

# CITY OF COCKBURN

## SUMMARY OF MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 19 NOVEMBER 2015 AT 6:00 PM

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## CITY OF COCKBURN

### MINUTES OF AUDIT & STRATEGIC FINANCE COMMITTEE MEETING HELD ON THURSDAY, 19 NOVEMBER 2015 AT 6:00 PM

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#### PRESENT:

##### ELECTED MEMBERS

Mr L Howlett	-	Mayor
Mrs C Reeve-Fowkes	-	Deputy Mayor
Mr S Portelli	-	Councillor
Dr C Terblanche	-	Councillor

##### IN ATTENDANCE

Mr D. Arndt	-	Acting Chief Executive Officer
Mr S. Downing	-	Director, Finance & Corporate Services
Mr C. Sullivan	-	Director, Engineering & Works
Mr N. Mauricio	-	Manager, Financial Services
Mr J Ngoroyemoto	-	Governance & Risk Co-ordinator
Mrs B. Pinto	-	PA to Directors – Fin. & Corp. Services & Governance & Comm. Services

#### 1. DECLARATION OF MEETING

The Acting Chief Executive Officer declared the meeting open at 6.03 pm.

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

The Acting Chief Executive Officer advised the meeting that he received one nomination for Presiding Member from Clr Steve Portelli, and invited those present if they wished to nominate. There being no further nominations, Clr Portelli was appointed Presiding Member.

Clr Steve Portelli assumed the role of Presiding Member.

#### 3. ACKNOWLEDGEMENT OF RECEIPT OF WRITTEN DECLARATION

Nil

#### 4 (ASFC 19/11/2015) - APOLOGIES & LEAVE OF ABSENCE

Clr Kevin Allen	-	Apology
Clr Bart Houwen	-	Apology
Mr Stephen Cain	-	Apology



**5. PUBLIC QUESTION TIME**

Nil

**6 (ASFC 19/11/2015) - DEPUTATIONS & PETITIONS**

The Presiding Member invited Mr Anthony Macri and Mr Mit Gudka from Macri Partners to brief the Committee on the work the Auditors have undertaken during the conduct of the 2014/15 external audit. Mr Macri outlined how the audit was conducted and the type of reports that have been produced and audit technique applied.

Mr Gudka provided a brief on Council's obligation in recognising the liability with regard to providing for future closure costs of the Henderson Waste Recovery Facility.

He also spoke in relation to the write-down of the asset class of parks landscaping.

The Presiding Member thanked Mr Macri and Mr Gudka for their presentation.

The Presiding Member invited Mr Andrew Baldwin from Deloitte Touche Tohmatsu in relation to the Review of the Rate Setting Process – Phase 2. He outlined what process was undertaken and how it would apply to the 2016/17 Rate Setting Strategy.

Mayor Howlett complimented Mr Baldwin on the report presented which was very thorough and comprehensive with a lot of work and effort put into preparing the report.

The Presiding Member thanked Mr Baldwin for his presentation.

**7. CONFIRMATION OF MINUTES**

**7.1 (MINUTE NO 158) (ASFC 19/11/2015) - MINUTES OF THE AUDIT AND STRATEGIC FINANCE COMMITTEE MEETING - 16 JULY 2015**

**RECOMMENDATION**

That Council adopt the Minutes of the Audit and Strategic Finance Committee Meeting held on Thursday, 16 July 2015, be adopted as a true and accurate record.



**COMMITTEE RECOMMENDATION**

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

**CARRIED 4/0**

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

Nil

**9. DECLARATION OF COUNCILLORS WHO HAVE NOT GIVEN DUE CONSIDERATION TO MATTERS IN THE BUSINESS PAPER**

Nil

**10. COUNCIL MATTERS**

**10.1 (MINUTE NO 159) (ASFC 19/11/2015) - 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 2014 – 2015 financial year.

**COMMITTEE RECOMMENDATION**

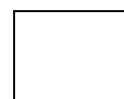
MOVED Deputy Mayor C Reeve-Fowkes SECONDED Mayor L Howlett that the recommendation be adopted.

**CARRIED 4/0**

**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".



**Submission**

N/A

**Report**

Under Clause 2 of Position Statement PSES13, sub-clause (8) and (9) states:

*(8) 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.*

*(9) A record of the procedure mentioned in (8) 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 2014 – 2015 financial year has been circulated under separate confidential cover.

**Strategic Plan/Policy Implications**

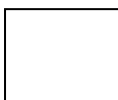
**Leading & Listening**

- A responsive, accountable and sustainable organisation.
- A culture of risk management and compliance with relevant legislation, policy and guidelines

**Budget/Financial Implications**

The table below highlights the legal fees expensed during 2014/15 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 2014/15		
Legal Firms	Actual	Budget
General - McLeods	\$375,764	
General - Kott Gunning	\$67,061	
Total General	\$442,825	\$336,397



CCW - Jackson McDonald	\$446,085	\$400,000
Local Govt Reform - Hammond & Co	\$47,193	\$47,193
Leasing COC Health & Community - Murfitt Legal	\$6,868	\$6,868
Leasing COC Health & Community - Rockwell Olivier	\$91,025	\$85,000
<b>Rates Recovery</b>		
Debt Collection	\$185,259	\$185,259
Recoveries	-\$166,422	-\$166,422
Net	\$18,837	\$18,837
Fines and Penalties Income	-\$142,593	\$0
<b>Net Legal Fees</b>	<b>\$910,240</b>	<b>\$894,295</b>
		\$15,945

### Legal Implications

Position Statement PSES13 'Legal Proceedings between Council and Other Parties, refer.

### Community Consultation

N/A

### 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.

## 10.2 **(MINUTE NO 160)** (ASFC 19/11/2015) - RISK MANAGEMENT INFORMATION REPORT (021/012) (J NGOROYEMOTO) (ATTACH)

### RECOMMENDATION

That Council :

- (1) receive the report on the Risk Management Program;



- (2) endorse the City of Cockburn's 2015 Organisational Risk Registers, as shown in the attachments to the Agenda;
- (3) endorse the City of Cockburn's Risk Management Strategy, as shown in the attachments to the Agenda; and
- (4) endorse the City of Cockburn Business Continuity Plan, as shown in the attachments to the Agenda.

**COMMITTEE RECOMMENDATION**

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

**CARRIED 4/0**

**COUNCIL DECISION**

**Background**

At the Ordinary Council Meeting (OCM) of 13 June 2013, Council endorsed the City's risk management policy and associated roll-out program. Subsequently at the Ordinary Council Meeting (OCM) of 11 December 2014, via the Audit 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 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 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.

