

Audit Committee Minutes

27 May 2019

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

Telephone 8366 4555
Facsimile 8332 6338
Email townhall@npsp.sa.gov.au
Website www.npsp.sa.gov.au



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
Cr John Minney (Presiding Member)
Mr Peter Holmes (Independent Member)
Sandra DiBlasio (Independent Member)

Staff Mario Barone (Chief Executive Officer)
Sharon Perkins (General Manager, Corporate Services)
Andrew Alderson (Financial Services Manager)

APOLOGIES Cr Mike Stock

ABSENT Nil

TERMS OF REFERENCE:

The Audit Committee is responsible to facilitate:

- *the enhancement of the credibility and objectivity of internal and external financial reporting;*
- *propose and provide information relevant to a review of the Council's Strategic Management Plans and Annual Business Plan;*
- *the review and reporting on any matter relating to financial management or the efficiency and economy with which the Council manages its resources;*
- *effective management of financial and other risks and the protection of the Council's assets;*
- *compliance with laws and regulations related to financial and risk management as well as use of best practice guidelines;*
- *the provision of an effective means of communication between the external auditor, management and the Council;*
- *proposing and reviewing the exercise of powers under Section 130A of the Local Government Act 1999;*
- *review Annual Financial Statements to ensure that they present fairly the state of affairs of the Council;*
- *liaising with the Council's Auditor; and*
- *reviewing the adequacy of accounting, internal control reporting and other financial management systems and practices of the Council on a regular basis.*

1. CONFIRMATION OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 FEBRUARY 2019

Mayor Bria moved that the minutes of the Audit Committee meeting held on 25 February 2019 be taken as read and confirmed. Seconded by Mr Peter Holmes and carried.

2. PRESIDING MEMBER'S COMMUNICATION

The Presiding Member welcomed Ms Sandra Di Blasio to the Committee.

3. JOINT VENTURE PRESENTATION

Nil

4. QUESTIONS WITHOUT NOTICE

Nil

5. QUESTIONS WITH NOTICE

Nil

6. WRITTEN NOTICES OF MOTION

Nil

7. STAFF REPORTS

7.1 2018-2019 EXTERNAL AUDIT PLAN

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/01823
ATTACHMENTS: A - B

PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee, the Annual External Audit Plan for the 2018-2019 Financial Year.

BACKGROUND

The 2018-2019 Audit Committee work plan requires the Audit Committee to ensure that financial information for external audiences, accurately reflects accrual based financial principles. An effective and compressive External Audit Plan assists the Audit Committee in discharging its responsibilities with regard to this requirement.

At the Audit Committee Meeting held on 26 February 2018, the Committee considered the appointment of BDO Advisory (SA) Pty Ltd (BDO) as the Council's Auditors for a five (5) year term commencing from the completion of the 2017-2018 Annual Financial Statements. In accordance with BDO's audit methodology, the 2018-2019 External Audit Plan has been prepared and is presented for the Committee's consideration.

RELEVANT POLICIES & STRATEGIC DIRECTIONS

Nil.

FINANCIAL AND BUDGET IMPLICATIONS

Nil.

SOCIAL ISSUES

Nil.

CULTURAL ISSUES

Nil.

ENVIRONMENTAL ISSUES

Nil.

RESOURCE ISSUES

Nil.

RISK MANAGEMENT

Nil.

CONSULTATION

- **Committee Members**
Nil.
- **Elected Members**
Nil.
- **Community**
Nil.
- **Staff**
The Council's General Manager, Corporate Services and Financial Services Manager have met with representatives from BDO to discuss the audit approach, the information contained in the Audit Plan and agree on the timetable of significant milestones.
- **Other Agencies**
Nil.

DISCUSSION

The External Audit Plan (the Plan) as contained in **Attachment A**, sets out the basis upon which BDO will undertake the external audit of the Councils 2018-2019 Financial Statements and Internal Controls.

The Plan outlines the objectives and the potential risks which will be considered and assessed during the Audit. BDO will undertake the external audit of the Council's financial statements and internal controls as outlined in the engagement letters contained in **Attachment B**.

