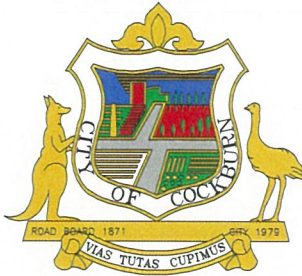


# CITY OF COCKBURN



## AUDIT & STRATEGIC FINANCE COMMITTEE

## MINUTES

FOR

THURSDAY, 17 NOVEMBER 2016

These Minutes are subject to Confirmation

Presiding Member's Signature

A handwritten signature in black ink, appearing to read 'Steve Smedley', is written over a horizontal line.

Date: 16 March 2017

# CITY OF COCKBURN

## SUMMARY OF MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 17 NOVEMBER 2016 AT 6:00 PM

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# CITY OF COCKBURN

## MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 17 NOVEMBER 2016 AT 6:00 PM

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### PRESENT:

#### ELECTED MEMBERS

Mr S Portelli	-	Councillor (Presiding Member)
Mr L Howlett	-	Mayor
Mrs C Reeve-Fowkes	-	Deputy Mayor

#### IN ATTENDANCE

Mr S. Cain	-	Chief Executive Officer
Mr D. Green	-	Director, Governance & Community Services
Mr S. Downing	-	Director, Finance & Corporate Services
Mr D. Arndt	-	Director, Planning & Development
Mr C. Sullivan	-	Director, Engineering & Works
Mr N. Mauricio	-	Manager, Finance Services
Ms M Tobin	-	Executive Manager, Strategy & Civic Support
Mr J Ngoroyemoto	-	Governance & Risk Co-ordinator
Mrs B. Pinto	-	PA to Directors – Fin. & Corp. Services & Governance & Comm. Services

### 1. DECLARATION OF MEETING

The Presiding Member declared the meeting open at 6.01 pm and welcomed Mr Anthony Macri and Mr Mit Gudka from Macri Partners, the City's External Auditor.

### 2. APPOINTMENT OF PRESIDING MEMBER (If required)

Nil.

### 3. DISCLAIMER (TO BE READ ALOUD BY PRESIDING MEMBER)

Nil



**4. ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN DECLARATIONS OF FINANCIAL INTEREST AND CONFLICT OF INTEREST (BY PRESIDING MEMBER)**

Nil

**5 (ASFC 17/11/2016) - APOLOGIES & LEAVE OF ABSENCE**

Clr Kevin Allen	-	Apology
Clr Chamonix Terblanche	-	Apology
Clr Bart Houwen	-	Apology

**6. PUBLIC QUESTION TIME**

Nil

**7. CONFIRMATION OF MINUTES**

**7.1 (MINUTE NO 177) (ASFC 17/11/2016) - MINUTES OF THE AUDIT AND STRATEGIC FINANCE COMMITTEE MEETING - 21/07/2016**

**RECOMMENDATION**

That Committee confirms the Minutes of the Audit and Strategic Finance Committee Meeting held on Thursday, 21 July 2016 as a true and accurate record, subject to Clr Bart Houwen being noted as an apology.

**COMMITTEE DECISION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Mayor L Howlett that the recommendation be adopted.

**CARRIED 3/0**

**8. DEPUTATIONS**

Nil

**9. PETITIONS**

Nil



**10. BUSINESS LEFT OVER FROM THE PREVIOUS MEETING (IF ADJOURNED)**

Nil

**11. DECLARATION BY MEMBERS WHO HAVE NOT GIVEN DUE CONSIDERATION TO MATTERS CONTAINED IN THE BUSINESS PAPER PRESENTED BEFORE THE MEETING**

Nil

**12. COUNCIL MATTERS**

AT THIS POINT IN THE MEETING, THE TIME BEING 6.05 PM THE FOLLOWING ITEMS WERE CARRIED BY 'EN BLOC' RESOLUTION OF COMMITTEE

12.1
12.3

**12.1 (MINUTE NO 178) (ASFC 17/11/2016) - CHIEF EXECUTIVE OFFICER'S BI-ENNIAL REVIEW FOR RISK, LEGISLATIVE COMPLIANCE & INTERNAL CONTROL 2016 (021/012) (J NGOROYEMOTO) (ATTACH)**

**RECOMMENDATION**

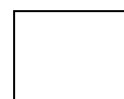
That Council receives the Chief Executive Officer's Bi-ennial Review of the appropriateness and effectiveness of the City's systems and procedures in relation to risk management, internal controls and legislative compliance as detailed in the 2016 CEO bi-ennial review results, attached to the Agenda.

**COMMITTEE RECOMMENDATION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Mayor L Howlett that the recommendation be adopted.

**CARRIED 3/0**

**COUNCIL DECISION**



## **Background**

In 2013, the Local Government (Audit) Regulations 1996 (the Regulations) were amended to include an obligation for each local government to bi-ennially review its systems and procedures regarding risk, legislative compliance and internal control (the Review). The review has been completed, and the results are presented to the Audit & Strategic Finance Committee.

