

Audit & Risk Committee Minutes

1 November 2023

Our Vision

*A City which values its heritage, cultural diversity,
sense of place and natural environment.*

*A progressive City which is prosperous, sustainable
and socially cohesive, with a strong community spirit.*

City of Norwood Payneham & St Peters
175 The Parade, Norwood SA 5067

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City of
Norwood
Payneham
& St Peters

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VENUE Mayors Parlour, Norwood Town Hall

HOUR 7.00pm

PRESENT

Committee Members Mayor Robert Bria (Presiding Member)
Cr Grant Piggott
Cr Claire Clutterham
Ms Sandra Di Blasio (Independent Member)

Staff Mario Barone (Chief Executive Officer)
Lisa Mara (General Manager, Governance & Civic Affairs)
Natalia Axenova (Chief Financial Officer)
Skye Grinter-Falzun (Manager, Chief Executive's Office)
Caitlin Rea (Human Resources Advisor)
Marina Fischetti (Executive Assistant, Governance & Civic Affairs)

Visitors Mr Tim Muhlhausler (Director, Galpins) - (*via electronic communication*)
Mr Scott Way (Director, BDO Australia)
Mr David Papa (Partner, Bentleys SA/NT) - (*via electronic communication*)
Dongju Han (Senior Manager, Bentleys SA/NT) - (*via electronic communication*)

APOLOGIES Ms Stefanie Eldridge (Independent Member)

ABSENT Nil

TERMS OF REFERENCE:

The functions of the Audit & Risk Committee include:

- (a) reviewing Annual Financial Statements to ensure that the Statements present fairly the state of affairs of the Council; and
- (b) proposing, and providing information relevant to, a review of the Council's strategic management plans or annual business plan; and
- (c) monitoring the responsiveness of the Council to recommendations for improvement based on previous audits and risk assessments, including those raised by the Council's External Auditor; and
- (d) proposing, and reviewing, the exercise of powers under Section 130A of the Local Government Act 1999; and
- (e) liaising with the Council's External Auditor in accordance with any requirements prescribed by the regulations; and
- (f) reviewing the adequacy of the accounting, internal controls, reporting and other financial management systems and practices of the Council on a regular basis; and
- (g) providing oversight of planning and scoping of the Internal Audit work plan; and
- (h) reviewing and commenting on reports provided by the person primarily responsible for the Internal Audit function at least on a quarterly basis; and
- (i) reviewing and evaluating the effectiveness of policies, systems and procedures established and maintained for the identification, assessment, monitoring, management and review of strategic, financial and operational risks on a regular basis; and
- (j) reviewing any report obtained by the Council pursuant to Section 48(1) of the Local Government Act 1999; and
- (k) performing any other function determined by the Council or prescribed by the regulations.

1. CONFIRMATION OF MINUTES OF THE AUDIT & RISK COMMITTEE MEETING HELD ON 18 SEPTEMBER 2023

Cr Clutterham moved that the Minutes of the Audit & Risk Committee meeting held on 18 September 2023 be taken as read and confirmed. Seconded by Cr Piggott and carried unanimously.

2. PRESIDING MEMBER'S COMMUNICATION
Nil

3. QUESTIONS WITHOUT NOTICE
Nil

4. QUESTIONS WITH NOTICE
Nil

5. WRITTEN NOTICES OF MOTION
Nil

6. STAFF REPORTS

6.1 ANNUAL FINANCIAL STATEMENTS FOR YEAR END 30 JUNE 2023

REPORT AUTHOR: Chief Financial Officer
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4549
FILE REFERENCE: qA491622
ATTACHMENTS: A

PURPOSE OF REPORT

The purpose of this report is to present the 2022-2023 Financial Statements to the Audit Committee for review and recommendation to the Council for adoption.

BACKGROUND

Pursuant to Section 127 of the *Local Government Act 1999* (the Act), the Council must prepare Annual Financial Statements in accordance with the *Local Government (Financial Management) Regulations 2011* (the Regulations).

Section 13 of the Regulations requires that the Financial Statements of a Council be prepared in accordance with the requirements set out in the Model Financial Statements. The Annual Financial Statements have been prepared in accordance with the Model Financial Statements.

Section 126 (4) (a) of the Act requires that the functions of an Audit Committee to include “*reviewing annual financial statements to ensure that they present fairly the state of affairs of the council*”. As such, the Annual Financial Statements are presented to the Committee for consideration.

A copy of the Annual Financial Statements is contained in **Attachment A**

RELEVANT STRATEGIC DIRECTIONS & POLICIES

The Council's long term strategic directions are outlined in the *City Plan 2030 – Shaping our Future*.

The 2022-2023 Annual Business Plan and supporting Budget, set out the services and programs and initiatives for the 2022-2023 Financial Year.

The Council's 2022-2023 Annual Business Plan reflects the Council's commitment to financial sustainability. In adopting the 2022-2023 Budget, the Council forecasted an Operating Surplus of \$0.864 million for the 2022-2023 Financial Year.

FINANCIAL AND BUDGET IMPLICATIONS

Statement of Comprehensive Income

The Council concluded the 2022-2023 Financial Year with an Operating Surplus of \$1.954 million (2021-2022: \$2.645 million), compared to the Operating Surplus of \$0.864 million as set out in the 2022-2023 Adopted Budget.

After considering Capital Items which includes the impact of assets revaluations and grant funding specifically for asset upgrades or renewals and asset disposals, the Council is reporting a Total Comprehensive Income of \$50.111 million (2021-2022: \$37.072 million).

The reasons for the variations to the Adopted Budget are outlined in Item 6.2: Financial Summary.

EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable.

SOCIAL ISSUES

Not Applicable.

CULTURAL ISSUES

Not Applicable.

ENVIRONMENTAL ISSUES

Not Applicable.

RESOURCE ISSUES

Not Applicable.

RISK MANAGEMENT

Not Applicable.

CONSULTATION

- **Elected Members**
Nil
- **Community**
Not Applicable.
- **Staff**
Responsible Officers
General Managers
- **Other Agencies**
Nil