OPTIONS

Nil

CONCLUSION

The proposed External Audit Plan as presented will achieve the compliance outcomes required of the External Audit process.

COMMENTS

If Committee Members have any questions or require clarification in relation to the External Audit Plan, do not hesitate to contact the Financial Services Manager, Andrew Alderson on 8366 4548 prior to the meeting.

RECOMMENDATION

That the 2018-2019 External Audit Plan and Engagement Letters as contained in Attachments A-B be received and noted.

Mr Peter Holmes moved:

That the 2018-2019 External Audit Plan and Engagement Letters as contained in Attachments A-B be received and noted.

Seconded by Ms Sandra Di Blasio and carried.

7.2 2019-2020 DRAFT ANNUAL BUSINESS PLAN AND BUDGET

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: GM Corporate Service
CONTACT NUMBER: 83664585
FILE REFERENCE: S05563
ATTACHMENTS: A - C

PURPOSE OF REPORT

The purpose of this report is to present to the Audit Committee for its information, the Draft 2019-2020 Annual Business Plan, the Draft 2019-2020 Budget and Draft Rating Policy, which have been approved by the Council and released for community consultation.

BACKGROUND

Pursuant to the provisions contained in Chapters 8, 9 and 10 of the *Local Government Act 1999* (the Act), the Council is required to adopt for each Financial Year, an Annual Business Plan (ABP) and Budget after 31 May and before 31 August.

Part 2 of the Act, “*Annual Business Plans and Budgets*”, requires the Council to consider its budget in conjunction with the Council’s Annual Business Plan and adopt the Budget following adoption of the Annual Business Plan.

Pursuant to Section 123 (3) of the Act, before the Council adopts an Annual Business Plan, the Council must prepare a Draft ABP and release the ABP for community consultation.

RELEVANT POLICIES & STRATEGIC DIRECTIONS

The Council’s Long Term Strategic directions are outlined in *City Plan 2030 – Shaping our Future*. The Draft 2019-2020 Annual Business Plan and supporting Draft Budget, sets out the proposed services and programs and initiatives for the 2019-2020 Financial Year and explains how the Council intends to finance its continuing services, programs and initiatives which are to be undertaken during the financial year.

The Council’s Long Term Financial Plan (LTFP), is a key document in the Councils Planning Framework. It is the primary financial management tool which links the Councils Strategic Plan, *City Plan 2030 – Shaping our Future*, Whole-of-Life Assets Management Plans, the Annual Business Plan and Budget.

The ‘in-principle’ adoption of the Draft 2019-2020 Annual Business Plan and Budget will, contribute to the Council achieving its goals and objectives as set out in the suite of Strategic Planning documents set out above.

FINANCIAL AND BUDGET IMPLICATIONS

The ‘in-principle’ adoption of the Draft 2019-2020 Budget, which is based on a Rate Revenue increase of 3.75%, will result in an Operating Surplus of \$775,000 (2018-2019: \$1.430 million) and a Net Surplus (after capital income) of \$10.267 million (2018-2019: \$10.206 million).

The Draft 2019-2020 Budget includes carried forwards of \$337,000 for 2018-2019 Operating Projects which are not anticipated to be completed by 30 June 2019 and a share of the Operating Deficit from Joint Ventures (Regional Subsidiaries) of \$135,000, which will be funded from cash reserves. Taking carry forward projects and Regional Subsidiaries into account, the projected underlying Operating Surplus for 2019-2020, based on a rate revenue increase of 3.75% which is within the target range as set out in the Council’s LTFP, is \$1.247 million.

SOCIAL ISSUES

Nil.

CULTURAL ISSUES

Nil.

ENVIRONMENTAL ISSUES

Nil.

RESOURCE ISSUES

Nil.

RISK MANAGEMENT

There are a number of risk management issues arising from this issue and as such, it is important, that the budget is prepared and adopted in accordance with the relevant statutory requirements. To this end, the Draft budget has been prepared in accordance with the relevant statutory requirements.