## **Submission**

N/A

## **Report**

Regulation 17 of the Regulations requires the Chief Executive Officer (the CEO) to undertake the Review, at least every two calendar years. The Review assesses the appropriateness and effectiveness of the City of Cockburn's (the City's) systems and procedures in relation to:

- risk management;
- internal controls; and
- legislative compliance.

The Department of Local Government and Communities issued Local Government Guideline 9 'Audit in Local Government' in September 2013 (the Guideline) which in part outlines the items to be considered in the Review.

In conducting the Review, the City has assessed its progress against each of the items in the Guideline and the results are summarised in 2016 Chief Executive Officer's Bi-ennial Review results attached to the Agenda. The Review has confirmed that the City has sound and effective systems and procedures in place for many areas covered by the Review. The Review also highlighted those areas where improvements to strengthen the City's position are required, and being undertaken.

## **Strategic Plan/Policy Implications**

### **Leading & Listening**

- Deliver sustainable governance through transparent and robust policy and processes

## **Budget/Financial Implications**

N/A



**Legal Implications**

The Review has been completed in accordance with Regulation 17 of the Regulations and completes the City's obligations in this area.

**Community Consultation**

N/A

**Risk Management Implications**

Failure to complete this review and present it to the Audit and Strategic Finance Committee, will result in a compliance breach of the Local Government (Audit) Regulations 1996. Completion of this review also provides assurance to the Chief Executive Officer and Council of the appropriateness and effectiveness of the City's systems and procedures for mitigating risks, internal controls, and legislative requirements.

**Attachment(s)**

2016 Chief Executive Officer's Bi-ennial Review results.

**Advice to Proponent(s)/Submissioners**

N/A

**Implications of Section 3.18(3) Local Government Act, 1995**

Nil.

**12.2 (MINUTE NO 179) (ASFC 17/11/2016) - RISK MANAGEMENT INFORMATION REPORT (021/012) (J NGOROYEMOTO)**

**RECOMMENDATION**

That Council receives the quarterly report on the Risk Management Program.

**COMMITTEE RECOMMENDATION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Mayor L Howlett that the recommendation be adopted.

**CARRIED 3/0**





**COUNCIL DECISION****Background**

At the Ordinary Council Meeting held on 13 June 2013, Council endorsed the City's proposed Risk Management Policy and associated roll-out program. Subsequently, at the Ordinary Council Meeting 11 December 2014, via the Audit and Strategic Finance Committee, Council endorsed the Risk Management Strategy. The City is progressing in implementing the Risk Program, and this report provides an update on the key milestones achieved over the past 4 months since the last information report was submitted to the Audit and Strategic Finance Committee.

The City's Risk Program, through adopting the guidelines and principles of the Australian Risk Standard, AS/NZ ISO 31000:2009 is committed to a culture of risk management. City's Policy SC51 'Enterprise Risk Management' (the Policy) is a commitment by the City to ensuring that sound risk management practices and procedures are fully integrated into its strategic and operational processes and day to day business practices. The City continues to roll out the Risk Program in line with the Risk Management Strategy.

**Submission**

N/A

**Report**

Risk Management and Safety System (RMSS) was purchased by the City in 2016. This is an externally hosted database which will retain all of the City's Safety and Risk information. All risk registers, safety incidents and safety inspections will be moved from manual and paper based processes and transferred into RMSS.

All the City's strategic and operational risk information has been transferred from the manual spreadsheets, and uploaded into RMSS. Currently, all information loaded into RMSS is being reviewed, and evaluated as part of the annual risk registers review process with the Risk Owners. Once the review and RMSS implementation has been completed, a detailed report will be brought back to the March 2017 Audit and Strategic Finance Committee to present the Operational and Strategic Risk Registers.

RMSS staff training has commenced and scheduled through October and November 2016, to ensure all employees are confident in the application of the RMSS system including the entering and reviewing of



incidents, and the ability to review and update risks and risk actions. It is anticipated that the system will be rolled out in December 2016.

**Strategic Plan/Policy Implications**

**Leading & Listening**

- Deliver sustainable governance through transparent and robust policy and processes

**Budget/Financial Implications**

N/A

**Legal Implications**

N/A

**Community Consultation**

N/A

**Risk Management Implications**

There are no risks associated with the recommendation.

**Attachment(s)**

N/A

**Advice to Proponent(s)/Submissioners**

N/A

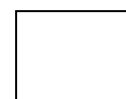
**Implications of Section 3.18(3) Local Government Act, 1995**

Nil.

**12.3 (MINUTE NO 180) (ASFC 17/11/2016) - LEGAL PROCEEDINGS BETWEEN COUNCIL AND OTHER PARTIES (118/001) (J NGOROYEMOTO) (ATTACH)**

**RECOMMENDATION**

That Council receive the report on legal proceedings commenced or responded to by the City during 2015/16 financial year.



**COMMITTEE RECOMMENDATION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Mayor L Howlett that the recommendation be adopted.

**CARRIED 3/0**

**COUNCIL DECISION**

**Background**

At its meeting held on 12 October 2006, Council adopted a new Position Statement PSES13 "Legal Proceedings Between Council and Other Parties".