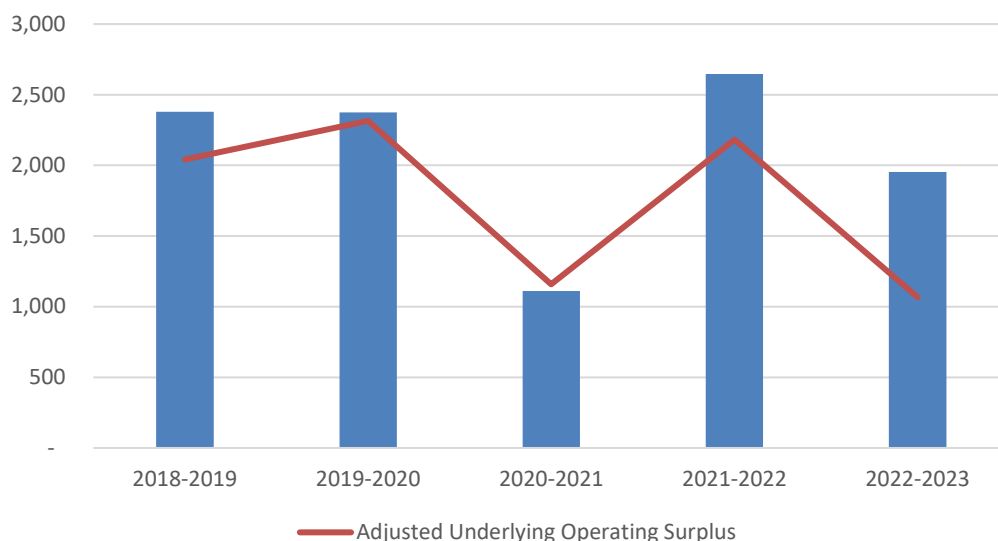
DISCUSSION

Statement of Comprehensive Income Operating Result

As detailed in Figure 1 below, the Council concluded the Financial Year with an Operating Surplus of \$1.954 million (2021-2022: \$2.645 million). The decrease in the Operating Surplus is due to a 7.9% increase in Operating Expenses primarily due to an increase in Finance costs and Net loss on Joint Ventures & Associates, when compared to the previous Financial Year.

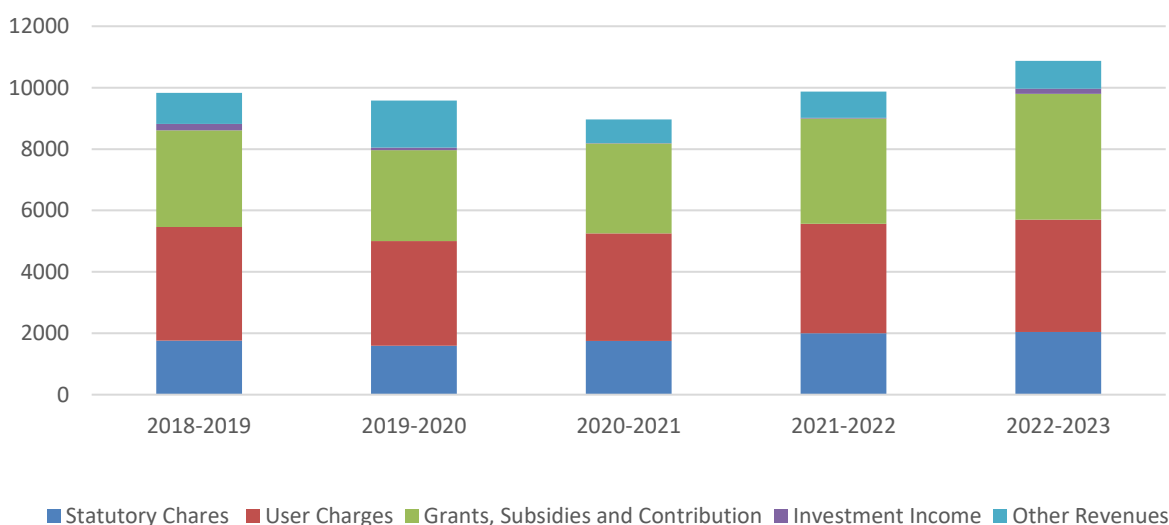
As highlighted in previous reports to the Committee, for the last five (5) consecutive years, the Federal Government has made advance payments equal to approximately two quarters of the Financial Assistance Grants. The advance was increased for the 2023-2024 financial year. Adjusting for the effect of the advance payments, the underlying Operating Surplus is \$1.067 million for 2022-2023, (2021-2022: \$2.182 million). Figure 1 below, shows the Operating Surplus over the last five (5) years and compares the impacts of the advance payment of Financial Assistance Grants.

FIGURE 1: OPERATING SURPLUS (DEFICIT) - \$'000



As detailed in Figure 2 below, non-rate revenues have increased (8.3%) compared to the 2021-2022 financial year, which is primarily due to the higher interest which has been received from the Local Government Finance Authority for “cash at bank”. In addition, the quantum of funds being held are higher due to the timing of expenditure on projects. During the year, the Council also recognised the ‘Local Roads & Community Infrastructure Program’ Grant as income immediately on receipt in accordance with AASB 1058.10, as advised by the Council’s Auditors, Galpins.

FIGURE 2: NON-RATE REVENUES - \$'000



The cost to deliver the Council's continuing services (i.e. Recurrent Operating Costs) increased by 7.9% (\$3.521 million) compared to 2021-2022. Primary drivers behind this increase are:

- Depreciation, amortisation and impairment have increased by \$795,972 compared to 2021-2022, as a result of a \$15 million capitalisation of fixed assets during 2021-2022 Financial Year.
- Employee costs have increased mainly as a result of year-on-year CPI wage increase.
- Contracted services have increased due to unplanned maintenance, increase in contracted and temporary staff at the St Peters Childcare Centre & Preschool and across the organisation to cover staffing needs while recruitment is in process for vacant roles.

Partially offsetting these cost increases were the significantly lower legal costs during the financial year (saving of \$347,796 compared to 2021-2022) and provisions for doubtful debts (a saving of \$231,406 compared to 2021-2022).

In addition to the continuing services, the Council delivered eighteen (18) Operating Projects, which encompassed a number of new service initiatives and one-off activities or programs. The net gain of delivering the Operating Projects was \$101,160 as a result of State Government Grants and Contributions from other local councils (2021-2022: net cost of \$381,478).

Ownership costs, which incorporate interest paid on long term borrowings and depreciation, increased by 6.7% (\$752,000). The increase is attributed to depreciation costs on the major assets which have been capitalised in prior years offset by a reduction in interest paid.

Non-Operating Items

A Non-Operating impact from assets related activities of \$862,114 is reported for 2022-2023 (2021-2022 Non-Operating Surplus \$30,534). The Non-Operating transactions comprised of:

- Loss on Sale and Write off of Infrastructure Assets renewed as part of the Capital Works program. (\$1.502 million)
- Grant Funding received or recognised for Capital Projects including \$0.64 million
 - Cruickshank Reserve Facility Upgrade \$444,393
 - Library Book Acquisition \$105,807
 - Norwood Oval Development \$ 60,000
 - Burchell Reserve Upgrade \$ 30,000

Other Comprehensive Income

Other Comprehensive Income comprises items of income and expenses that are not recognised in the Net Surplus (Deficit) for the year, as required or permitted by other Australian Accounting Standards. Such items include the impact of changes in asset values due to revaluations. The value of Other Comprehensive Income reported in the Statement of Comprehensive Income, is a Surplus of \$49.019 million (2021-2022: \$34.457 million).

The major factor contributing to the Surplus is the indexation of the Council's Civil Infrastructure, Land and Building Assets. In line with the Council's *Asset Revaluation Policy*, independent valuations of the major long term asset classes are undertaken on a rolling five (5) year period. For the 2022-2023 financial year, an independent revaluation for Land and Building assets was undertaken by Asset Valuation & Risk Consulting.

Balance Sheet

The Net Assets of the Council at 30 June 2022, is \$586 million, an increase of \$50 million from 2021-2022. Major movements include:

a. Assets

Current Assets have decreased by \$7.558 million, predominately due to a decrease in cash held with the Local Government Financing Authority.