CONSULTATION

- **Committee Members**
Cr Minney, Mayor Bria and Cr Stock, have been involved throughout the Budget preparation process and have considered the various components of the Draft Budget and made decisions as appropriate.
- **Community**
The community through community consultation process on the Annual Business Plan will have input into the final form of the Draft Budget. The community consultation period commenced on 8 May 2019.
- **Staff**
The review of the Operating Expenditure and Special Projects and the Draft Annual Business Plan process has been completed with the involvement of the Chief Executive Officer, General Managers and the various Responsible Officers.
- **Other Agencies**
Nil.

DISCUSSION

The Draft 2019-2020 Annual Business Plan and Budget, is strategically focused, financially responsible and targeted at ensuring that the Council's priorities and operations are appropriately resourced.

It has recognised community concern about the affordability of Council services, with rates and other essential services forming an increasing share of the household expenditure. The community expectations for improved service delivery has been reflected in the decisions made, with respect to the amount of rate revenue and the service initiatives set out in the Annual Business Plan and funded within the 2019-2020 budget.

The focus in developing the draft 2019-2020 Annual Business Plan and Budget, has been on ensuring that the Council can maintain the service standards for its existing range of services which are aimed at supporting the delivery of the Strategic Objectives outlined in the Councils' Strategic Management Plan *City Plan 2030 – Shaping our Future* and that those services receive appropriate funding, balanced with ensuring that the community does not face significant increases in their annual rates contribution.

The key driver for this year's budget is to develop a Draft Annual Business Plan and Budget which not only contributes to the Council's broader strategic objectives, but also ensures that the Council's long term financial objective of managing its financial resources in a sustainable and equitable manner is achieved.

The Draft Budget is based on the principle of Financial Sustainability which is demonstrated by the adhering to the overarching principles which requires the Council to:

- achieve long term income and expenditure neutrality while keeping rates growth within the average for the sector;
- achieve long term cash flow neutrality while keeping rates growth within the average for the sector; and
- ensure Council's long term capital program fully funds asset renewal requirements.

Budget Overview

Table 1 below sets out the proposed Operating Surplus of \$775,235, based on a Recurrent Operating Surplus of \$2.246 million, an Operating Deficit relating to Operating Projects of \$1.034 million and an additional \$100,000 for additional finance costs associated with borrowings which are required to deliver the strategic projects included within the draft Capital Projects Budget.

The Operating Surplus relating to 2019-2020 Projects, incorporates \$362,000 from the Federal Government Roads-to-Recovery Program. While this funding will be utilised to fund a Capital Project, this funding is required to be included when determining the Council's Operating Surplus. It should be noted, that since the Council is "in principle" adoption of the draft 2019-2020 Annual Business Plan & Budget, the Federal Government has announce an increase in the funding allocation to the Roads to Recovery Program. This Council's annual allocation has been increased to \$453,000 per annum. As the notification of the increase was after the consideration by the Council, the increase in grant funding is not reflected in the draft Budget that was released for public consultation.

TABLE 1: 2019-2020 PROPOSED STATEMENT OF COMPREHENSIVE INCOME

	Recurrent Operating 2019-2020	Carry Forwards 2018-2019	Operating Projects 2019-2020	Capital Projects 2019- 2020	Proposed 2019-2020
	\$	\$	\$	\$	\$
INCOME					
Rates	34,787,035	-	-	-	34,787,035
Statutory charges	1,738,000	-	-	-	1,738,000
User charges	3,860,377	-	-	-	3,860,377
Grants, subsidies and contributions	2,301,517	-	390,000	-	2,691,517
Investment income	119,500	-	-	-	119,500
Other income	625,613	10,000	-	-	635,613
Net loss joint ventures & associates	19,591	-	-	-	19,591
Total Income	43,451,633	10,000	390,000	-	43,851,633
EXPENSES					
Employee costs	15,590,338	65,000	138,000	-	15,793,338
Materials, contracts & other expenses	15,416,125	281,823	1,286,076	-	16,984,024
Finance costs	544,245	-	-	100,000	644,245
Depreciation & amortisation	9,500,000	-	-	-	9,500,000
Net loss Joint Ventures & Associates	154,791	-	-	-	154,791
Total Expenses	41,205,499	346,823	1,424,076	100,000	43,076,398
OPERATING SURPLUS / (DEFICIT)	2,246,134	(336,823)	(1,034,076)	(100,000)	775,235
Net gain (loss) on disposal or revaluation of assets	-	-	-	59,000	59,000
Amounts specifically for new or upgraded assets	-	3,930,426	-	183,000	4,113,426
Physical resources received free of charge	-	3,320,000	-	-	3,320,000