At the May 2016 DAPPS Committee Meeting, Policy SES1 'Obtaining Legal or Other Expert Advice' and associated delegated authority was presented for clarification on the methodology by which legal or other expert advice is provided to Elected Members to enable them to perform their civic function. As a result the "Legal Advice Register" provided annually to the Audit and Strategic Finance Committee is now limited to the notification of those issues which are in relation to, or a result of a Council resolution, or where the amount related to administrative advice is of such an amount to warrant Council's attention only.

**Submission**

N/A

**Report**

Under Clause 2 of Position Statement PSES13, sub-clause (7) and (8) states:

- (7) *The Chief Executive Officer shall establish and maintain a procedure which enables those matters which are subject to the terms of this Position Statement to be centrally recorded and updated, as appropriate.*
- (8) *A record of the procedure mentioned in (7) above shall be presented to the Audit Committee at least annually, or as often as considered appropriate by the Chief Executive Officer or as requested by any member of the Audit Committee.*



The Audit Calendar – Part 6 in the month of November states:

- (6) *Monitor the progress of any major law suits facing the Council. (Internal Audit).*

A Summary of the Legal Proceedings commenced or responded to by the City during the 2015/16 financial year, as a result of a Council resolution, or of significant amount that warrants Council's attention has been circulated under separate confidential cover.

### Strategic Plan/Policy Implications

#### Leading & Listening

- Deliver sustainable governance through transparent and robust policy and processes

### Budget/Financial Implications

The table below highlights the legal fees expensed during 2015/16 with commensurate, where relevant, fines and penalties arising from the incurring of the legal expenditure. The City, further incurs expenses for rates recovery, but in 90% of the cases, the amounts expended are recovered. The break-up of where the funds are spent is detailed in the table below as well.

LEGAL SERVICES 2015/16		
Legal Firms	Actual	Budget
General - McLeods	\$408,799	
General - Kott Gunning	\$75,750	
<b>Total General</b>	<b>\$484,550</b>	\$471,237
CCW - Jackson McDonald	\$363,924	\$300,000
<b>Rates Recovery</b>		
Debt Collection	\$148,528	\$148,528
Recoveries	\$136,791	-\$136,791
<b>Net</b>	<b>\$11,737</b>	\$11,737
Fines and Penalties Income	-\$100,794	\$0
<b>Net Legal Fees (after fines and penalties)</b>	<b>\$759,471</b>	<b>\$782,974</b>

### Legal Implications

N/A

### Community Consultation

N/A



**Risk Management Implications**

There are no risks associated with this recommendation, However failure to present this report to the Council annually presents a compliance risk in accordance with Position Statement PSES13 'Legal Proceedings Between Council and Other Parties', and Policy SES1 'Obtaining Legal or Other Expert Advice' & Associated delegated authority.

**Attachment(s)**

Summary of Legal Proceedings commenced and/or responded to by the City (provided under separate confidential cover).

**Advice to Proponent(s)/Submissioners**

N/A

**Implications of Section 3.18(3) Local Government Act, 1995**

Nil.

**13. PLANNING & DEVELOPMENT DIVISION ISSUES**

Nil

**14. FINANCE & CORPORATE SERVICES DIVISION ISSUES**

**14.1 (MINUTE NO 181) (ASFC 17/11/2016) - APPOINTMENT OF EXTERNAL AUDITOR FOR THE 2016/17 FINANCIAL YEAR (067/002) (N MAURICIO) (ATTACH)**

**RECOMMENDATION**

That Council re-appoint Macri Partners as the City's External Auditor for a further one year period ending with the audit of the 2016/17 financial year.

**TO BE CARRIED BY AN ABSOLUTE MAJORITY OF COUNCIL**

**COMMITTEE RECOMMENDATION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Clr S Portelli that the recommendation be adopted.

**CARRIED 3/0**

**TO BE CARRIED BY AN ABSOLUTE MAJORITY OF COUNCIL**



<b>COUNCIL DECISION</b>
-------------------------

**Background**

Council is required to appoint an External Auditor to audit the financial statements of the City in accordance with Section 7.3 of the Local Government (LG) Act as follows:

*7.3 Appointment of auditors*

- (1) *A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint\* a person, on the recommendation of the audit committee, to be its auditor.\* Absolute majority required.*
- (2) *The local government may appoint one or more persons as its auditor.*
- (3) *The local government's auditor is to be a person who is —*
  - (a) *a registered company auditor; or*
  - (b) *an approved auditor.*

Section 7.6 of the LG Act allows for the appointment of a local government's auditor for a term of not more than five financial years, but states an auditor is eligible for re-appointment.

Council appointed the incumbent auditor (Macri Partners) in April 2012 for a four year period covering the 2012-2015 financial years. This was subsequently extended by one year to cover the 2016 financial year due to the impact of LG reform.

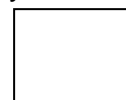
**Submission**

N/A

**Report**

Macri Partners was previously appointed as the City's External Auditor, following a quotation process using the Western Australian Local Government Association (WALGA) Preferred Supplier panel contract for Audit Services. The WALGA pre-qualification process ensured that auditors appointed to the panel met the qualification requirements of the Local Government Act.