This was offset by an increase in Non-Current Assets of \$52.453 million, predominately due to an increase of \$51.062 million on the revaluation of the Council's fixed assets.

b. Liabilities

During 2022-2023 Financial Year, total liabilities decreased by \$5.216 million. The decrease was predominately due to the reduction in borrowing as a result of ongoing repayments and decrease in Trade and other payables as a result of reducing accrued commitments and outstanding payables.

c. Revaluations

In line with the Council's Asset Revaluation Policy, formal valuations of the major asset classes are undertaken on a rolling five (5) year period. For the 2022-2023 financial year, the Council engaged Asset Valuation & Risk Consulting to undertake the independent Land & Building Asset Valuation. For Asset Classes, not subject to an independent valuation, the carrying values of Assets Classes were reviewed and adjusted where appropriate.

The revaluation impact for each asset class is detailed in Table 1.

TABLE 2: IMPACT OF ASSET REVALUATION

| Asset Class | Revaluation Increase/ (Decrease) \$million | Comments |
|--------------------------------|--|---|
| Land | 41.096 | Represents a 21% increase in Fair Value based on the independent Land and Building Revaluations undertaken by Asset Valuation & Risk Consulting |
| Buildings and Other Structures | (10.661) | Represents a 14% decrease in Fair Value based on the independent Land and Building Revaluations undertaken by Asset Valuation & Risk Consulting |
| Open space Assets | 0.401 | Represents a 2% increase in Fair Value based on the unit price assessment undertaken by Tonkin Consulting. |
| Road Infrastructure | 8.165 | Represents a 10% increase in Fair Value based on the unit price assessment undertaken by Tonkin Consulting. |
| Kerbing | 2.612 | Represents a 4% increase in Fair Value based on the unit price assessment undertaken by Tonkin Consulting. |
| Footpaths | 0.717 | Represents a 2% increase in Fair Value based on the unit price assessment undertaken by Tonkin Consulting. |
| Linear Park | 0.079 | Represents a 8% increase in Fair Value based on the unit price assessment undertaken by Tonkin Consulting. |
| Storm-water Drainage | 6.497 | Represents a 10% increase in Fair Value, based on the unit price assessment undertaken by Tonkin Consulting. |
| Off- Roads Carparks | 0.124 | Represents a 6% increase in Fair Value, based on the unit price assessment undertaken by Tonkin Consulting. |
| Traffic Control Assets | (0.068) | Represents a 1.47% decrease in Fair Value, based on the unit price assessment undertaken by Tonkin Consulting. |
| Footbridge | 0.068 | Represents a 6% increase in Fair Value, based on the unit price assessment undertaken by Tonkin Consulting. |
| Total | 49.03 | |

Overall, the revaluation increase for the 2022-203 financial year is \$49 million, compared to an increase of \$34 million for the 2021-2022 financial year.

Statement of Cash Flows

For the 2022-2023 Financial year, the Council is reporting a net decrease in cash and cash equivalents of \$7.076 million. The Council generated \$9.887 million from operating activities, with the funds used to complete the Council's Capital Infrastructure Works Program and the Asset Replacement Program (\$11.193million), and principal repayments (\$0.946 million) associated with the Councils borrowings.

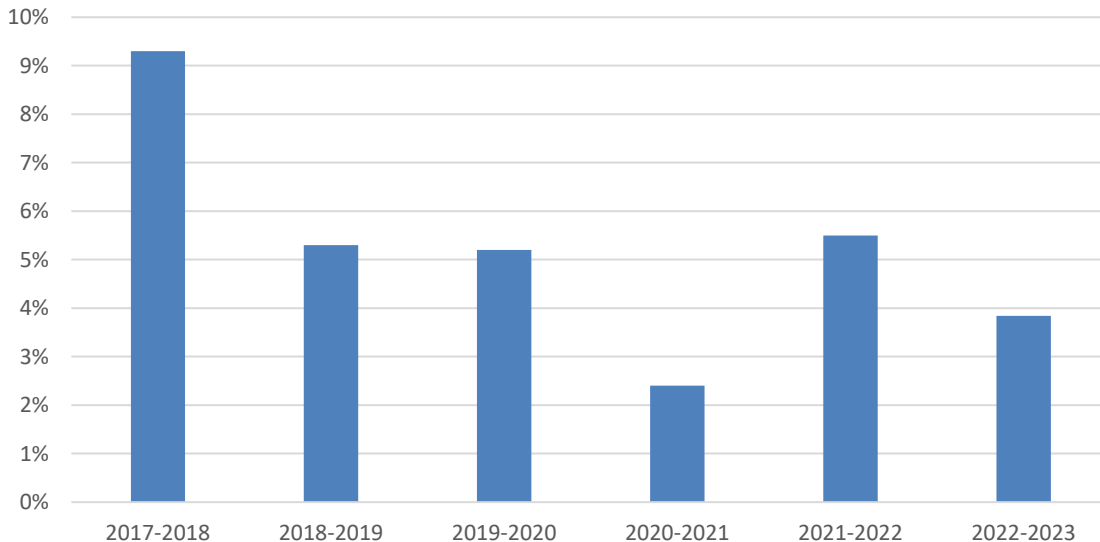
Section 126 (4) (a) of the *Local Government Act 1999*, requires that the functions of an Audit & Risk Committee are to include the review of the Annual Financial Statements to ensure that they present fairly the state of affairs of the Council. To ensure that the Audit Committee discharges its responsibilities under the Act, the following papers are provided for review.

Financial Ratios

Financial indicators represented by the following three (3) Financial Ratios:

- Operating Surplus Ratio (refer to Figure 3)
- Net Financial Liabilities Ratio (refer to Figure 4) and
- Asset Sustainability Ratio (refer to Figure 5)

FIGURE 3: OPERATING SURPLUS RATIO



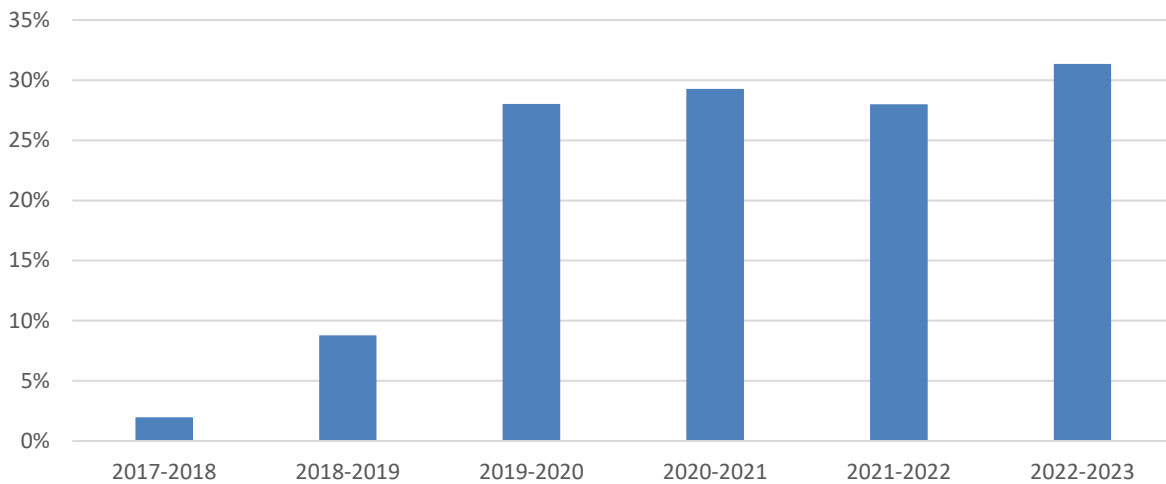
LTFP 2021-2031 Target: less than or equal to 10%

The Operating Surplus/(Deficit) Ratio expresses the Council's Operating Surplus/ (Deficit) as a percentage of Operating Revenue.