	Recurrent Operating 2019-2020	Carry Forwards 2018-2019	Operating Projects 2019-2020	Capital Projects 2019- 2020	Proposed 2019-2020
NET SURPLUS (DEFICIT)	2,246,134	6,913,603	(1,034,076)	142,000	8,267,661
OTHER COMPREHENSIVE INCOME					
Change in revaluation surplus- infrastructure, property, plant & equipment	-	-	-	2,000,000	2,000,000
Total Other Comprehensive Income	-	-	-	2,000,000	2,000,000
TOTAL COMPREHENSIVE INCOME	2,246,134	6,778,403	(1,034,076)	2,142,000	10,267,661

Financial sustainability underpins the Council's Financial Goals and Outcomes which are set out in the Councils LTFF. In general terms, financial sustainability is ensuring that the Council has the financial resources to meet the long term service and infrastructure needs of the community, without any large rate revenue increases or cuts in service provision and/or standards.

From an operational perspective, financial sustainability is being able to manage the balance between keeping rate revenues increases to a minimum, maintaining existing service standards and expenditure on appropriate new services and necessary major capital investments and initiatives. The Draft Budget as presented in this report achieves this objective.

To be truly financially sustainable, the Council needs to generate sufficient cash flow from its recurrent operations to meet existing principal loan repayments, spending on renewal works, while having the future financial capacity (i.e. cash reserves to meet future loan servicing) to undertake new investments in the Councils Infrastructure, services and activities. The Draft Budget provides for sufficient cash flow to ensure that the Council can meet existing and new loan repayments from recurrent operations.

Pursuant to Section 123 (10) (b) of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*, Part 2 Financial Accountability, the budget is required to contain:

- a) a budgeted income statement, balance sheet, statement of changes in equity and statement of cash flows, presented in a manner consistent with the Model Financial Statements; and
- b) a statement as to whether projected operating income is sufficient to meet projected operating expenses for the relevant financial year; and
- c) a summary of operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled Uniform Presentation of Finances; and
- d) estimates with regard to the Council's Operating Surplus ratio, Asset Sustainability ratio and Net Financial Liabilities ratio presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.

The Financial Statements contained in **Attachment A**, are presented as prescribed in the Model Financial Statements and are based on a 3.75% increase in rate revenue. The Financial Statements also provide comparisons with the 2018-2019 Forecast and the Audited Financial Statements for the past three (3) years. Together, these Statements provide a complete picture of the Councils budgeted financial position for the 2019-2020 Financial year.

Budgeted Capital Projects

The Draft 2019-2020 Capital Budget (Draft Capital Budget) incorporates Capital Projects to the value of \$21.383 million inclusive of the expenditure required to finalise the 2018-2019 Capital projects which are not anticipated to be completed by 30 June 2019. The Draft Capital Budget expenditure is offset by Capital Funding which incorporates Grant and Other Revenues to the value of \$6.992 million, which will result in a net cost to the Council of \$14.391 million (exclusive of capitalised salaries \$650,000).