The agreement entered into by the City with Macri Partners had an initial term of four years commencing 1 July 2011 to 30 June 2015, with a Principal instigated option to extend the contract by a further one



year period. This option was taken up by Council, due to the previous likelihood that the City was to be amalgamated into the new City of Jervoise Bay and the sudden abandonment of Local Government reform by the State Government left little time to procure a new long term audit contract.

The State Government has since introduced a Bill into Parliament on 25 August 2016 proposing for the Auditor General to undertake the annual financial audits of local government. It is intended that the Office of the Auditor General (OAG) take responsibility for local government financial audits from 1 July 2017 following the passage of the Bill through Parliament. The Auditor General wrote to the Mayor on 15 September regarding this matter (attached to the Agenda).

Given the pending changes to local government auditing, the Department of Local Government & Communities (DLGC) wrote to the CEO in August (attached to the Agenda) encouraging Council not to renew its audit contract beyond the 2017 financial year. Should Council observe the DLGC's request, it would be considered disruptive and ineffective to switch auditing firms for a period of one year only. Ideally, a new external audit contract should be for a minimum of three years, allowing for the new auditor to properly familiarise themselves with the City's operations and processes.

For this reason, the City sought a quote from its incumbent auditor, Macri Partners to continue providing external audit services for the 2017 financial year. The quote attached to the Agenda has been provided under the same terms and conditions as the existing contract. The cost of the external audit under the new contract will increase from \$29,000 to \$30,000 (ex-GST), with the hourly rates for additional audit services remaining the same.

Management considers the performance of Macri Partners to have been at a consistently high level over the previous four years, always accommodating the City's needs to ensure audits and grant acquittals are completed within set deadlines. They have also provided information and guidance to improve the quality and standard of the City's financial reporting (accounting for landfill rehabilitation liabilities being a good example).

Another key factor in the quality of audit performance is the experience and knowledge of the auditing team. Macri Partners have been able to maintain a reasonably stable and experienced team of auditors, making responding to audit queries less onerous for management and staff. This has allowed audit attention to focus on high priority matters.

Given this good performance, it is recommended that Council re-appoint Macri Partners for the 2017 financial year. Should the amendment Bill ultimately not be passed by Parliament, the City will seek competitive quotations through the WALGA audit services supply panel for a minimum contract period of three years.



## **Strategic Plan/Policy Implications**

### **Leading & Listening**

- Deliver sustainable governance through transparent and robust policy and processes
- Ensure sound long term financial management and deliver value for money

### **Budget/Financial Implications**

The cost of the external audit has been quoted at \$30,000 (ex-GST) for 2016/17, with additional audit services paid for on an hourly basis in accordance with the rates outlined in the quote. The City has \$35,000 in the 2016/17 budget for external auditing services.

### **Legal Implications**

N/A

### **Community Consultation**

N/A

### **Risk Management Implications**

It is a statutory requirement for Council to appoint its external auditor. Not appointing the external auditor at this time could leave the City in a position where it is unable to meet its statutory and legal responsibilities for the 2016/17 financial year.

### **Attachment(s)**

1. Quotation: Audit Services – Financial Year ending 30 June 2017.
2. Letter from OAG: Local Government Amendment (Auditing) Bill 2016.
3. Letter from DLGC: Auditing of Local Governments by the Auditor General.

### **Advice to Proponent(s)/Submissioners**

N/A

### **Implications of Section 3.18(3) Local Government Act, 1995**

Nil.





**14.2 (MINUTE NO 182) (ASFC 17/11/2016) - ANNUAL PERFORMANCE REVIEW OF MONETARY AND NON-MONETARY INVESTMENTS FOR THE FINANCIAL YEAR 2015/16 (073/001; 073/004) (S DOWNING)**

**RECOMMENDATION**

That Council receive the information.

**COMMITTEE RECOMMENDATION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Cllr S Portelli that the recommendation be adopted.

**CARRIED 3/0**

**COUNCIL DECISION**

**Background**

Council Policy SFCS1 'Investments' Clause 5.2 requires:

*An annual report on the performance of the investment portfolio will be submitted to Council outlining the performance of the portfolio for the financial year."*

**Submission**

N/A

**Report**

As per the Investments Policy SFCS1, the following report is divided into two parts. The first part is a report on cash investments held by the City and the second part is for non-cash investments.

*Cash Investments*

The City earned the following interest income during 2015/16:

Municipal/Reserve funds	\$4.9284m
Rates – Administration Interest	\$0.375m
Rates – Penalty Interest	\$0.233m
Deferred Pension rates	\$0.018m
ESL Interest	\$0.020m



Deferred land sale settlement	\$0.104m
Total Interest income	\$5.678m

Interest income from the surplus cash in the municipal fund and reserves (MFR) amounted to \$4.928m. The opening balance for MFR (on deposit) at 1 July 2015 was \$128.03m and the closing balance was \$152.3m. . The interest rates earned by the MFR over the twelve months varied from 3.16% in July 2015 to 3.05% in June 2016. The reduction over the twelve months came about due to the easing of the cash rate by the RBA which fell in the corresponding period from 2.0% to 1.5%.