Risk Registers for the Operational areas (Business Units) of the City of Cockburn were developed, and a commitment was given at the time that the second step in the process was the review of the registers annually. It was proposed to update the Registers as the risks are addressed and progressively report these achievements to the Committee.





**Submission**

N/A

**Report***Risk Management Program;***1. The City's Risk Monitoring and Reporting System**

All of the City's operational risks are housed on excel spreadsheet. Investigations are continuing to identify an appropriate risk management software database. Requirements documents have been created, and a request for quotation (RFQ) has been prepared to invite risk management software providers. The risk review Group will be responsible for the final selection process.

**2. Risk Controls Review Testing**

A control review provides another level of insight on the degree to which management has confidence that current controls are effective. This level of scrutiny gives assurance that key risks are actively controlled and control mechanisms are in place reduce the risk profile of the City. Control Reviews were conducted in August 2015. The results indicated that risk controls identified in the risk registers were in place and were included in the control review reports. The registers have been amended accordingly.

This involved an intensive program of meetings with relevant staff to identify and document the risks associated with the operations of the City of Cockburn and what is being, or should be, done in order to reduce, or eliminate, any liability exposure for Council. Five risks were selected from each directorate, and the relevant controls were scrutinised.

Accordingly, the Risk Register for the organisation is considered to represent an accurate account of the most likely areas of foreseeable risk exposure for Council and is able to demonstrate that these risks have sufficient controls applied to ensure that Council is not unreasonably exposed to liability.

**3. Annual Organisational Risk Registers Review**

The process of producing the Registers has involved staff responsible for specific operational areas to identify the major cause of perceived or potential risks to their Business/Service Units and record these, along with an index of the associated level of risk. The Registers are then completed by applying mitigation mechanisms against each risk, to ensure that Council's exposure is reduced to an acceptable level. This process has required intensive



negotiation between management and operational staff to agree on risk assessments, with an acceptable level of retained risk being the outcome.

As a result most of the risk statements have been amended to reflect a service activity based approach, focusing on identifying risks, based on the critical success outcomes of each service area, and concentrating on the effect of uncertainty in providing those services. The Risk Registers are now sufficiently updated to enable them to be presented to the Committee for perusal.

#### 4. Risk Management Strategy

To validate the effectiveness of the current risk management systems and processes, to ensure that targets are being met to reduce risk, a Risk Management Strategy was first adopted in 2014 and is recommended that this review be formally endorsed by Council. A formal Risk Management Training program has been included in the strategy, based on a needs analysis for Council to determine the scope of training in risk required by operational areas.

It is vital that the City can validate the effectiveness of its risk management function to ensure that risks are being adequately controlled, identified and that the overall risk profile of the organisation is reduced. This ensures that the City sets compliance requirements to measure the effectiveness of its risk management systems, but also has the ability to identify, absorb and control any new risks. Setting compliance benchmarks is good governance and gives the City confidence that it is proactively protecting the business and community from risks.

#### *The City's Business Continuity Program*

The City's business continuity program underwent a testing exercise in May 2015. LGIS facilitated a Business Continuity Scenario with the Crisis Team lead by the Chief Executive Officer to test the City's Business Continuity Plan (BCP) and Crisis Management capabilities.

Following the Business Continuity Management exercise, the Business Continuity Plan was reviewed. Business Impact Analysis (BIA) discussions were held to confirm, update and review the critical business functions, maximum acceptable outage and recovery strategies. The plan was amended with the BIA results and updated taking into consideration of the recommendations from the exercise. This included review of the crisis team meeting place, recovery locations, expansion of crisis team, inclusion of a recovery location procedure, insertion of checklists to guide the process, and review of the contact list. The Business Continuity Plan review is now complete, and is presented for adoption.



As the City continues to implement and embed risk management through its Risk Program, it will continue to focus on the following key areas and current initiatives:

- (i) Strategic Risk review - A key focus in the next 4 months is for the CEO and Executive to develop the Strategic Risk Register, facilitated by an external provider.
- (ii) Internal Audit Planning - Risk Review Group to develop an internal audit plan
- (iii) Risk Management Monitoring and Reporting System – RFQ evaluation process for risk management software, followed by appointment of vendor and configuration of selected software in preparation for the training, and rollout of the selected risk management database.
- (iv) Review of Position Statement ‘PSES7 Reports to Council’ to incorporate Risk Management into the Council’s standard template.

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

#### **Leading & Listening**

- A responsive, accountable and sustainable organisation.
- A culture of risk management and compliance with relevant legislation, policy and guidelines

### **Budget/Financial Implications**

The City’s 2015/16 Annual Budget makes provision for the continued development of and further introduction of Risk Management Framework.

### **Legal Implications**

Local Government (Audit) Regulations 2013, Reg. 17.

### **Community Consultation**

N/A

### **Attachment(s)**

1. City of Cockburn 2015 Organisational Risk Registers
2. Draft City of Cockburn Risk Management Strategy
3. Draft City of Cockburn Business Continuity Plan 2015



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

N/A

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

Nil.

**10.3 (MINUTE NO 161) (ASFC 19/11/2015) - APPOINTMENT OF EXTERNAL AUDITOR FOR THE 2016 FINANCIAL YEAR (067/002) (N MAURICIO) (ATTACH)**

**RECOMMENDATION**

That Council extend the appointment of Macri Partners as the City's External Auditor for a further one year period ending with the audit of the 2016 financial year.

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

**COMMITTEE RECOMMENDATION**

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

**CARRIED 4/0**

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

**COUNCIL DECISION**

**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 followed a four year period where Grant Thornton was the City's external auditor.

### **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 LG 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 to a maximum of five years.

Due to the previously anticipated amalgamation of the Cities of Cockburn and Kwinana, it was expected that the new City of Jervoise Bay would be appointing an external auditor in the first several months of 2015/16 for that financial year and beyond. Now that reform is off the political agenda, the City needs to appoint its external auditor for at least the current financial year.

The performance of Macri Partners over the past four years is considered to have met the City's expectations and needs, and fulfilled the terms of the audit agreement. They have successfully worked with management to ensure the City's audits and various grant acquittals are completed within set deadlines and offered professional guidance to improve the standard and compliance of the City's financial reporting.

The thoroughness and rigour applied to the conduct of the City's audits over the past four year has been at a level that engenders a high degree of management confidence in the financial reports presented to Council. A key measure of audit performance is the quality and experience of the audit team itself. Macri Partners have delivered the



City's audit services using a reasonably stable and experienced team of auditors, making audit queries and responses less onerous for staff and ensuring that audit attention is focused on higher priority matters.

Given the good performance of the external auditor to date, it is recommended that the City instigate the one year contract extension option covering external audit services for the 2015-16 financial year. A CPI based increase will be negotiated and applied to the schedule of audit costs pertaining to the final year of the current audit agreement.