The endorsed Draft Capital Budget have been broken down into a number of categories as detailed in Table 2 below:

TABLE 2: CAPITAL PROJECT CATEGORIES

Capital Project Category	2019-2020 Endorsed Capital Projects \$'000	2019-2020 Grant Funding and Other Revenues \$'000	2019-2020 Net Cost \$'000
Whole-of-Life Capital Works Program (<i>Infrastructure Renewal</i>)			
• Road Resealing	1,996	-	1,996
• Footpath Reconstruction	851	-	851
• Kerbing Reconstruction	635	-	635
• Stormwater Drainage Program	2,813	-	2,813
• Recreation and Open Space Program	271	-	271
• Building Works Program	420	10	410
<i>Sub-total</i>	6,986	10	6,976
Recurring Capital Projects			
Annual Acquisition of Library Books	202	123	79
Annual Website Upgrades and Improvements	10	-	10
Depot Plant Replacement	287	51	236
Quadrennial Art Project	60	-	60
<i>Sub-total</i>	559	174	385
New Capital Projects			
Roll-Over Kerb John Street, Payneham – Review of parking conditions and development of options	20	-	20
The Parade West, Kent Town - Streetscape Upgrade	265	50	215
Payneham Oval Women's Facilities	775	-	775
Purchase of New Community Bus	159	8	151
Private Laneways Conversion Project	337	-	337
Willow Bend Park Upgrade	50	-	50
Shade Sails in Hutchinson Reserve	50	-	50
ERA Water Reserve Connections	200	-	200
Various Projects less than \$50,000	83	-	83
<i>Sub-total</i>	1,939	58	1,881
Total New Capital Projects	9,483	242	9,241
Carry Forward Projects			
Whole-of-Life Capital Works Program (<i>Infrastructure Renewal</i>)			
Drainage Program 2017-2018	148	-	148
Recreation & Open Space Works Program	255	-	255
<i>Sub-total</i>	403	-	403
Parade Median Streetscape Upgrade	300	-	300
Syd Jones Concept Plan	581	212	369
Norwood Oval Redevelopment Project (Inc. Member Facility, Streetscape & Women's Facility)	6,655	5,974	681
Payneham Oval Tennis Courts Reconstruction	785	200	585
Payneham Swimming Centre Major Pipe Work and Main Pool Refurbishment	1,637	-	1,637
Master Plan Concept Design for Swimming Centres	50	-	50
Buttery Reserve Tennis Club Court Upgrade	70	-	70
Stepney-Maylands-Evandale LATM	50	-	50
Standby Power for St Peters Library	80	-	80

Capital Project Category	2019-2020 Endorsed Capital Projects \$'000	2019-2020 Grant Funding and Other Revenues \$'000	2019-2020 Net Cost \$'000
Burchell Reserve Upgrade	100	-	100
Electronic Document Management System	220	-	220
Adey Reserve Master Plan	100	-	100
Beulah Road Bicycle Boulevard	800	365	435
Various Projects less than \$100,000	69	-	69
<i>Sub-total</i>	<i>11,497</i>	<i>6,750</i>	<i>4,747</i>
Total Carry Forward	11,900	6,750	5,150
Total Capital Projects Expenditure	21,383	6,992	14,391

It should be noted that the Draft Capital Projects budget includes funding allocation for Women's Facilities to be built at Payneham Oval. The commencement of this project is conditional on the Council securing Grant Funding or other financial assistance to offset the overall cost to the Council.

Details of the Capital and Operating Projects endorsed as part of the Draft 2019-2020 Annual Business Plan and Budget is contained in *Appendix One: Key Initiatives & Projects* of **Attachment B**.

Borrowings

Proposed Net Capital Expenditure is \$14.391 million and is proposed to be funded as follows:

- Use of depreciation recovered through rate revenue \$9.500 million
- Roads-to-Recovery Funding \$0.362 million
- Long Term Borrowings \$4.529 million

To minimise the impact on the annual interest expense, borrowings of \$4.529 million are proposed to be taken out in the latter half of the 2019-2020 Financial Year. In determining the level of borrowings required to fund the capital program, consideration has been given to the cashflow requirements and to intergenerational equity between current and future users. Whilst these considerations have formed part of the budget model they will be reviewed and reconsidered before the decision to commit to any borrowings.

In addition, given the anticipated cash reserves, there is no expectation that the Council will be required to take out short term borrowings to cover periods of negative cash flow.