The interest income earned from the other five sources, Rates – Penalty Interest, Rates – Administration Interest, Deferred Pension Rates, ESL Interest and interest of a deferred land sale settlement, was not earned on the management of surplus cash but on outstanding debts due to the Council. The Local Government Act provides the heads of power for a council to impose interest on outstanding rates. Rates – Administration Interest and ESL Interest are charged at 4%, whilst Rates – Penalty Interest is charged at 8%. The Local Government Act has a maximum interest rate of 11%. The Council has always elected to impose a lower interest rate. The rate for Deferred Pension Rates was 2.50% as at 30 June 2016.

All surplus funds are invested in accordance with the Local Government Act and associated regulations.

The funds are invested in term deposits with APRA regulated financial institutions apart from two investments. The amendment to the regulations requiring Council's only invest in term deposits with a maturity less than twelve was gazetted with an over-rider allowing existing investments with a maturity greater than twelve months and in non-term deposits to go to maturity.

The first investment is for \$2m in a CBA zero coupon senior bond paying 7.18%. The maturity date for the return of the \$4m is January 2018. (The additional \$2m is the capitalised interest compounded over the life of the bond).

The second investment is the reverse mortgage backed security, Emerald. The original investment was \$3m in three \$1m tranches. The City is currently receiving interest at the rates of 2.40%, 2.75% and 2.86% on the respective tranches. Additional 'step-up' interest is also accruing on these three tranches at 0.9%, 1.5% and 1.9% respectively, which will be paid to the City upon maturity. The current balance of 'step-up' interest owing to the City is \$227,187. The City received capital repayments of \$54k in the past year, reducing the outstanding balance due for the investment to \$2.68m.



*Non-Cash Investments*

The City has substantial freehold land on its balance sheet. As at the 30 June 2016 that total was \$99.4m. The makeup of the land comprises sumps, reserves, land available for sale, freehold parks and land on which council buildings and facilities occupy. The Land Management Strategy had identified a range of land assets that are surplus to requirement or land that could be made saleable with investment from Council. The concept is to monetise freehold land (where possible) so as to re-invest in income producing property to receive a stream of rental income. The Land Management Strategy provides for a reconciliation of the freehold land and that which is surplus to requirements.

*Rental Income*

The City received rental income for 2015/16 on commercial properties and land.

<b>Commercial Property</b>	<b>Income (Ex-GST)</b>
Coogee Beach Caravan Park	\$211,911
Cockburn Health and Community Facility	\$1,244,269
Cockburn GP Super Clinic	\$557,865
Youth Centre	\$137,010
Naval Base Shacks	\$445,397
Coogee Beach Café	\$50,618
Baptist Recreation Centre - Land Lease	\$25,655
Spearwood Dalmatinac - Land Lease	\$20,617
Cockburn Bowling Club - Land Lease	\$9,712
Emergency Services Facility - DFES Sub-lease	\$67,295
12 Rivers Street, Bibra Lake	\$69,084
Lot 7, Cockburn Central	\$16,699
Other land rental	\$129,000
<b>Total Rental Income</b>	<b>\$2,985,132</b>

The net rental revenue from the Cockburn Health and Community Facility is quarantined within a financial reserve for the purpose of future maintenance requirements for the facility. This is to ensure that there is no future demand for the Municipal Fund to meet capital or operating maintenance costs. Once the level of funds meets the target, dividends will be paid to the municipal fund. The City also quarantines funds received from the Naval Base Shacks to meet the future capital maintenance needs of this unique asset.

*Land Sales*

The City had budgeted to sell the following land with outcomes as noted:

<b>Land for Sale</b>	<b>To be sold - Budget</b>	<b>Sold</b>	<b>Settlement received</b>	<b>Comment</b>
Lot 9003 Beeliar Drive Beeliar	\$9,600,000	\$9,600,000		Sold & Contract in place, waiting for



Land for Sale	To be sold - Budget	Sold	Settlement received	Comment
				Services & settlement. Contract price is \$9.6m.
Lot 803 Yangebup Road, Yangebup	\$1,500,000	\$1,500,000		Settlement – 28/11/16
Total	\$11,100,000	\$11,100,000	0	

Whereas funds are generally allocated to income producing assets, the exception is the sale of land at Lot 9003 Beeliar Drive. The proceeds have been allocated in the 2015/16 budget to the redevelopment of the Council Depot. Other land for sale and reported in last year's report have been withdrawn from the market at this time. An update to the City's Land Management Strategy is being currently being prepared.

### Strategic Plan/Policy Implications

#### Community, Lifestyle & Security

- Provide for community facilities and infrastructure in a planned and sustainable manner
- Create and maintain recreational, social and sports facilities and regional open space
- Foster a greater sense of community identity by developing Cockburn Central as our regional centre whilst ensuring that there are sufficient local facilities across our community

#### Economic, Social & Environmental Responsibility

- Increase local employment and career opportunities across a range of different employment areas through support for economic development

#### Leading & Listening

- Ensure sound long term financial management and deliver value for money
- Provide for community and civic infrastructure in a planned and sustainable manner, including administration, operations and waste management

#### Budget/Financial Implications

N/A

#### Legal Implications

N/A



**Community Consultation**

N/A

**Risk Management Implications**

N/A

**Attachment(s)**

N/A

**Advice to Proponent(s)/Submissioners**

N/A

**Implications of Section 3.18(3) Local Government Act, 1995**

Nil.