TABLE 3: FINANCIAL ASSISTANCE GRANTS ADVANCE PAYMENTS

| Financial Year | Number of Quarters Advanced | Increase in Operating Surplus (Value of Advance) |
|----------------|-----------------------------|---|
| 2022-2023 | more than 3 | \$1,405,173 |
| 2021-2022 | 3 | \$1,071,000 |
| 2020-2021 | 2 | \$607,000 |
| 2019-2020 | 2 | \$655,000 |
| 2018-2019 | 2 | \$595,000 |
| 2017-2018 | 2 | \$614,000 |

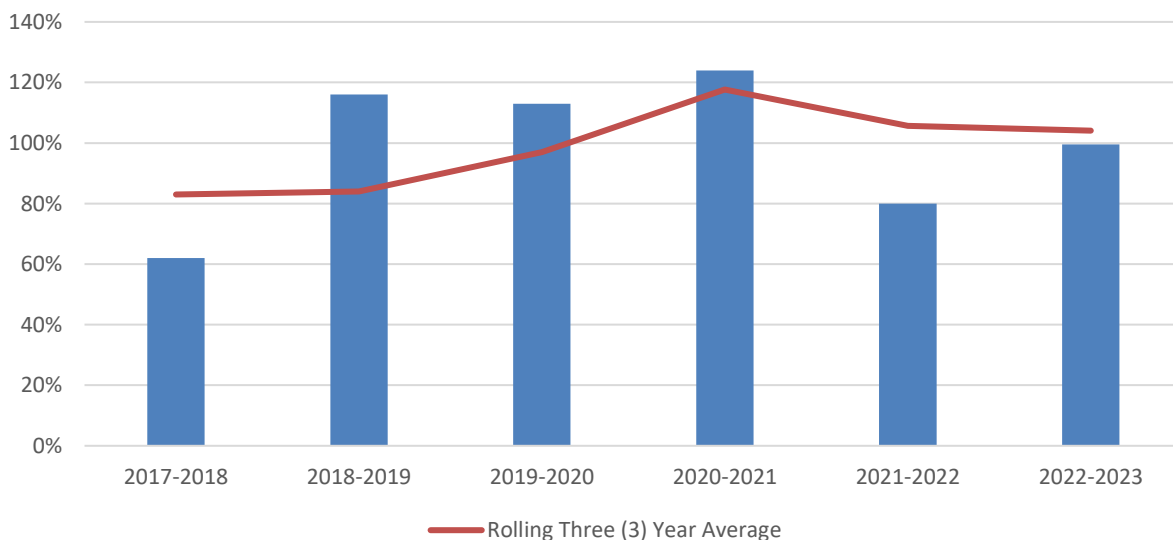
FIGURE 4: NET FINANCIAL LIABILITIES RATIO



LTFP 2021-2031 Target: less than or equal to 75%

The Net Financial Liabilities Ratio measures the extent to which the net amount owed by the Council is met by its Operating Revenue. Net Financial Liabilities are represented by Total Liabilities less Current Assets.

FIGURE 5: ASSET SUSTAINABILITY RATIO



LTFP 2021-2031 Target: between 90% and 110% on a 3 year rolling average.

The Asset Sustainability Ratio measures whether a Council is renewing or replacing existing physical assets (roads, footpaths, buildings etc.), at the same rate the stock of assets is “wearing out”. Asset Sustainability, is measured against the extent of the renewal expenditure incurred, compared to the planned renewal expenditure, as set out in the Council Asset Management Plans.

The Council’s 2021-2031 Long Term Financial Plan has set a target of between 90% and 110%, on a three (3) year rolling average. In some instances, the Council may be required to accelerate or decelerate the renewal or replacement of its existing asset base.

OPTIONS

There are no options associated with this issue.

CONCLUSION

The Council concluded the financial year with an Operating Surplus of \$1.954 million (2021-2022: \$2.645 million).

After Capital Items, which includes the impact of assets revaluations and grant funding specifically for asset upgrades or renewals and asset disposals, the Council is reporting a Net Surplus of \$50.112 million (2021-2022: \$37.072 million).

The Council's Auditors, Galpins, have completed the audit of the Council's Financial Statements and have advised that they will sign an unqualified Independent Auditors' Reports in the form prescribed, upon the Presiding Member of the Audit Committee signing the "Council Certificate of Audit Independence".

There were no significant issues raised during the audit of this year's Financial Statements which would prevent the Audit Committee recommending to the Council to adopt the 2022-2023 Financial Statement.

COMMENTS

Nil

RECOMMENDATION

That the Audit & Risk Committee recommends to the Council that:

- a. The Annual Financial Statements for the year ended 30 June 2023, as contained in Attachment A be adopted.
- b. The Annual Financial Statements for the year ended 30 June 2023, be dated 1 November 2023 and be signed on behalf of the Council by the Mayor.
- c. The Asset Revaluations as set out in Table 2 of this report, be adopted.

Mayor Bria welcomed Mr Tim Muhlhausler of Galpins, Council's appointed Auditors, to the Committee to answer any questions of the Committee.

Cr Clutterham moved:

That the Audit & Risk Committee recommends to the Council that:

- a. *The Annual Financial Statements for the year ended 30 June 2023, as contained in Attachment A be adopted.*
- b. *The Annual Financial Statements for the year ended 30 June 2023, be dated 1 November 2023 and be signed on behalf of the Council by the Mayor.*
- c. *The Asset Revaluations as set out in Table 2 of this report, be adopted.*

Seconded by Cr Piggott and carried unanimously.

6.2 FINANCIAL SUMMARY 2022-2023 ACTUAL RESULTS V ADOPTED BUDGET

REPORT AUTHOR: Chief Financial Officer
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4548
FILE REFERENCE: qA770145
ATTACHMENTS: A

PURPOSE OF REPORT

This report provides a summary of the 2022-2023 Audited result and explanations for variations from the 2022-2023 Adopted Budget.

BACKGROUND

Pursuant to Section 127 of the *Local Government Act 1999* (the Act), the Council must prepare Annual Financial Statements in accordance with the *Local Government (Financial Management) Regulations 2011* (the Regulations).