The City will then look to go back out to the market for the next four or five year audit contract sometime in 2016.

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

#### **Leading & Listening**

- A responsive, accountable and sustainable organisation.
- A culture of risk management and compliance with relevant legislation, policy and guidelines

#### **Budget/Financial Implications**

The cost of the external audit is set at \$26,000 (ex GST) for 2014/15 and will increase by a small CPI adjustment for 2015/16.

#### **Legal Implications**

N/A

#### **Community Consultation**

N/A

#### **Attachment(s)**

External Audit Contract Agreement 2012-2015.

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

N/A

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

Nil.



**10.4 (MINUTE NO 162) (ASFC 19/11/2015) - CONTRACT FOR INTERNAL AUDITING SERVICES FOR THE 2016 & 2017 FINANCIAL YEARS (067/002) (N MAURICIO)**

**RECOMMENDATION**

That Council extend the contract with Deloitte for the provision of internal auditing services for a further two year period ending 30 June 2017.

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

**COMMITTEE RECOMMENDATION**

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

**CARRIED 4/0**

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

**COUNCIL DECISION**

**Background**

Council appointed Deloitte in August 2011 on a four year contract ending June 2015 to provide internal auditing services to the City. The procurement was made through a formal quotation process inviting submissions from suppliers on the WALGA Preferred Supply Panel for audit services.

The Local Government (Audit) Regulations 1996 requires the audit committee to provide assistance to council in the process of selecting and appointing an auditor. Whilst this relates specifically to the appointment of the external auditor, the City also chooses to bring the appointment of the internal auditor to the audit committee for better governance. The terms of reference for the Audit & Strategic Finance Committee also require it to provide assistance to Council in the process of selecting and appointing an auditor.

Certain functions of the internal audit complement the external auditor's role. As the external auditor plans for an effective audit they assess and determine whether to include outcomes from internal audit. All internal audit reports are referred to the audit committee for consideration.



The scope of the internal audit function is set by the audit committee (with input from the CEO and Management) and the internal auditor reports functionally to the audit committee.

### Submission

N/A

### Report

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Deloitte completed their first four year contract with the City in July 2015 with the completion of the Procurement Improvement internal audit. However, they were sourced to complete the urgent audit review into the City's 2015/16 rates setting processes in August, which was presented to the September meeting of Council. Part B of this audit will assess issues and impacts that should be considered by Council for the 2016/17 rates setting strategy. This report is being presented to the November meeting of the Audit & Strategic Finance Committee.

The following table summarises the internal audit plan delivered by Deloitte over the contract term:

Auditable Issues/areas	Originally Proposed Timetable	Status
Fraud Control Assessment	2011/12	Completed 2011/12
Procurement/Supply Chain Management Process	2011/12	Completed 2012/13
Exercise of Delegated Authorities	2012/13	Completed 2012/13
Revenue Recognition (rates and other sources)	2012/13	Completed 2013/14
Audit salaried employee timekeeping practices	2013/14	Completed 2013/14
Review implementation of fraud risk management	2013/14	Completed 2013/14
Procurement Improvement	New	Completed 2014/15
2015/16 Rates Setting Process	New	Completed 2015/16

Deloitte's audit reports and the recommendations made have been assessed by management to be of high quality and have met the stated objectives for the internal audit function. The delivery of the internal audit plan has been overseen by the same audit manager over the contract term, who has developed a good understanding of the operating environment and business activities of the City.





Given the performance of Deloitte over the past four years and their proven capacity to assist the City with high priority audit assignments at short notice, it is recommended that the City extend their contract for another two financial years. This period includes the current financial year where Deloitte have already provided services in relation to the rates setting audit review.

Deloitte continue to be preferred suppliers with WALGA on their supply panel for Audit Services. This two year extension will ensure the reappointment of internal and external auditors are staggered and not made in the same financial year. The City will next go back out to the market for internal auditing services in 2017.

Future internal audit plans will be facilitated through the City's Risk Review Group (comprising cross functional managers), with input from the internal auditor. Audit planning will be informed by the City's operational and strategic risk registers, where assessed risk levels will influence audit priorities. The next iteration will be brought to the March meeting of the Audit & Strategic Finance Committee

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

#### **Leading & Listening**

- A responsive, accountable and sustainable organisation.
- A culture of risk management and compliance with relevant legislation, policy and guidelines

### **Budget/Financial Implications**

The cost for internal audit assignments is determined at the time of agreeing the terms of reference. Hourly fees are set in accordance with the WALGA supply panel contract for Audit Services, which are subject to annual CPI increases.

The City's budget includes an allocation for compliance/internal audit costs of \$32,000. However, this will need to be revised at the mid-year budget review due to the unplanned internal audit into the City's rate setting practices this year.

### **Legal Implications**

N/A

### **Community Consultation**

N/A



**Attachment(s)**

N/A

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

N/A

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

Nil.

**11. PLANNING & DEVELOPMENT DIVISION ISSUES**

Nil

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

**12.1 (MINUTE NO 163) (ASFC 19/11/2015) - ANNUAL PERFORMANCE REVIEW OF MONETARY AND NON-MONETARY INVESTMENTS FOR THE FINANCIAL YEAR 2014/15 (073/001; 073/004) (S DOWNING)**

**RECOMMENDATION**

That Council receive the information.

**COMMITTEE RECOMMENDATION**

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

**CARRIED 4/0**

**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 2014/15:

Municipal/Reserve funds	\$5.164m
Rates – Administration Interest	\$0.329m
Rates – Penalty Interest	\$0.178m
Deferred Pension rates	\$0.023m
ESL Interest	\$0.022m
 Total Interest income	 \$5.717m

Interest income from the surplus cash in the municipal fund and reserves (MFR) amounted to \$5.164m. The opening balance for MFR at 1 July 2014 was \$109.19m and the closing balance was \$133.52. (These balances include current and non-current cash and cash equivalent investments earning interest). The interest rates earned by the MFR over the twelve months varied from 3.92% in July 2014 to 3.36% in June 2015. 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 2.5% to 2.0%.

The interest income earned from the other four sources, Rates – Penalty Interest, Rates – Administration Interest, Deferred Pension Rates, and ESL Interest, 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 2.85% as at 30 June 2015.

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 receiving interest at the rates of 2.58%, 2.88% and 3.18% 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 City has also received capital repayments totalling \$0.262m with an outstanding balance due for the investment of \$2.737m.