**14.3 (MINUTE NO 183) (ASFC 17/11/2016) - 2015/16 FINANCIAL STATEMENTS AND EXTERNAL AUDIT REPORT (071/003; 067/001) (N MAURICIO) (ATTACH)**

**RECOMMENDATION**

That Council accept:

- (1) the Financial Statements and External Audit Report for the year ended 30 June 2016; and
- (2) the Summary of Financial Statements and External Audit Report for the year ended 30 June 2016;

as attached to the Agenda.

**COMMITTEE RECOMMENDATION**

MOVED Deputy Mayor C Reeve-Fowkes SECONDED Clr S Portelli that the recommendation be adopted.

**CARRIED 3/0**

**COUNCIL DECISION**



Director, Finance & Corporate Services extended the City's appreciation and acknowledgement to Mr Tony Macri and his Staff for the work carried out in the production of the 2015/16 Financial Statements.

## Background

As set out in its Terms of Reference, the Audit and Strategic Finance (A&SF) Committee is required to review the City's Annual Financial Report and recommend its adoption to Council. The Committee is also required to discuss any issues arising from the audit with the Auditor. The Local Government Act 1995 requires the City to meet with the auditor at least once in every year.

The Audit Plan prepared by the City's Auditor (Macri Partners) was submitted to the March meeting of the A&SF Committee and subsequently adopted by Council. This outlined the purpose and scope of the external audit for the 2015/16 financial year and explained the audit approach and methodology.

The Local Government (Audit) Regulations 1996 state that the principal objective of the external audit is to carry out such work as is necessary to form an opinion as to whether:

- (a) the accounts are properly kept; and
- (b) the annual financial report:
  - is prepared in accordance with financial records; and
  - represents fairly the results of the operations of the local government at 30 June in accordance with Australian Accounting Standards and the Local Government Act 1995.

The duties and responsibilities of the A&SF Committee include reviewing Council's draft annual financial report, focusing on:

1. accounting policies and practices;
2. changes to accounting policies and practices;
3. the process used in making significant accounting estimates;
4. significant adjustments to the financial report (if any) arising from the audit process;
5. compliance with accounting standards and other reporting requirements;
6. significant variances from prior years.

## Submission

N/A



## Report

### 2015/16 - Annual Financial Report

The Annual Financial report is presented to the Audit and Strategic Finance Committee in two formats:

1. Financial Statements including all accounting and supporting notes (Detailed).
2. Summary Financial Statements excluding all accounting and supporting notes.

The Summary of Financial Statements differs from the full set in that they do not contain the accompanying financial notes and discussion and analysis. Both sets have been approved by the City's Chief Executive Officer and Auditor (Macri Partners).

The Summary of Financial Statements has been prepared specifically for inclusion in the City's Annual Report, as the full set is deemed too lengthy and mostly irrelevant to the intended audience. The full set of Financial Statements will be published separately on the Council's website.

### Statement of Comprehensive Income

#### *1. Operating Result*

The City's operating result for 2015/16 came in at \$8.4M, down by \$3.7M on the previous year. Whilst expenditure increased in line with inflationary factors, overall revenue stagnated. This is still a healthy financial result, demonstrating the City generates more than sufficient revenue to cover the cost of depreciation.

Overall, operating revenues of \$129.9M were up \$1.3M year on year. Due to the incorporation of waste charges into the general rates for residential property, like for like comparisons are difficult to make this year. However, revenue from rates, service charges and fees & charges were collectively up \$5.1M (4.6%). Revenue from contributions and interest earnings was little changed year on year. The negative impact on revenue came from operating grants and subsidies, which were down by \$3.8M on last year. This is purely attributable to the changed practice in paying federal financial assistance grants (FAGS), which had been advanced by 50% the previous year but not this year.

Operating expenses were up for the year by \$5.0M (4.3%) to \$121.5M. Employee costs, the City's biggest operational expense item, were up \$2.0M (4.4%) to \$47.1M and in line with budget expectations. Spending on materials and contracts was up 4.0% to \$34.9M (+\$1.4M) and \$1.8M over the adopted budget. This result



reflects \$2.0M of soft landscaping cost transferred from the capital budget due to accounting requirements and is not an overall budget variance. Insurance expenses came in \$0.3M (14%) higher than last year at \$2.2M. Back claimed workers compensation was the main reason for this result, as well as additional premium for the Cockburn integrated health and community facility. Interest expenses were minimal at under \$0.1M and relate to self-funding purposes.

Depreciation expense (non-cash) was little changed at \$23.8M, down by \$0.1M on last year. A more accurate reflection of useful life for building assets reduced overall depreciation by \$0.4M, offsetting minor increases across other asset classes. Against the adopted budget, depreciation was down \$2.6M due to the changes to useful life for buildings and the annual revaluation of road assets at the end of the prior financial year.