Section 10 of the Regulations requires the Council to prepare and consider a report, no later than 31 December in each year, showing the audited financial results of the Council for the previous financial year, compared with the estimated financial results set out in the budget presented in a manner consistent with the Model Financial Statements.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

The financial information contained in this report is based on the 2022-2023 Annual Financial Statements, the 2022-2023 Adopted Budget and the various policies adopted by the Council as they impact the Council's financial performance (eg. Rating Policy.)

FINANCIAL AND BUDGET IMPLICATIONS

The Council concluded the Financial Year with an Operating Surplus of \$1.954 million, compared to the Council's Adopted Operating Budget, which forecast an Operating Surplus of \$0.864 million. Details of the drivers behind the variances from the Adopted Operating Surplus, are contained in the Discussion Section of this report.

After capital items, the Council is reporting a Net Surplus of \$50.1 million against an Adopted Net Surplus of \$12.9 million, with the favourable variance being driven by revaluation of Infrastructure, Property, Plant & Equipment, which is mainly driven by the economy and market fluctuations and is difficult to predict when setting the Budget.

EXTERNAL ECONOMIC IMPLICATIONS

Nil

SOCIAL ISSUES

Nil

CULTURAL ISSUES

Nil

ENVIRONMENTAL ISSUES

Nil

RESOURCE ISSUES

Nil

RISK MANAGEMENT

Nil

CONSULTATION

- **Elected Members**
Elected Members have received regular reports on the Council's financial performance throughout the year.
- **Community**
Not Applicable.
- **Staff**
Responsible Officers, General Managers and Council's External Auditors.
- **Other Agencies**
Not Applicable.

DISCUSSION

The 2022-2023 Annual Financial Statements have been finalised and will be presented to the Council for adoption at the Council Meeting to be held on 6 November 2023. A separate report has been provided on the 2022-2023 Annual Financial Statements for consideration by the Audit & Risk Committee.

Statement of Comprehensive Income

Operating Result

The Council is reporting an Operating Surplus of \$1.954 million, compared to the Council Adopted Operating Budget, which forecasted an Operating Surplus of \$0.864 million, a favourable variance of \$1.090 million. The major variances (over 5%) from the Adopted Operating Surplus are outlined in Table 1 below.

TABLE 1: MAJOR VARIANCES FROM ADOPTED OPERATING SURPLUS

| Account Name | Reasons for the Variance | Amount (\$) |
|---|--|-------------|
| Grants, subsidies and contributions - Operating | Grant funding that has been received was favourable to the Adopted Budget driven by the Federal Government advancing 70% of the 2022-2023 Financial Assistance Grants. | 531,338 |
| Grants, subsidies and contributions - Capital | Change in recognition of <i>Local Roads & Community Infrastructure Program</i> Grant to recognise it as part of comprehensive income immediately on receipt in profit or loss in accordance with AASB 1058.10, as supported by the Council's Auditors Galpins. | 552,577 |
| Investment Income | Investment Income was favourable to the Adopted Budget driven primarily due to: <ul style="list-style-type: none"> • Higher interest on deposits held with the Local Government Finance Authority compared to the Adopted Budget (\$171,216 compared to the budget of \$37,000). The quantum of funds being held are higher than expected due to the timing of expenditure on projects. | 125,292 |

| Account Name | Reasons for the Variance | Amount (\$) |
|---|---|-------------|
| Other Income | Other Income was favourable to the Adopted Budget driven primarily by: <ul style="list-style-type: none"> • receipt of recovery income (\$80,000) for the Linear Park Path legal settlement offset by various recovery spend; • receipt of Local Government Finance Authority's annual bonus payments of \$38,442 which is calculated in relation to the average deposit and loan levels held during the financial year; and • reimbursement of \$38,456 as part of as part of <i>Boost Apprenticeship Commencement Wage Subsidies Program</i> | 102,157 |
| Reimbursements | Other Income was favourable to the Adopted Budget driven primarily by: <ul style="list-style-type: none"> • Boosting Apprenticeship Commencements Wage Subsidy and training to the value of \$ 159,957; and • reimbursement income was favourable to the Adopted Budget due to the insurance re-imbursements for claims made during the year which amounted to \$81,682, which was offset by expenditure to replace or repair items subject to the insurance claim. | 211,206 |
| Employee costs | Employee costs were favourable against the Adopted Budget due to: <ul style="list-style-type: none"> • turnover of staff combined with difficulties in recruiting replacement staff. To meet staffing needs, contract providers were utilised; and • vacant positions that were budgeted to be filled, combined with the time frame to replace positions which became vacant during the year due to resignations and an extremely tight labour market. | 278,748 |
| Materials, contracts & other expenses | Materials, contracts & other expenses were unfavourable against the Adopted Budget primarily due to, <ul style="list-style-type: none"> • Contracted services were unfavourable by \$268,961 compared to the Adopted Budget mainly due to more contract staff being engaged to cover shortages in employee staff as well as across various projects, especially for sweeping of residential roads during the year and unplanned maintenance of \$353,549 for buildings and at the Norwood Oval and other facilities management; and • Legal fees were unfavourable by \$144,719 to the Adopted Budget, mainly due to the legal expenses relating to planning, regulatory services and seeking general advice. | (711,499) |
| Finance Costs | Finance costs were favourable to the Adopted Budget due to interest expense not being incurred as there were sufficient cash reserves to fund expenditure needs, negating the need to draw down borrowings to fund expenditure during the year. | 413,767 |
| Depreciation, amortisation & impairment | Depreciation expense was greater than anticipated due to the full year impact of the 2021-2022 Asset Capitalisation and unit cost revaluation. | (402,849) |

Non-Operating Income

Non-Operating Income includes grant funding specifically for asset upgrades or renewals and gain/(loss) on asset disposals and assets received free of charge.

For the 2022-2023 Financial year, the Council is reporting a Non-operating Surplus of \$1.092 million against an Adopted Non-operating Surplus of \$10.914 million, a unfavourable variance of \$9.822 million. The unfavourable variance is set out in Table 2 below.

TABLE 2: MAJOR VARIANCES FROM ADOPTED NON-OPERATING INCOME

| Reasons for the Variance | Amount (\$'000) |
|--|----------------------------|
| Loss on the sale and or disposal of the Council's small Plant and Equipment at the end of its operational life, combined with write-off of the carrying values of the Council Civil Infrastructure, upon renewal. | (1,527) |
| Grant funding budgeted but not yet received due to the scheduling of capital projects. | (9,385) |
| <ul style="list-style-type: none"> • Trinity Valley Drainage Work Stage 2 - \$3,635,823 • Payneham Memorial Swimming Centre Master Plan - \$2,800,000 • River Torrens Linear Park Path Upgrade - \$1,350,000 • Dunstan Adventure Playground Upgrade - \$450,000 • Cruickshank Reserve Facility Upgrade - \$444,607 • Burchell Reserve Upgrade - \$420,000 • William Street Black Sport Grant - \$170,000 • St Peter's Street Upgrade Project - \$114,000 | |

Other Comprehensive Income

Other Comprehensive Income comprises items of income and expenses that are not recognised in the Net Surplus (Deficit) for the year, as required or permitted by Australian Accounting Standards. Such items include the impact of changes in asset values due to revaluations. The value of Other Comprehensive Income reported in the Statement of Comprehensive Income, is a Surplus of \$49.031 million, which is primarily due to the revaluation of Land Assets.