#### *Non-Cash Investments*

The City has substantial freehold land on its balance sheet. As at the 30 June 2015 that total was \$99m. 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 2014/.15 on a number of commercial properties:

<b>Commercial Property</b>	<b>Income</b>
Coogee Beach Caravan Park	\$208,985
Cockburn Health and Community Facility	\$1,022,846
Cockburn GP Super Clinic	\$568,684
Youth Centre	\$157,380
Naval Base Shacks	\$439,261
Coogee Beach Café	\$54,316
Baptist Recreation Centre - Land Lease	\$24,479
Spearwood Dalmatinac - Land Lease	\$20,372
Cockburn Bowling Club - Land Lease	\$9,267
Emergency Services Facility - DFES Sub-lease	\$26,133
<b>Total Rental Income</b>	<b>\$2,531,723</b>

Rental Income for the Cockburn Health and Community Facility noted above takes into account cash rent received. This figure does not equate to a full year rental as a number of the tenants are still in a rent



free period, offered by the City as standard commercial practice on the advice of the City's Leasing Agent, MMJ. A full year rental income is \$1,428,000 before the impact of rent increases for 2015/16. Total full year rent from the Cockburn Health and Community Facility (including GP Super Clinic) will be \$2.0m. The original business plan indicated rent of approximately \$2.05m. 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>
Subdivision Lot 702 Bellier Pl & Lot 65 Erpingham Rd Hamilton Hill	\$1,402,727	\$2,500,000		Sold & Settlement deferred, now in Nov 15 excludes \$75k interest paid by the purchaser to defer settlement. Contract price is \$2.5m + interest
Lot 133 Arthur Street – Hamilton Hill	\$92,500	\$91,500	\$91,500	Sold & Settled
Lot 40 Cervantes Loop - surveying and construction of access	\$900,000			Ready for sale – delayed due to sub-division application
Subdivision and development of Lot 4219 Quarimor Drive	\$720,000			Lot 4219 Withdrawn - No interest at this stage
Lot 23 Russell Road, Hammond Park	\$1,000,000			Withdrawn - waiting for construction of train station before testing the market again
Lot 33 Davilak Ave Hamilton Hill	\$1,300,000			Sale fell through. Now on market
213 Winterfold Ave Coolbellup	\$255,841	\$266,727	\$266,727	Sold & Settled
Lot 432 25 Stanyford Place - Rodd Reserve	\$2,400,000	\$2,400,000	\$2,400,000	Sold & Settled
Lot 9003 Beelias Drive Beelias	\$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.
Total	\$17,671,068	\$14,858,227	\$2,758,227	

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.

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

#### **Growing City**

- Development that is soundly balanced between new and existing areas.
- Investment in industrial and commercial areas, provide employment, careers and increase economic capacity in the City.

#### **Infrastructure**

- Community facilities that meet the diverse needs of the community now and into the future.

#### **Leading & Listening**

- A responsive, accountable and sustainable organisation.
- Manage our financial and infrastructure assets to provide a sustainable future.

### **Budget/Financial Implications**

N/A

### **Legal Implications**

N/A

### **Community Consultation**

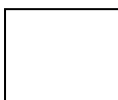
N/A

### **Attachment(s)**

N/A

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

N/A



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

Nil.

**12.2 (MINUTE NO 164) (ASFC 19/11/2015) - INTERNAL AUDIT - PROCUREMENT IMPROVEMENTS (067/004) (N MAURICIO) (ATTACH)**

**RECOMMENDATION**

That Council receive the Procurement Improvement Internal Audit Report, as shown in the attachment to the Agenda.

**COMMITTEE RECOMMENDATION**

MOVED Mayor L Howlett SECONDED Clr C Terblanche that the recommendation be adopted.

**CARRIED 4/0**

**COUNCIL DECISION****Background**

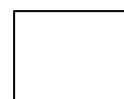
Council's Audit and Strategic Finance Committee agreed at its July meeting to the internal audit of the City's progress towards improving its procurement related activities and addressing the many recommendations arising from several prior year audits and risk reviews.

The City's annual procurement spend is around \$70M, comprising approximately 8,000 to 10,000 purchasing transactions per annum.

Importantly, contract related procurement risk was identified as one of the City's seven strategic risk areas in a high level risk report prepared in 2013. The risk was defined as "an inconsistent method of managing contracts throughout the City of Cockburn (including performance management, consistent documentation, transparent process, etc).

The following scope was developed for the audit:

*The internal audit will assess the City's progress in implementing action plans designed to address the opportunities for improvement and recommendations raised (38 in total) in the*



*following audits and reviews of the City's procurement function, conducted during 2012 and 2013:*

- *Deloitte Fraud Control and Risk Assessment (January 2012)*
- *Deloitte Procurement Internal Audit (November 2012)*
- *CCC Procurement Audit (January 2013)*
- *RMRI High level operational risk review (September 2013).*

*Consideration will also be given to any further improvement opportunities evident in the City's current and proposed procurement function and model.*

This was the one and only audit assignment commenced in 2014/15, due to the work effort being focused on local government reform activities and the intention for internal audit to review the associated divestment of assets and liabilities to the Cities of Fremantle and Melville.

This audit work also contributes to the City's obligations under Reg. 5(2)(c) of the Local Government (Financial Management) Regulations 1996, which requires the Chief Executive Officer to undertake regular reviews of the appropriateness and effectiveness of financial management systems and procedures and to report the results of these reviews to Council.

### **Submission**

N/A

### **Report**

As part of the City of Cockburn's 2014/15 Internal Audit activity, the City's internal auditor (Deloitte) undertook an assessment of the City's progress in addressing key issues and recommendations raised in previous audits and reviews on the City's procurement function. A total of 38 procurement-related improvement opportunities and action plans were identified through those four audits and reviews and these formed the basis of the audit.

The audit reviewed the City's records of progress towards the implementation of each recommendation and sought evidence of the relevant actions being implemented. Testing was also carried out to validate the implementation of new controls, where necessary.

### *Key results*

Overall, the internal audit found that the progress made in implementing the action plans had resulted in a positive change and significant improvement to the City's procurement function. The key achievements included:





- the development and implementation of a strategic procurement function;
- the strengthening and implementation of process and system controls;
- the assessment and management of fraud control and risk within the procurement function;
- the review and update of procurement policies and procedures.

Key outcomes within the last two years had included:

- the review of delegated financial authorities (DFA), purchasing and approval process and the purchase order amendment process;
- the creation and appointment of the Strategic Procurement Manager role;
- a new procurement model and framework proposed by the Strategic Procurement Manager and implemented by the City.