The consumption of landfill infrastructure assets has this year been accounted for as amortisation, rather than depreciation. This change of classification was recommended by the City's auditor based on accounting standard definitions. The result of \$1.1M was little changed year on year.

## 2. *Net Result*

Including non-operating activities, the City's net result (before asset revaluations) was up \$20.1M on the previous year to \$51.7M. Although negatively impacted by the \$3.7M decline in the operating result, non-operating activities contributed an additional \$23.8M.

Capital grants and contributions received of \$23.6M were up \$13.3M year on year. \$17.3M represented state and federal grants (up \$10.5M) with \$11.8M relating to funding for the Cockburn ARC project and the balance for road construction projects. Private capital contributions totalled \$6.3M (up \$2.7M) mostly due to the JV partner share of incurred construction costs for Cockburn ARC.

\$9.2M received from the City's Developer Contribution Plans (DCP) has been reported separately from other capital contributions this year. This result is up \$1.0M on last year with \$6.5M received for the community infrastructure plan (up \$0.2M) and \$2.7M for the road infrastructure plans (up \$0.8M).

Infrastructure assets within new subdivisions gifted by developers totalled \$13.1M, slightly lower than the \$13.4M received last year. These assets comprise of roads, drainage and parks infrastructure.

Net profit/loss from the sale of assets was a net \$0.2M, mostly from the sale and trade-in of plant assets. This result was well down on the net profit of \$1.8M last year, with last year benefiting





from a \$2.0M profit from land sales. This year's only land sale of \$2.4M was close to the book value.

### Statement of Financial Position

The City's net assets and total equity increased by \$58.9M during the reporting year to \$1,162.8M. This reflects an increase in total assets of \$106.3M, comprising increases in non-current assets of \$75.5M and \$30.8M for current assets. These were offset by an increase in total liabilities of \$47.5M, comprising increases in non-current liabilities of \$30.0M and \$17.5M for current liabilities.

#### *1. Assets*

The increase in current assets of \$30.8M includes an additional \$22.5M in cash and investments, reflecting the greater amount of cash held in financial reserves. Receivables were also higher by \$8.2M, mainly due to the invoiced Cockburn ARC JV contribution.

The increase in non-current assets of \$75.5M comprised a net increase of \$18.9M in the value of infrastructure assets and \$50.7M in property, plant & equipment assets. This increase includes an additional \$53M works in progress (WIP) for buildings, mainly comprising the Cockburn ARC project. Road assets increased by \$14.3M and Parks Infrastructure increased by \$9.9M.

The City also increased the amount of the landfill rehabilitation asset by \$8.0M to \$16.5M. This followed an independent review commissioned by the City during the year into the post-closure rehabilitation requirements for the landfill. This is offset by a non-current liability provision for the same amount. There was also a decrease of \$2.3M in the City's equity share of the SMRC joint venture.

#### *2. Liabilities*

Current liabilities increased significantly over the year by \$17.5M to \$31.6M, with trade & other payables increasing by \$15.5M to \$23.6M. However, this was impacted by the June end of month payment run being processing at the bank on the 1st July, adding an extra \$6.5M to end of year payables. The June progress claim for Cockburn ARC also added another \$8.4M to the payables. The current liability for borrowings increased by \$1.2M due to the Cockburn ARC \$25M loan drawn down in June. Current leave provisions were also higher by \$0.8M from last year at \$5.4M.

Non-current liabilities increased by \$30.0M from last year, primarily due to an increase in loan borrowings of \$ 22.4M relating to Cockburn ARC. Provisions were also \$8.0M higher due to the previously mentioned increase in expected costs for the landfill site rehabilitation.



### Changes in Equity

Cash backed reserves held by the City increased by \$19.5M to \$126.6M during the year. Reserves with significant increases included Community Infrastructure (up \$5.9M to \$12.1M), Roads & Drainage Infrastructure (up \$5.0M to \$8.2M) and Major Buildings Refurbishment (up \$4.4M to \$9.8M). The new reserve established to quarantine municipal funding for carried forward projects also added \$4.0M to the increase. Reserves that decreased significantly during the year were the DCP Community Contributions reserve (down \$6.1M to \$10.4M) and the Restricted Grants & Contributions reserve (down \$3.3M to \$2.2M).

The Revaluation Surplus increased by \$7.2M to \$575.4M as a result of the annual management valuation of roads, footpaths, drainage and parks infrastructure.

The City's accumulated surplus increased by \$32.2M to \$460.8M. This represented the \$51.7M net operating surplus result, less the \$19.5M net transfer of funds to financial reserves.

### Statement of Cash Flows

The City's net incoming cash flows from operating activities increased by \$4.7M to \$41.0M for the reporting year. This reflects the strong financial capacity of the City to continue funding new assets and asset renewals and upgrades as planned for and when they become necessary.

Cash of \$78.0M was outlaid on capital spending, an increase of \$41.5M on the previous year. This mainly reflected increased spending on building construction (up \$46.0M) as a result of Cockburn ARC.