Balance Sheet

The Net Assets of the Council at 30 June 2023 is \$586 million, against an Adopted Budget of \$517 million, a favourable variance of \$69 million.

Major reasons for the variance in the Net Assets include:

Assets

Cash deposits with the Local Government Financing Authority are unfavourable by \$2.595 million, with the variance resulting from the combined impact due to the timing and progress of several major capital projects and the delay of drawdown of long-term borrowings for the Payneham Memorial Swimming Centre Project.

The carrying values of Infrastructure, Property, Plant & Equipment is reporting a favourable variance of \$40.503 million, resulting from the change in asset value resulting from the current market condition and cost reviews.

Other Non-current assets represent Capital Works-in-Progress. As at 30 June 2023, works on capital project not yet completed amounted to \$5.706 million.

Liabilities

Trade and Other Payables – with the timing of expenditures at the end of financial year, the Council had a larger than anticipated value of invoices mainly in relation to Capital spend to that anticipated in the Adopted budget resulting in the \$2.246 million unfavourable variance.

The long-term borrowings planned to be drawn down as part of the Adopted Budget were not required to align with timing of relevant projects, resulting in a favourable variance of \$28.650 million.

Attachment A contains the 2022-2023 Financial Statements comparing the actual result to the 2022-2023 Adopted Budget as required by Section 10 of the Regulations.

OPTIONS

There are no options associated with this matter.

CONCLUSION

Nil

COMMENTS

Nil

RECOMMENDATION

That the report be received and noted.

Cr Piggott moved:

That the report be received and noted.

Seconded by Cr Clutterham and carried unanimously.

6.3 REGIONAL SUBSIDIARIES – AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

REPORT AUTHOR: Accountant
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4549
FILE REFERENCE: qA98586
ATTACHMENTS: A - D

PURPOSE OF REPORT

The purpose of this report is to provide the Committee with the 2022-2023 Audited Financial Statements for the Regional Subsidiaries of which this Council is a member.

BACKGROUND

Section 216 (4) of the *Local Government (Financial Management) Regulations 1999* (the Regulations), requires that:

The Chief Executive Officer of a council must ensure that any audited financial statements of a subsidiary received for the purposes of clause 12 (3) (a) or 28 (2) (a) of Schedule 2 of the Act are laid before the council at the first meeting of the council following their receipt by the Chief Executive Officer on behalf of the council.

In accordance with the Regulations, the audited Financial Statements have been received from the following Regional Subsidiaries:

- Eastern Health Authority Inc. (**Attachment A**);
- Eastern Waste Management Authority Inc (**Attachment B**);
- ERA Water (**Attachment C**); and
- Highbury Landfill Authority Inc. (**Attachment D**).

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

There are no financial and budget implications resulting from the preparation of this report.

The financial performance of the Regional Subsidiaries of which this Council is a Member, is accounted for in the Council's Annual Financial Statements which are submitted concurrently.

The Council has included in its reported Operating Surplus, based on the respective ownership shares as detailed in Table 1, a net loss associated with its Regional Subsidiaries of \$307,366 (2021-2022: \$91,792 net loss).

EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable.

SOCIAL ISSUES

Not Applicable.

CULTURAL ISSUES

Not Applicable.

ENVIRONMENTAL ISSUES

Not Applicable.

RESOURCE ISSUES

Not Applicable.

RISK MANAGEMENT

There are no risk management issues arising from the preparation this report.

CONSULTATION

- **Committee Members**
Cr Clutterham is a Board Member of the Eastern Waste Management Authority Inc.
Ms Sandra DiBlasio is a Board Member of the ERA Water Audit Committee.
Cr Piggott is a Board Member of ERA Water and the Highbury Landfill Authority Inc.
- **Community**
Not Applicable.
- **Staff**
Not Applicable.
- **Other Agencies**
Not Applicable.

DISCUSSION

Table 1 below sets out the Net Surplus (Deficit) of the respective Regional Subsidiaries for the year ended 30 June 2023, together with the Council's share of the Operating Result which has been accounted for in the Council's 2022-2023 Financial Statements.

TABLE 1: REGIONAL SUBSIDIARY NET SURPLUS/ (DEFICIT)

| Regional Subsidiary | Net Surplus / (Deficit) | Councils Share of Net Operating Surplus / (Deficit) | |
|------------------------------------|-------------------------|---|-----------|
| | | Percentage | \$ |
| Eastern Health Authority | 25,383 | 31.96% | 8,112 |
| Eastern Waste Management Authority | 333,000 | 12.5% | 41,625 |
| ERA Water | (658,658) | 33.33% | (219,553) |
| Highbury Landfill Authority | (340,835) | 40.40% | (137,551) |

Important points to highlight resulting from the 2022-2023 Financial year are:

- **Eastern Health Authority**

The Eastern Health Authority Inc. reported an Operating Surplus of \$25,383. The Operating Surplus is due to the combined impact of increased income arising from an increase in the Food Inspection service and Immunisation Service Program which the Eastern Health Authority provided during a full year program, instead of only a six month program as occurred during the 2021-2022 and an increase in the investment income due to higher interest rates.
- **Eastern Waste Management Authority**

For 2022-2023, East Waste reported an Operating Surplus of \$190,000 plus a gain of \$143,000 on the disposal of Plant & Equipment. The Operating Surplus is principally due to the combined impacts of an increase in the income as a result of the addition of the City of Unley from 1 July 2022 and savings in the depreciation expenses due to a delay in fleet acquisition. In addition, there are savings in fuel costs due to lower than expected terminal gate rate.
- **ERA Water**

ERA Water reported an Operating Deficit of \$658,658, similar to its Operating Deficit of \$642,529 that was reported in 2021-2022. ERA Water recorded a 29% increase in income during the 2022-2023 financial year compared to the previous financial year, primarily generated by other income and investment income offset with a 17% increase in its operating expenses resulting in an overall Deficit.

The capacity of the ERA Water Managed Aquifer Recharge (MAR), scheme continued to grow in 2022-2023 and the volume of water harvested and injected into the aquifer increased by around 20%, whereas the volume of extraction was lower than 2022-2022, largely due to a late start and early finish to the 2022-2023 irrigation season. There has also been a significant increase in the water balance which will provide a buffer for times of drought where seasonal capacity to harvest stormwater for injection is exceeded by water demand for irrigation.
- **Highbury Landfill Authority Inc.**

The Highbury Landfill Authority Inc. reported an Operating Deficit of \$340,835. To meet the legislative requirements associated with the post-closure of the landfill, the Highbury Landfill Authority Inc., is required to estimate the future costs to manage the post-closure phase of the landfill. A review of the adequacy of the provision to cover the estimated cost of monitoring the landfill has been undertaken, to ensure that the value of the provision reflects the latest information on future expenditure and interest rates. The Highbury Landfill Authority is now 13 years into the post-closure management period and the post-closure provision represents the net present value calculation of the future cash outflows to manage the site of the remaining 12 years. As a result of the review, the post-closure provision was increased by \$328,520. This adjustment has contributed to the reported Net Deficit.