Between July 2014 and February 2015, the City had concentrated on the proposed council amalgamation, slowing the rate of progress. However, the current status of the implementation of action plans (as determined by audit) shows that considerable progress has been made. The following table extracted from the audit report serves to demonstrate this:

	Total improvement opportunities	Completed	Closed out	In progress	Outstanding
Fraud Control and Risk Assessment (January 2012)	4	4	0	0	0
Procurement Internal Audit (November 2012)	14	12	0	2	0
CCC Procurement Audit (January 2013)	14	10	1	3	0
High level operational risk review (September 2013)	6	5	0	1	0
<b>Total</b>	<b>38</b>	<b>31</b>	<b>1</b>	<b>6</b>	<b>0</b>

It is worth noting that of the 31 'completed' recommendations, the audit found that the Procurement Team had implemented additional actions for 15 of these. By going beyond the original treatment plans, the Procurement Team had shown commitment to addressing the identified issues and their dedication to further enhance the procurement function.

The six recommendations that the audit found to be still 'in progress' were grouped into the following four main initiatives:

1. Contract Management Module – the 'CoC Contracts' workplace is to be rolled out to contract users;
2. Expenditure report – further enhance the system-generated report to reduce spreadsheet reliance;



3. Documentation for DFA review procedure – Management review and sign off procedure of DFA levels to be included in the end of financial year (EOFY) formal processes.
4. Purging of inactive suppliers.

It is expected that these remaining initiatives will be completed by 30 June 2016 and they have been included in the Procurement Services action plan for 2015/16.

#### *Further Improvement Opportunities*

The audit considered all the actions implemented and formed a holistic view of the current procurement function and its risk profile. The following areas were identified as potential areas for improvement, due to audit's view of heightened risk:

#### Contract Management Process

The City's Contract Management process is a high risk area with genuine opportunities for positive change, particularly to enhance contract development and management practices and to educate/train key staff. The City needs to establish consistent expectations and processes for how contractors are to be managed once they are engaged

*Management Response: The City has developed a number of KPI's to provide greater visibility over contract compliance. Improved contractor management processes have also been planned, starting from the initial contractor selection. Greater emphasis will be put on educating contractors on the contract process in order to reduce future contract breaches.*

#### Single Person Reliance

The Strategic Procurement Manager has implemented the majority of the changes within the procurement team. As a result, he has a lot of knowledge and systems access. The risk is over reliance on a single person, who has limited monitoring of his actions and decisions.

*Management Response: The procurement function is heavily scrutinised across the City due to its high impact on business. Procurement outcomes are closely monitored with extensive reporting through to various levels within the organisation. The City is progressively building capacity within the procurement team to mitigate over reliance on any single person.*

#### Spreadsheet Reliance

An Excel spreadsheet is currently used to monitor and track annual expenditure by business unit, vendor and users/purchasers. The



manual input of data could result in intentional or unintentional errors, in turn leading to misleading reporting. A system-generated expenditure report could be enhanced to make it more useful and relevant and increase the level of reporting and transparency.

*Management Response: A system generated report out of TechnologyOne will be developed to reduce the need for manual preparation in future. This will be achieved as part of the implementation of the Business Intelligence Reporting Project, which is due to commence in 2016/17.*

Whilst this audit found substantial improvement in the functioning and performance of procurement services across the City, it also recognised that for the City to pursue its strategic direction towards better practice procurement (intended to deliver greater value to the City), the City will need to commit ongoing effort and resources.

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

#### **Leading & Listening**

- A responsive, accountable and sustainable organisation.
- Manage our financial and infrastructure assets to provide a sustainable future.
- A culture of risk management and compliance with relevant legislation, policy and guidelines

#### **Budget/Financial Implications**

Funding for internal audit activities is provided for within the City's operational budget.

#### **Legal Implications**

N/A

#### **Community Consultation**

N/A

#### **Attachment(s)**

City of Cockburn Procurement Improvement Report – October 2015.

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

N/A



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

Nil.

**12.3 (MINUTE NO 165) (ASFC 19/11/2015) - ANNUAL FINANCIAL STATEMENTS 2014/15 AND EXTERNAL AUDIT REPORT (071/003; 067/001) (N MAURICIO) (ATTACH)**

**RECOMMENDATION**

That Council adopt the Annual Financial Statements and Audit Completion Report for the year ended 30 June 2015, as attached to the Agenda.

**COMMITTEE RECOMMENDATION**

MOVED Clr C Terblanche SECONDED Deputy Mayor C Reeve-Fowkes that adopt the recommendation subject to the following amendments:

- (1) replace Page 33 of the Annual Financial Statements – Attachment 1 – Note 9b Movements in Carrying Amounts – Property, Plant and Equipment with new Page 33 as attached; and
- (2) replace Page 75 of the Annual Financial Statements – Attachment 1 – Note 34 Opening and Closing Funds Used in the Rate Setting Statement with new Page 75 as attached

to the Minutes.

**CARRIED 4/0**

**COUNCIL DECISION**

**Reason for Decision**

Current Page 33 contains an incorrect Work in Progress figure in the “Acquisition” column – all other figures are correct.

Current Page 75 used the opening funds rather than closing funds figures in the 2013/14 comparison columns.



## Background

The Audit and Strategic Finance Committee is required to consider and recommend the adoption of the annual financial report to Council, as set out in the terms of reference for the committee.

At the March meeting of the Audit and Strategic Finance Committee, the draft audit plan submitted by Macri Partners was recommended for adoption and subsequently adopted by Council. This outlined the purpose and scope of the external audit to be conducted for the 2014/15 financial year and explained the audit approach and methodology to be used.

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 Audit & Strategic Finance Committee include reviewing Council's draft annual financial report, focussing 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.

The terms of reference also require representatives of the external auditor to attend those committee meetings considering the annual financial report and for them to discuss the results of the external audit.

## Submission

N/A



## Report

### *2014/15 - Annual Financial Report*

The annual financial report is presented to the Audit and Strategic Finance Committee in two formats:

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

Both sets of financial statements are the same but the former is longer and provides more detail in the accompanying notes. Both sets of financial statements have been approved by the City's Chief Executive Officer and by the City's auditor (Macri Partners).

The Concise Annual Financial Statements will be included within the City's Annual Report as per the recent practice, whilst the detailed Annual Financial Statements will be published separately on the Council's website for easy access by interested stakeholders.

### *Changes to Accounting Policies & Practices*

An impairment write-off of \$15.7M for previously recognised Parks landscaping assets was taken up. This was necessary in order to complete the exercise of recognising all fixed assets at fair value in accordance with local government legislative requirements. The City and its auditors agreed that determining sufficiently reliable and verifiable estimates of fair value and useful life for landscaping (living) assets was not currently feasible.

The City also recognised (for the first time) a rehabilitation asset and corresponding provision of \$8.6M for future post closure decommissioning and rehabilitation costs at the landfill site. This ensured the City complied with the relevant Australian Accounting Standard (AASB 137) and brought its reporting into line with other metropolitan local government landfill operators.

