism, etc to be integrated into the centre. It was noted that there is opportunity through various indigenous groups such as Indigenous Business Australia, Indigenous Land Corporation and Tandanya to operate the LKCC.

7.12 Service Review Program– Marion Learning Festival
Reference No: FAC310516R7.12

The Committee discussed the report and agreed that to endorse either options 2 or 3 as the preferred model and the matter should be referred to Council for consideration.

Carried Unanimously

ADJOURNMENT

The chair sought leave of the meeting for a short adjournment.

The Committee agreed to a short adjournment

4.35 pm	Meeting adjourned
4.37 pm	Meeting resumed.

7.3 Organisational Key Performance Indicators for 2016/17
Reference No: FAC310516R7.3

Moved Councillor Gard, Seconded Telfer that pursuant to Section 90(2) and (3)(a) of the Local Government Act, 1999 the Council orders that all persons present, with the exception of Adrian Skull, Chief Executive Officer and Kate McKenzie, Manager Corporate Governance be excluded from the meeting as the Finance and 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 Committee will consider a report dealing with the Organisational Key Performance Indicators for 2016/17.

Carried Unanimously

4.38 pm The Committee moved into confidence.

The Committee noted that the KPI's are still draft and require further work. The Committee noted the following:

- Elected Members commented that the operating environment is changing and adjustments to the current 2015/16 KPI's are needed.
- The Organisational KPI's 2016/17 have been developed by Elected Members when developing the draft CEO KPI's for 2016/17.
- The adopted Organisational KPI's will form part of the Annual Business Plan.
- The Elected Members are keen to have alignment between the Organisational KPI's and the CEO KPI's as this creates enhanced accountability and alignment of focus.
- The Operating Surplus KPI has been deleted as Council has a passion to work on assets/infrastructure and therefore a primary focus on Cash is essential.
- The Asset Sustainability ratio should read greater than 80% and not less than 80%.

The Committee suggested that when Council considers the organisational KPI's at its meeting of 14 June 2016 it might contemplate setting KPI's under the following headings in order to ensure heightened focus on the Annual Business Plan; the 3-year Strategic Plan and

the Annual Budget. This would leave a smaller number of high level key priorities that are budgeted, prioritised and sequenced.

KPI 1: Budget

Rather than using the financial ratios, Council might consider a KPI against the annual budget. An example suggested: 'delivery of the budget within 5% either way (95% - 105%)' would establish clear accountability for the business to be managed within these key parameters. The labour budgets and consultant budgets targets could also be managed under this KPI by setting targets in the budget.

It was noted that the place for savings to be identified is traditionally in the Annual Business Plan and Budget.

Suggested KPI: 'Delivery within 5% parameters (95% - 105%) of agreed annual budget'

KPI 2: Key Council Projects

It was noted that the CEO has a current KPI of "Completion of a priority list of budgeted projects". The Committee recommended that these projects be included within the Annual Business Plan and the 3 Year Plan. Placing key projects in the Annual Business Plan means the CEO (and the organisation) has one guiding document. An organisational KPI could be set in the similar manner to the budget KPI regarding delivery of a percentage of the Annual Business Plan's priority projects.

The achievement of goals within the Council's three-year plan could also be considered.

Suggested KPI: 'Delivery of 95% or greater of agreed projects identified in the Annual Business Plan and the first year targets in the 3-year Plan'

KPI 3: Workplace Safety

The Committee agreed that the Lost Time Injury Frequency Rate (LTIFR) was a key measure for ensuring employee safety and noted that the current performance is unacceptably high and requires attention.

The Committee suggested a KPI be set that focuses attention on this important metric.

Suggested KPI: 'A reduction of 25% in the LTIFR from the previous year's result'

Staffing and Residents

The Committee agreed it is important to have an organisational KPI focused on staff retention but suggested it focus on key staff who are critically valuable assets to the organisation's success. It was noted that Management is developing a comprehensive workforce plan which will highlight key staff whose loss would greatly impact Council's success and also emerging leaders.

The Committee also agreed that customer satisfaction should be measured but it needs to be clear what the target is.

Suggested KPI: 'Retention of 95% of key staff.'

Suggested KPI: 'Resident survey result showing 80% satisfaction with Council services and their experience with Council.'

5.00 pm Councillor Telfer left the meeting

5.13 pm The meeting came out of confidence.

8. CONFIDENTIAL ITEMS

Nil

9. ANY OTHER BUSINESS

Nil

10. MEETING CLOSURE

The meeting was declared closed at 5.14 pm

11. NEXT MEETING

The next meeting of the Finance and Audit Committee is scheduled to be held on:

Special Meeting of the Finance and Audit Committee

Time: 4.00 pm – 5.30 pm

Date: Monday – 20 June 2016

Venue: Chamber, Administration Building

General Meeting of the Finance and Audit Committee

Time: 4.00 pm – 6.00 pm

Date: Tuesday - 16 August 2016

Venue: Chamber, Administration Building

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CHAIRPERSON

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