OPTIONS

Not Applicable.

CONCLUSION

The Council's 2022-2023 Annual Financial Statements is reporting a Net Loss on Equity Accounted Council Businesses of \$307,366 (2021-2022: \$91,792 Net Loss).

COMMENTS

Nil

RECOMMENDATION

That the report be received and noted.

Cr Piggott moved:

That the report be received and noted.

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.4 REVIEW OF FINANCIAL CONTROLS – UPDATE ON AUDIT RECOMMENDATIONS

| | |
|-------------------------|-------------------------|
| REPORT AUTHOR: | Chief Financial Officer |
| GENERAL MANAGER: | Chief Executive Officer |
| CONTACT NUMBER: | 8366 4585 |
| FILE REFERENCE: | qA |
| ATTACHMENTS: | Nil |

PURPOSE OF REPORT

The purpose of this report is to provide the Audit & Risk Committee with an update regarding the Review of Financial Controls that has been undertaken by the Council's Auditors, Galpins.

BACKGROUND

Pursuant to Section 129 of the *Local Government Act 1999* (the Act), in addition to providing an opinion on a Council's Financial Statements, the Council's Auditor must provide the Council with an audit opinion regarding its Internal Controls.

In respect to the Internal Controls, pursuant to Section 125 of the Act, a Council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained, in order to assist the Council to carry out its activities in an efficient and orderly manner, to achieve its objectives, to ensure adherence to management policies, to safeguard the Council's assets and to secure (as far as possible) the accuracy and reliability of Council records.

It should be noted that the audit opinion is restricted to financial controls as set out in Section 129 of the Act and relate to the Internal Controls that have been exercised by the Council during the 2022-2023 financial year in respect to the receipt, expenditure, investment of money, the acquisition and disposal of property and incurring of liabilities.

At its meeting held on 18 September 2023, following consideration of the *Financial Controls Review*, the Committee resolved the following:

1. *That the Auditor's Report on the Council's Financial Controls and the 2022-2023 Interim Management Letter, as contained in Attachment A, be received and noted.*
2. *That the Committee notes that implementation of the recommendations contained in the Auditor's Report on the Council's Financial Controls and Interim Management Letter is being progressed and notes that a report will be provided to the Audit & Risk Committee at its next scheduled meeting on 23 October 2023 and subsequent quarterly meetings.*

This report provides an update to the Committee in respect to the recommendations set out in the *Financial Controls Review*.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

Not Applicable.

EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable.

SOCIAL ISSUES

Not Applicable.

CULTURAL ISSUES

Not Applicable.

ENVIRONMENTAL ISSUES

Not Applicable.

RESOURCE ISSUES

Not Applicable.

RISK MANAGEMENT

Appropriate financial controls are fundamental to an organisation's financial governance framework. Undertaking the review has provided the Chief Executive Officer and the Audit & Risk Committee, with an overview of the current situation and recommendations to address the weaknesses that have been identified.

CONSULTATION

- **Elected Members**
Not Applicable.
- **Community**
Not Applicable.
- **Staff**
Not Applicable.
- **Other Agencies**
Not Applicable.

DISCUSSION

As part of the interim audit which has been undertaken, the Council's Auditor, Galpins, has reviewed and tested 100 Internal Controls, with 82 operating effectively, 5 representing a High Risk Weakness and 10 representing a Moderate Risk Weakness.

As outlined in the interim audit report presented to the Committee on 18 September 2023, a total of 18 recommendations were identified as areas requiring improvement and corrective actions. Since that time, significant progress has been made in addressing these recommendations.

Details of the progress made in addressing these recommendations are set out in Table 1 below.

TABLE 1 – STATUS UPDATE

| Business cycles | Controls | Operating Effectively | 2023 Findings | | | | | |
|--------------------------------------|------------|-----------------------|---------------|-------------------------------|-----------|--------------------------|----------|--------------------------|
| | Reviewed | 2023 | H | Comment from the Council | M | Comment from the Council | L | Comment from the Council |
| General Ledger | 11 | 8 | 2 | 1 Completed + 1 Not completed | 1 | In Progress | - | |
| Fixed Assets | 16 | 13 | 1 | Completed | 1 | Completed | 1 | Completed |
| Purchasing & Procurement/Contracting | 10 | 7 | - | | 3 | In Progress | - | |
| Accounts Payable (AP) | 13 | 12 | - | | - | | 1 | Completed |
| Rates / Rates Rebates | 10 | 8 | - | | 2 | In Progress | - | |
| Banking | 5 | 4 | 1 | Completed | - | | - | |
| Accounts Receivable (AR) | 6 | 5 | 1 | Completed | - | | - | |
| Credit Cards | 5 | 1 | - | | 3 | Completed | 1 | Completed |
| Payroll | 19 | 19 | - | | - | | - | |
| Receipting | 5 | 5 | - | | - | | - | |
| Total | 100 | 82 | 5 | | 10 | | 3 | |

Staff have reviewed the recommendations set out in the *Financial Controls Review* and concur with the recommendations as set out in the Auditor's report. Since then, staff have been working towards implementing more robust internal control procedures. All new and/or updated procedures have been communicated to staff and relevant training has been provided where required.

Completed Recommendations

Of the 18 recommendations contained within the *Financial Controls Review*, 11 recommendations have been addressed and completed.

The recommendations which have been completed relate to controls regarding the General Ledger, Fixed Assets, Banking, Accounts Receivable and Credit Cards.

The systems have been implemented on the basis of the recommendations and have resulted in significant improvements in these areas.

Recommendations in Progress

The implementation of six (6) recommendations is currently in progress. It is anticipated that these recommendations will be completed over the next few months to ensure completion by the time of the next audit, which is scheduled to occur in May 2024.

The recommendations in progress mostly relate to the area of Purchasing, Procurement and Contracting. The Council has recently appointed a Procurement Officer who is currently working through these recommendations.

Outstanding Recommendations

One (1) recommendation is yet to be addressed. The recommendation as set out in the *Financial Controls Review*, relates to the independent review of the Balance Sheet.

A system will be put in place regarding this recommendation with implementation to occur following the appointment of the position of Accountant, which is currently in the process of being recruited.

OPTIONS

Not Applicable.

CONCLUSION

The *Financial Controls Review* has provided a sound basis for considering and making improvements to the Council's Internal Financial Controls where required.

COMMENTS

Nil

RECOMMENDATION

That the report be received and noted.

Cr Clutterham moved:

That the report be received and noted.

Seconded by Ms Sandra Di Blasio and carried unanimously.

6.5 REVIEW OF FINANCE POLICIES

REPORT AUTHOR: General Manager, Governance & Community Affairs
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4549
FILE REFERENCE: qA61370
ATTACHMENTS: A - B

PURPOSE OF REPORT

The purpose of the report is to present two (2) policies which have been reviewed to the Audit & Risk Committee for adoption.

BACKGROUND

Policies, Codes of Practice and Codes of Conduct are important components of a Council's governance framework. Policies set directions, guide decision making and inform the community about how the Council will normally respond and act to various issues.