### *Statement of Comprehensive Income*

The City's net result (before asset revaluations) was up \$1.8M on the previous year to \$31.6M with operating activities adding \$2.6M to the result and non-operating activities declining overall by \$0.8M.

Overall, operating revenues of \$128.6M were up \$9.3M year on year. Revenue sources up for the year included general rates of \$65.4M (+\$6.6M) and operating grants and subsidies of \$11.8M (+\$3.3M). Interest earnings of \$5.7M (-\$0.4M) were slightly down on last year. Fees and charges were slightly down to \$40.3M (-\$0.4M) primarily due



to a reduction in commercial fees from the HWRP landfill facility outstripping other general fee increases across the City.

Operating expenses were up for the year by \$6.7M (6%) to \$116.4M. Employee costs, the City's biggest operational expense item, were up \$3.0M (5.3%) to \$45.1M. Spending on materials and contracts was up 2.6% to \$33.5M (+\$0.9M). Insurance premiums came in \$0.3M (13%) lower than last year at \$1.9M due to savings generated in property, plant and workers compensation premiums. Interest expenses were minimal at \$0.1M and relate primarily to the self-funding underground power scheme.

Depreciation expenses (non-cash) were up by \$3.1M (14%) to \$25.0M, mainly as a consequence of revalued asset values for buildings and roads taken up at 30 June 2014 and commencing annual depreciation for landfill infrastructure assets.

Capital grants received of \$6.7M were up \$2.3M year on year mainly impacted by the receipt of \$3M state funding towards the regional aquatic and recreation centre at Cockburn Central West. Net profit from the sale of assets was up year on year by \$2.4M primarily due to higher land sales activity.

Developer contributions received continued strongly at \$11.8M (+\$1.7M) with the community infrastructure contribution plan collecting \$6.3M (-\$0.3M), road infrastructure developer plans collecting \$1.8M (+\$0.7M) and capital contributions totalling \$2.3M received for both the GP super clinic and regional aquatic and recreation centre at Cockburn Central West.

An impairment write-off for Parks landscaping (living) assets was taken up of \$15.7M in order to ensure the City complied with local government legislation requiring all fixed assets to be held at fair value. This had limited impact on the City's year on year net result change due to the offset provided by the recognition of a larger value in gifted developer assets.

#### *Statement of Financial Position*

The City's net assets and total equity increased by \$68.3M during the reporting year to \$1,103.9M. This predominantly reflects increases in non-current assets of \$53.9M and current assets of \$24.7M. These were offset by an increase in total liabilities of \$10.3M.

The increase in current assets of \$24.7M includes an additional \$24.2M in cash and investments mainly due to a greater amount of cash held in financial reserves. Receivables also increased modestly \$0.5M year on year.

The increase in non-current assets of \$53.9M comprised a net increase of \$32.5 in the value of infrastructure assets and \$11.2M in property,



plant & equipment assets. The City has also recognised a rehabilitation asset for the first time of \$8.6M. This offsets a non-current liability provision for the same amount in the first year. There was also an increase of \$1.6M in other investments mainly attributable to the SMRC joint venture.

Current liabilities were little changed down \$0.4M year on year to \$14.1M due to lower trade & other payables. The current portion of borrowing liabilities (\$1.4M) and leave provisions (\$4.6M) were relatively unchanged from last year.

Non-current liabilities increased by \$10.8M from last year, primarily due to an increase in provisions of \$8.8M and contributed to by the first time provision of \$8.6M for the rehabilitation of the landfill site. Security deposits and bonds payable were also \$3.4M higher year on year. Offsetting these, borrowings were paid down by \$1.4M.

### Changes in Equity

Cash/investment backed reserves held by the City increased by \$21.5M to \$107.1M during the year.

The asset revaluation surplus increased by \$36.7M to \$568.2M as a result of the management valuation of roads, footpaths, drainage and parks infrastructure.

The City's accumulated surplus increased by \$10.1M to \$428.6M. This represented the \$31.6M net operating surplus result, less the \$21.5M net transfer of funds to financial reserves.

### Statement of Cash Flows

The City's net incoming cash flows from operating activities increased by \$3.6M to \$37.2M for the reporting year. This continues to reflect the strong financial capacity of the City to fund new assets and asset renewal and upgrades as they become necessary.

Cash of \$36.5M was outlaid on capital spending, down \$6.8M on the previous year. This mainly reflected reduced spending on building construction (down \$12.6M) and additional spending on roads infrastructure assets (up \$4.3M).

Cash flows from grants and contributions received for the development of assets increased by \$4.0M to \$18.5M, with \$8.1M coming from the City's developer contribution plans.

Cash received from the sale of assets was down slightly by \$0.4M to \$4.0M.

The City repaid \$1.37M of the \$3.54M in outstanding borrowings for the underground power and emergency services building projects.





Cash and cash equivalents increased for the year by \$24.2M to \$129.0M strengthening the City's already strong liquidity position.

#### *Rate Setting Statement*

The City's closing funds position was \$13.7M compared to the balanced budget position contained in the adopted budget for 2014/15. \$9.7M of the closing funds is unspent monies required to complete carried forward works and projects. The balance of \$4.0M covers the forecast \$3.0M end of year surplus included in the adopted budget for 2015/16, with an additional \$1.0M available to be transferred into financial reserves in accordance with Council's budget policy.

The total amount raised from general rates of \$65.0M was \$6.5M (11.1%) higher than the previous year. This result reflects the 4% increase in the rates in the dollars (RID) adopted for 2014/15, together with continuing strong growth within the rating base from new land developments and building activity within the district.

#### *Audit Report*

The 2014/15 Annual 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.

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

#### **Leading & Listening**

- Effective and constructive dialogue with all City stakeholders.
- A responsive, accountable and sustainable organisation.
- A culture of risk management and compliance with relevant legislation, policy and guidelines

#### **Budget/Financial Implications**

N/A

#### **Legal Implications**

N/A

#### **Community Consultation**

N/A

#### **Attachment(s)**

1. Annual Financial Statements for 2014/15 (detailed)



2. Audit Completion Report to the Audit and Strategic Finance Committee for the year ended 30 June 2015 – Macri Partners

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

N/A

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

Nil.