Cash flows from grants and contributions received for the development of assets increased by \$14.3M to \$32.8M, with the increase also attributable to the Cockburn ARC project. Cash received from the sale of assets was down slightly by \$0.5M to \$3.5M.

The City repaid \$1.4M of outstanding borrowings, completing the repayment of the underground power loan and leaving under \$0.1M outstanding on the emergency services building self-funding loan. It also received the \$25.0M borrowing proceeds from the Cockburn ARC loan.

Cash and cash equivalents increased for the year by \$22.5M to \$151.5M strengthening the City's already strong liquidity position.

### Rate Setting Statement

The City's closing funds position was \$9.27M compared to the balanced budget position contained in the 2015/16 adopted budget. \$6.15M of the closing funds is unspent monies required to complete



carried forward works and projects. The balance of \$3.12M covers the forecast \$3.0M end of year surplus included in the adopted budget for 2016/17, with an additional \$0.12M available to be transferred into financial reserves in accordance with Council's budget policy.

The total amount raised from general rates cannot be compared to the previous year due to the incorporation of waste charges into general rates for residential property. However, the \$91.3M raised was \$2.3M (2.5%) higher than the adopted budget, reflecting strong interim rating from continued development within the City.

### Financial Ratios

The WA Local Government (Financial Management) Regulations 1996 prescribe seven financial ratios that are to be included in the annual financial report. These ratios are also used by the Department of Local Government and Communities (DLGC) as a measurement of a local government's overall financial health. They form the basis of calculations used for the Financial Health Indicator (FHI) displayed on the MyCouncil website.

RATIO	2016	2015	Benchmark	High
Current Ratio	1.211	1.869	<b>1.00</b>	1.50
Asset Sustainability Ratio	1.399	0.378	0.90	<b>1.20</b>
Debt Service Ratio	20.631	16.625	2.00	<b>5.00</b>
Operating Surplus Ratio	0.049	-0.002	<b>0.01</b>	0.15
Own Source Revenue Ratio	1.003	0.898	0.40	<b>0.90</b>
Asset Consumption Ratio	0.714	0.712	<b>0.50</b>	0.75
Asset Renewal Funding Ratio	0.741	0.767	<b>0.75</b>	1.10

All seven of the ratios are at or above the DLGC benchmark, with three exceeding the high ratio mark. The Asset Sustainability Ratio has seen a marked improvement due to the capital spending on the Cockburn ARC project. A significant proportion of this spend is essentially renewal expenditure for an existing service providing asset (South Lake Leisure Centre). The auditor has concurred with this treatment following consultation with the DLGC. The Operating Surplus Ratio was also significantly higher this year, as last year's result was adversely impacted by the write-off of parks living landscape assets (trees, plants and turf). The write-off was necessary in order for the City to comply with asset fair value requirements under the WA Local Government (Financial Management) Regulations.

These results combine to produce an FHI score of 89 (compared to 68 last year). This result is more comparable to that for the 2014 year (of 88) and 2013 year (of 85). An FHI result of 70 and above indicates sound financial health according to the DLGC.

### Audit Report

The 2015/16 Financial Statements were audited by Macri Partners and their assigned Audit Partner, Mr Tony Macri. They were signed off as



being true and fair and without qualification. The Local Government Act requires the City to meet with the auditor at least once in every year and the auditor will be present at the meeting to discuss the audit report and audit findings.

### **Strategic Plan/Policy Implications**

#### **Leading & Listening**

- Deliver sustainable governance through transparent and robust policy and processes
- Ensure sound long term financial management and deliver value for money

### **Budget/Financial Implications**

The cost of the external audit is sufficiently covered within the City's annual budget.

### **Legal Implications**

Local Government Act 1995 Sections 5.54, 6.4, 7.9 and 7.12A  
Local Government (Audit) Regulations 1996 Regulations 9 and 10

### **Community Consultation**

N/A

### **Risk Management Implications**

It is a requirement under the Local Government Act for Council to accept the City's annual report (including the financial report and auditor's report) by no later than 31 December each year. Failure to do so will lead to statutory non-compliance.

### **Attachment(s)**

1. Financial Statements and External Audit Report – 30 June 2016
2. Summary of Financial Statements and External Audit Report – 30 June 2016

### **Advice to Proponent(s)/Submissioners**

N/A

### **Implications of Section 3.18(3) Local Government Act, 1995**

Nil.



**15. ENGINEERING & WORKS DIVISION ISSUES**

Nil

**16. COMMUNITY SERVICES DIVISION ISSUES**

Nil

**17. EXECUTIVE SERVICES DIVISION ISSUES**

Nil

**18. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil

**19. NOTICES OF MOTION GIVEN AT THE MEETING FOR CONSIDERATION AT NEXT MEETING**

Nil

**20. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY MEMBERS OR OFFICERS**

Nil

**21. MATTERS TO BE NOTED FOR INVESTIGATION, WITHOUT DEBATE**

Nil

**22. CONFIDENTIAL BUSINESS**

Nil

**23 (ASFC 17/11/2016) - CLOSURE OF MEETING**

6.36 pm.