When a decision is made in accordance with a Council policy or code, both the decision-maker and the community can be assured that the decision reflects the Council's overall aims and principles of action.

Accordingly, policies and codes can be used in many contexts to:

- reflect the key issues and responsibilities facing a Council;
- provide a policy context and framework for developing more detailed objectives and management systems;
- guide staff and ensure consistency in delegated and day-to-day decision-making; and
- clearly inform the community of a Council's response to various issues.

It is therefore important that policies remain up to date and consistent with any position adopted by the Council.

A review of all Finance related policies has commenced to ensure that all policies are relevant, contemporary and legislatively compliant and these will be presented to the Audit & Risk Committee for endorsement as each policy is reviewed.

The following Policies are now scheduled to be reviewed:

1. Bad Debt Write-Off Policy (**Attachment A**); and
2. Credit Cards Policy (**Attachment B**).

Where required, the Policies have been amended to ensure that the Policies meet current standards and reflect the Council's position on the respective matters.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

DISCUSSION

Bad Debt Write-Off Policy

The *Bad Debt Write-Off* is an existing Policy.

The objective of the *Bad Debt Write-Off Policy* is to provide a framework for the management of debts that are owed to the Council. The Policy applies to general debts which are not related to a property or rates.

The Council's Chief Executive Officer is delegated pursuant to Section 143 of the *Local Government Act 1999*, to approve the writing-off of a bad debt up to a maximum of \$5,000. The writing-off of any debts exceeding this amount must be approved by the Council.

However, following the review of the current Policy, it is proposed to increase the delegation to the Chief Executive Officer to write-off a bad debt up to a maximum of \$10,000. The proposed increase is minor in dollar terms, ensures a more efficient process and reflects a contemporary approach in terms of writing off smaller debts.

Other than this proposed change, only minor amendments and formatting changes are recommended.

A copy of the draft *Bad Debt Write-Off Policy* is contained within **Attachment A**.

Credit Cards Policy

The *Credit Cards Policy* is an existing Policy.

The objective of this Policy is to provide guidance with respect to the use of Council issued Credit Cards to Council Staff.

Whilst the Council has allocated a credit card to a very limited number of staff (6 staff members in total), for operational purposes, it is nonetheless important to ensure that a robust system is in place to ensure that all Credit Card holders are aware of the Council's position regarding the use of credit cards.

Whilst the changes to the Policy are minor, provision has been made within the draft Policy to ensure that direct debit payments are not set up using credit cards.

A copy of the draft *Credit Cards Policy* is contained within **Attachment B**.

OPTIONS

The Committee can determine not to endorse the draft Policies, however as the draft Policies are required and have been prepared to meet legislative requirements, and manage particular finance matters, it is recommended that the Committee endorses the draft Policies as presented.

CONCLUSION

A comprehensive financial policy framework is essential for public accountability, transparency and consistency in Council decision making.

Policies should be supported by a comprehensive set of documented procedures detailing the specific staff responsibilities and processes to be followed to give effect to the policies and ensure that sound financial management practices are in place. Without such documented financial policies and procedures, the Council could be subject to criticism, (rightly or wrongly), that their financial management framework lacks transparency, legislative compliance or does not reflect contemporary standards.

The requirement on the Council's Auditors to provide an opinion on the adequacy of the Council's internal financial controls further emphasises the need for an explicit, clearly documented, framework of policies and procedures.

COMMENTS

To ensure compliance with Section 125 of the *Local Government Act 1999*, the Council must have in place, appropriate policies, practices and procedures, which assist the Council to carry out its activities in an efficient and orderly manner. To achieve this objective, it is important to ensure that the policies adopted by the Council are regularly reviewed to ensure that they reflect the current operating environment and continue to meet the Council's overall objectives.

There is no legislative requirement to consult in respect to these policies.

RECOMMENDATION

That the Audit & Risk Committee recommends to the Council that the following be adopted:

- Bad Debt Write-Off Policy (**Attachment A**); and
 - Credit Cards Policy (**Attachment B**).
-

Cr Piggott moved:

That the Audit & Risk Committee recommends to the Council that the following be adopted:

- *Bad Debt Write-Off Policy (Attachment A); and*
- *Credit Cards Policy (Attachment B).*

Seconded by Cr Clutterham and carried unanimously.

7. CONFIDENTIAL REPORTS

7.1 COUNCIL RELATED MATTER

RECOMMENDATION 1

That pursuant to Section 90(2) and (3) of the *Local Government Act 1999*, the Council orders that the public, with the exception of the Council staff present, be excluded from the meeting on the basis that the Council will receive, discuss and consider

- (a) Information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead).

and the Council is satisfied that, the principle that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.

RECOMMENDATION 2

Under Section 91(7) and (9) of the *Local Government Act 1999*, the Council orders that the report, discussion and minutes be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed.

Cr Piggott moved:

That pursuant to Section 90(2) and (3) of the Local Government Act 1999, the Council orders that the public, with the exception of the Council staff present [Chief Executive Officer; General Manager, Governance & Civic Affairs; Chief Financial Officer; Manager, Chief Executive's Office and Executive Assistant, Governance & Civic Affairs], be excluded from the meeting on the basis that the Council will receive, discuss and consider

- (a) Information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead).*

and the Council is satisfied that, the principle that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.

Seconded by Cr Clutterham and carried unanimously.

Cr Piggot moved:

Under Section 91(7) and (9) of the Local Government Act 1999, the Council orders that the report, discussion and minutes be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed.

Seconded by Cr Clutterham and carried unanimously.

7.2 COUNCIL RELATED MATTER

RECOMMENDATION 1

That pursuant to Section 90(2) and (3) of the *Local Government Act 1999*, the Council orders that the public, with the exception of the Council staff present, be excluded from the meeting on the basis that the Council will receive, discuss and consider

- (a) Information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead).

and the Council is satisfied that, the principle that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.

RECOMMENDATION 2

Under Section 91(7) and (9) of the *Local Government Act 1999*, the Council orders that the report, discussion and minutes be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed.

Cr Clutterham moved:

That pursuant to Section 90(2) and (3) of the Local Government Act 1999, the Council orders that the public, with the exception of the Council staff present [Chief Executive Officer; General Manager, Governance & Civic Affairs; Chief Financial Officer; Manager, Chief Executive's Office; Human Resources Advisor and Executive Assistant, Governance & Civic Affairs], be excluded from the meeting on the basis that the Council will receive, discuss and consider

- (a) Information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead).*

and the Council is satisfied that, the principle that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.

Seconded by Cr Piggott and carried unanimously.

Cr Clutterham left the meeting at 8.24pm and did not return to the meeting.

Cr Piggott moved:

Under Section 91(7) and (9) of the Local Government Act 1999, the Council orders that the report, discussion and minutes be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed.

Seconded by Ms Sandra Di Blasio and carried unanimously.

8. OTHER BUSINESS
Nil

9. NEXT MEETING
Monday 20 November 2023 (Special Meeting)

10. CLOSURE
There being no further business the Presiding Member declared the meeting closed at 8.46pm.

Mayor Robert Bria
PRESIDING MEMBER

Minutes Confirmed on _____
(date)