**12.4 (MINUTE NO 166) (ASFC 19/11/2015) - REVIEW OF THE RATE SETTING STATEMENT - PHASE 2 (150/016) (D GREEN/N MAURICIO/S DOWNING) (ATTACH)**

**RECOMMENDATION**

That Council:

- (1) receive the 2015/16 Rates Setting Process – Internal Audit: Phase Two Report as attached to the Agenda;
- (2) continue the incorporation of rates and service charges for Residential Improved properties as part of its future rates process;
- (3) require the Delegated Authorities and Policy and Position Statements Committee prepare an amended Policy SC34 – Budget Management to reflect the following:
  1. Continue with incorporation of the waste management and community surveillance service charges into the residential improved rates;
  2. Receive an independent assessment of the modelling annually;
  3. Third Budget Forum to specifically consider Differential Rates and the modelling associated with the application of the proposed differential rates; and
  4. The Annual Municipal Budget be adopted by a Special Meeting of Council.

**COMMITTEE RECOMMENDATION**

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

**CARRIED 4/0**



<b>COUNCIL DECISION</b>
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### **Background**

Arising from the report to the Ordinary Council Meeting held on 10 September 2015 *Application Of Rates Concession For 2015 / 16 Financial Year*, the resolution of Council as stated in recommendation 5 of the report was:

*review Policy SC 34 “Budget Management” for the purpose of considering a strategy to incorporate Service Charges into the General rate charges on an ongoing basis and to include an “equalisation” concession to ensure reasonable equity is maintained for rate increases;*

As part of the report, Deloitte’s were to be commissioned to undertake a second stage of their review as noted below:

#### Strategy for the Future

*To provide an assurance to Council and its ratepayers that mitigates against the likelihood of a repeat of these circumstances, it is important that a process which enables necessary checks and balances of the anticipated rates income is introduced for future years. A well-considered approach to this matter would result if Council employed the following strategy:*

1. *Review Policy SC34 “Budget Management” to incorporate:*
  - *The ongoing inclusion of a Waste Service Charge and Security Service (Co safe) Charge into the General Rates levied against rateable properties.*
  - *Grant provision of a “Waste and Co safe” equalisation Concession each year as a fundamental principle of the Rating Strategy to overcome inequitable variances to rates to higher GRV properties, but maintain the capacity for eligible pensioners to continue claiming a rebate on the rates assessment, inclusive of Waste and Security Service Charges.*
  - *Detailed estimated rates income modelling will be prepared and independently reviewed, prior to being separately presented to a specific “Rates Setting Workshop” as a requirement of the annual Budget timetable*



2. *Engage Council's appointed Internal Auditor (Deloitte) to corroborate the proposed Rate Setting schedule annually, prior to presentation of this information to Elected Members during the Budget Worksop dedicated for this purpose each year.*

### **Submission**

N/A

### **Report**

In August 2015, Deloitte was assigned to undertake an internal audit assessment of the City's rate setting process for the 2015/16 budget with a focus on the implementation of the strategy to incorporate compulsory waste service and CoSafe security charges into the general rate in the dollar for residential improved properties (the incorporation rate setting strategy).

A two-phased approach was applied to this assessment, being:

- Phase One - Addressing scope items relating to the processes and outcomes for the 2015/16 budget year; and
- Phase Two - Addressing scope items to be considered by Council for the 2016/17 budget rate setting (the focus of this report).

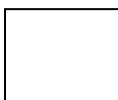
The audit report for Phase one was presented to Council in September. This outlined a number of key issues that should be considered as part of the audit scope for Phase two, these being:

- Basis of concessions, if any, to be built into the rates setting process
- Calculation of a comparable RID to fund any concession (considering the proposed 2015/16 concession draws on the funds available from the over-charging error)
- The impact on other rates setting decisions (e.g. minimum rates)
- The potential change in the State Government rebate scheme (potential rebate cap).

As such the following audit brief was prepared by Manager, Financial Services:

*If Council continues with incorporating waste & CoSafe charges in the RID for residential improved properties in 2016/17 and future years:*

- Basis of concessions, if any, to be built into the rates setting process
- Calculation of a comparable RID to fund any concession (considering the proposed 2015/16 concession draws on the funds available from the overcharging error)



- Impact on pensioners from the potential change in the State Government rebate scheme (potential rebate cap).
- The impact on other rates setting decisions (e.g. minimum rates).
- Issues to consider if extending incorporated charges to non-residential improved properties.
- Modelling requirements to inform Council deliberations.

*If Council reverts to having separately levied waste & CoSafe charges for residential improved properties (no concession requirement):*

- Impact on ratepayers: those that received a comparative advantage from incorporation (compared to 2014/15 rates); those that received a concession in 2015/16; pensioners
- The impact on other rates setting decisions (e.g. minimum rates).
- Modelling requirements to inform Council deliberations.

The report from Deloitte on Phase two of the audit (attached to the agenda) has addressed the audit brief and made the following findings:

*1. Modelling within the 2016/17 rates setting process (and the conduct of a third budget workshop to focus on rate setting)*

- There are two main benefits to scheduling a Rates Setting briefing after the Capital Expenditure and Operational Expenditure briefings, namely:
  - A greater understanding of costs, and therefore the revenue required to meet those costs, will lead to a more accurate modelling outcome
  - The later the Rates Setting briefing is held, the more new properties will be included in the modelling process
- The City may consider formalising its process of reviewing the rates revenue assessment process, considering it was challenged during the 2015/16 rate setting process
- Council should be provided detailed modelled outcomes, with examples for various property types (including those that Elected Members can personally relate to, such as properties with GRVs similar to their own properties) in order to understand the modelling process and impact on ratepayers
- The modelling process and impact analysis should be subject to independent review
- The main decision to be made by Council is which method (no incorporation, incorporation with a concession, incorporation without a concession) to use for the coming year. It is reasonable to make this decision before commencing the rate modelling process, which is likely to be resource intensive



- Any further decision to continue the concession beyond the 2016/17 year should be made ahead of the beginning of modelling for that year.

*2. Scenario 1: Continued incorporation strategy*

- In the City's current circumstances, the advantages of incorporation (the benefit to pensioners, the treatment of waste as a service no different from others and the simplified rates structure) appear to outweigh the disadvantages
- The concession ensures that ratepayers of properties with a higher GRV do not feel the full impact of the move to incorporation and should be continued for the 2016/17 year if the City is to be consistent with its strategy for the 2015/16 year
- To assist in covering the cost of the concession, the minimum rate should be raised by at least the same percentage as, and preferably slightly more than, the general rate increase (whilst remaining within legal parameters)
- The concession should be based on capping the percentage rate increase at a level the City feels confident will be tolerated by residents (and ideally higher than the average increase)
- The City should be mindful of the need to communicate clearly the complexities of its decisions and impacts on ratepayers in its annual Objects and Reasons Statement.

*Extending incorporated charges to non-residential improved properties*

- The City should:
  - Model the impacts of incorporated waste charge for the full range of GRV properties
  - Not make the decision to incorporate waste charges for non-residential properties without considering how to soften the impact on the properties with higher GRVs.