Rating Strategy

A Rate Revenue increase of 3.75% is proposed for the 2019-2020 Financial Year. The increase in Rate Revenue, at the time the draft Annual Business Plan was released for community consultation, comprised growth of 0.9% due to new development and 2.85% being rate revenue indexation. The proposed increase is also within the Council's Target range of 2% and 4% set out in the Councils Long Term Financial Plan.

Based on the rate modelling for the week ending 18 April 2019, a 3.75% Rate Revenue increase will result in the Average Residential Rate increasing by \$29 to \$1,495, which represents a 1.87% increase on 2018-2019. The Average Commercial rate will increase by \$85 (3.43%) to \$2,556. The adopted Rate-in-the-Dollar will be based on Valuations as at 14 June 2019.

The Council's Long Term Financial Plan, sets out the Councils Financial Goal, which is to be *a City which delivers on our Strategic Outcomes by managing our financial resources in a sustainable and equitable manner*. To achieve this, a number of Financial Outcomes and financial targets have been established, one being Rate Stability. The Council has defined Rate Stability to mean *Annual rate collections are fair and equitable for our residents and ratepayers with the aim to keep rate revenue increases stable over the medium term*.

Assuming a Rate Revenue increase of 3.75%, as proposed within the Draft 2019-2020 Budget, the average rate revenue increase over the past 5 years is 2.6%, which is at the lower end of the Rate Revenue target, set out in the Councils Long Term Financial Plan. For the same period, based on valuation information received to date, the average residential rate increase was 1.74%, with the average Commercial Rate increase being 0.80%.

As such, from a financial management perspective, the Council has clearly delivered on its financial objectives.

Rating Policy

A review of the Councils' Rating Policy has been undertaken, with particular focus on the eligibility criteria for Rate Capping Rebates. Pursuant to Section 166(1) (i) of the Act, the Council grants a rebate of General Rates, subject to certain eligibility criteria, to the principal ratepayer of a residential assessment, where that property is the principal place of residence and that the increase in the rates levied is a result of a rapid change in the property value.

For eligible residential ratepayers, the increase in rates levied will be capped at the greater of two (2) times the current financial years rate revenue increase, (as proposed in this report 3.75%) or two (2) times the upper limit of the Rate Revenue target set out in the Long Term Financial Plan, which is currently set at 4%.

Therefore for 2019-2020, the Rate Capping rebate will be automatically applied (subject to eligibility) where the increase in rates payable from one financial year to the next financial year is greater than 8%.

The current eligibility criteria for the automatic rebate, is any such increase in property value, in whole or part is not result of:

- development greater than \$10,000 undertaken on the property, or
- a change in land use for rating purposes on the date the Council declared its general rates; or
- a change in the zoning of the land; or
- a change in the ownership of the property since 1 January 2018.

Based on the review of the eligibility criteria and the nature of the development which has been undertaken, the Council resolved that the development threshold contained in (a) above, be increased from \$10,000 to \$30,000. The increase in the development threshold is not anticipated to have any material impact on the Draft 2019-2020 Budget.

Draft Annual Business Plan

To fulfil the requirements of the Act and therefore provide citizens with the opportunity to review and comment on the Council's proposed activities for the 2019-2020 Financial Year and the proposed funding of those activities, the Draft 2019-2020 Annual Business Plan has been prepared and is included in **Attachment C**.

The Draft 2019-2020 Annual Business Plan incorporates all of the assumptions detailed within this report and has factored in an increase in rate revenue of 3.75%. Upon finalisation of the Draft 2019-2020 Budget through its "endorsement in principle," the Draft 2019-2020 Annual Business Plan was made available for citizens from 8 May 2019. Submissions will be sought with interested citizens providing comments prior to or at the Public Meeting scheduled for 29 May 2019.

Following consideration of the submissions by the Council on 12 June 2019, the final 2019-2020 Annual Business Plan will be put forward for adoption, followed by the 2019-2020 Annual Budget at the Council Meeting to be held on 1 July 2019.