*3. Scenario 2: Separate waste and CoSafe charges (reversal of incorporation)*

- The groups likely to be impacted by this decision are:
  - Those ratepayers who had a relative advantage in 2015/16 (in particular those who received a decrease in rates from 2014/15 to 2015/16) are likely to be relatively disadvantaged (comparing 2016/17 rates to 2015/16 rates) if incorporation is reversed
  - Pensioners who can no longer claim a rebate on the waste and CoSafe charges (as noted above, the final overall impact will also depend on the State Government's policy)



- There is unlikely to be any need for a concession if there is no incorporation, however an impact analysis will still be required to highlight any groups which may be adversely affected by the reversal.
- Some of the risks associated with fixed waste and CoSafe charges include:
  - Pensioners will be disadvantaged and to a greater extent if the State government rebate policy remains unchanged
  - These services will continue to be treated differently from the wide range of other services offered by the City.
- If the City chooses not to incorporate waste charges it should consider incorporating CoSafe security charges for consistency with non-residential improved properties.

Deloitte's report also provides recommendations for the type of modelling and impact analysis information to be presented to the rate setting budget workshop.

### Summary and Conclusion

On balance, the Deloitte Report shows that the City should continue with the incorporation rate setting strategy.

As noted in the Report, pensioners will on the whole be better off if the City maintains the current incorporation of the rates and service charges. In addition, the concession methodology will allow the City to provide the management tool to cap rate increases equitably.

Policy SC34 'Budget Management' will have to be amended at the next Delegated Authorities, Policies and Position Statements Committee Meeting to be held on 26 November 2015'. The following amendments are flagged for review and amendment:

1. Third Budget Forum to specifically consider Differential Rates and the modelling associated with the application of the proposed differential rates;
2. Continue with incorporation of the rates and service charges;
3. Review an independent assessment of the modelling;
4. Have the Annual Municipal Budget adopted by a Special Meeting of Council rather than an Ordinary Council Meeting.
5. Prepare a new timetable to accompany the Policy SC34.

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

#### **Leading & Listening**

- Effective and constructive dialogue with all City stakeholders.



- Effective advocacy that builds and manages relationships with all stakeholders.
- A responsive, accountable and sustainable organisation.

Policy SC34 'Budget Management' refers.

### **Budget/Financial Implications**

The financial implications of the Deloitte's Phase 2 report will be considered by Elected Members as part of the Budget Forums to be held in 2016 in preparation of the 2016/17 Annual Municipal Budget.

### **Legal Implications**

N/A

### **Community Consultation**

N/A

### **Attachment(s)**

2015/16 Rates Setting Process – Internal Audit – Phase 2.

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

N/A

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

Nil.

## **13. ENGINEERING & WORKS DIVISION ISSUES**

Nil

## **14. COMMUNITY SERVICES DIVISION ISSUES**

Nil

## **15. EXECUTIVE SERVICES DIVISION ISSUES**

Nil

## **16. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil





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

Nil

**18. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF MEETING BY COUNCILLORS OR OFFICERS**

Nil

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

Nil

**20. CONFIDENTIAL BUSINESS**

Nil

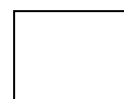
**21 (ASFC 19/11/2015) - CLOSURE OF MEETING**

7.02 pm.

**CONFIRMATION OF MINUTES**

I, ..... (Presiding Member) declare that these minutes have been confirmed as a true and accurate record of the meeting.

Signed: ..... Date: ...../...../.....



NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

9b. Movements in Carrying Amounts - Property, Plant & Equipment

The following table reconciles the carrying amount at the beginning and end of the current financial year for each class of non-current assets:

Asset Classification	Carrying amount at beginning of the year	<i>add:</i>		<i>add / (less)</i>	<i>less:</i>	<i>less:</i>	<i>Transfers</i>	Carrying amount at end of the year
		Acquisitions	Gifted Development Assets	Revaluation increments/ (decrements)	Disposals & Write Offs	Depreciation	Works Completed & Capitalised During the Year	
Freehold Land	100,204,600	10,105			(744,105)			99,470,600
Buildings	78,654,900	0	1,458,317		(650,148)	(4,548,676)	51,400,016	126,314,409
Furniture & Equipment	565,327					(153,240)		412,086
Computer Equipment	172,121	956,428				(95,204)		1,033,345
Plant & Machinery	11,521,646	3,426,802			(781,659)	(2,802,365)		11,364,424
Work in Progress	58,382,983	15,117,499					(51,400,016)	22,100,466
	249,501,577	19,510,833	1,458,317	0	(2,175,912)	(7,599,485)	0	260,695,330

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

### 34. Opening & Closing Funds used in the Rate Setting Statement

	2015 (30 June 2015 Carried Forward) \$	2015 (1 July 2014 Brought Forward) \$	2014 (30 June 2014 Carried Forward) \$
<b>Surplus/(Deficit) - Rate Setting Statement</b>	13,676,287	13,175,076	13,175,076
<b>Comprises:</b>			
Cash and Cash Equivalents	129,018,060	104,834,013	104,834,013
Investments Held to Maturity			
Trade & Other Receivables	5,470,423	5,512,040	5,512,040
Other Assets	621,686		
Inventories	18,634	39,421	39,421
	135,128,804	110,385,474	110,385,474
<b>Less:</b>			
Trade & Other Payables	(8,063,526)	(8,623,945)	(8,623,945)
Provisions	(4,618,800)	(4,552,635)	(4,552,635)
	(12,682,327)	(13,176,581)	(13,176,581)
<b>Net Current Assets</b>	122,446,477	97,208,893	97,208,893
<b>Less:</b>			
Restricted Financial Assets - Reserve Funds	(101,503,929)	(79,664,906)	(79,664,906)
Land Held for Re-sale			
Restricted Financial Assets - Deposits & Bonds	(6,203,155)	(2,802,292)	(2,802,292)
Committed Financial Assets (unspent grants & contributions)	(5,569,838)	(5,923,657)	(5,923,657)
	(113,276,921)	(88,390,855)	(88,390,855)
<b>Add:</b>			
Restricted Financial Assets held in Non Current Investments	4,506,731	4,357,037	4,357,037
<b>Surplus/(Deficit)</b>	13,676,287	13,175,076	13,175,076
<b>Difference:</b>			

There was no difference between the Surplus/(Deficit) 1 July 2014 Brought Forward position used in the 2015 audited financial report and the Surplus/(Deficit) Carried Forward position as disclosed in the 2014 audited financial report.

### 35. Events after the Reporting Date

There have been no significant events after the reporting period that are required to be included in the 2014/15 Annual Financial Report.