OPTIONS

Nil

CONCLUSION

Through the adoption of its Long Term Financial Plan, the Council has committed to the attainment of Financial Sustainability. The development of the Annual Budget with reference to the financial targets and outcomes outlined in the LTFP, will ensure that the Council continues to move in the right direction to achieve its ultimate goal of Financial Sustainability.

The 'in-principle' adoption of the Draft 2019-2020 Annual Business Plan and Budget as presented in **Attachment C**, will deliver an Operating Surplus of \$775,235 based on a 3.75% increase in Rate Revenue, however, the underlying Operating Result, which excludes 2018-2019 Operating Project carry forwards and Operating Deficits from Regional Subsidiaries, for the provision of the Council's continuing services and programs and new initiatives, is an Operating Surplus of \$1.247 million.

The proposed Rating Strategy will result in a \$27 per annum increase on the rates payable for the Average Residential Ratepayer.

The proposed Rating Strategy and the Draft Budget as presented in this report, is based on sound financial management principles, which will deliver the Council's Strategic Outcomes in a sustainable and equitable manner, for both today's and future ratepayers.

COMMENTS

If Committee Members have any questions or require clarification in relation to specific budget items, and/or any issues raised in this report, do not hesitate to contact the General Manager, Corporate Services, Sharon Perkins on 8366 4585, prior to the meeting.

RECOMMENDATION

It is recommended that the report be received and noted.

Mr Peter Holmes moved:

It is recommended that the report be received and noted.

Seconded by Ms Sandra Di Blasio and carried.

7.3 2018-2019 THIRD BUDGET REVIEW

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/05075
ATTACHMENTS: A

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a summary of the forecast Budget position for the year ended 30 June 2019, following the Third Budget Review. The forecast is based on the year-to-date February 2019 results.

BACKGROUND

Pursuant to Section 123 (13) of the *Local Government Act 1999*, the Council must, as required by the Regulations reconsider its Annual Business Plan or its Budget during the course of a financial year and, if necessary or appropriate, make any revisions.

The Budget Reporting Framework set out in Regulation 9 of the *Local Government (Financial Management) Regulations 2011* ("the Regulations") comprises two (2) types of reports, namely:

1. The Budget Update; and
2. The Mid-year Budget Review.

Budget Update

The Budget Update Report sets out a revised forecast of the Council's Operating and Capital investment activities compared with the estimates for those activities set out in the Adopted Budget. The Budget Update is required to be presented in a manner consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*.

The Budget Update Report must be considered by the Council at least twice per year between 30 September and 31 May (both dates inclusive) in the relevant financial year, with at least one (1) Budget Update Report being considered by the Council prior to consideration of the Mid-Year Budget Review Report.

The Regulations requires a Budget Update Report to include a revised forecast of the Council's operating and capital investment activities compared with estimates set out in the Adopted Budget, however it is recommended by the Local Government Association that the Budget Update Report should also include at a summary level:

- the year to date result;
- any variances sought to the Adopted Budget or the most recent Revised Budget for the financial year; and
- a revised end of year forecast for the financial year.

Mid-Year Review

The Mid-Year Budget Review must be considered by the Council between 30 November and 15 March (inclusive) in the relevant financial year. The Mid-Year Budget Review Report sets out a revised forecast of each item shown in its Budgeted Financial Statements compared with estimates set out in the Adopted Budget presented in a manner consistent with the Model Financial Statements. The Mid-Year Budget Review Report must also include revised forecasts for the relevant financial year of the Council's Operating Surplus Ratio, Net Financial Liabilities Ratio and Asset Sustainability Ratio compared with estimates set out in the budget presented in a manner consistent with the note in the Model Financial Statements entitled *Financial Indicators*.

The Mid-year Budget Review is a comprehensive review of the Council's Budget and includes the four principal financial statements, as required by the Model Financial Statement, detailing:

- the year to date result;
- any variances sought to the Adopted Budget; and
- a revised full year forecast of each item in the budgeted financial statements compared with estimates set out in the Adopted budget.

The Mid-year Budget Review Report should also include information detailing the revised forecasts of financial indicators compared with targets established in the Adopted Budget and a summary report of operating and capital activities consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*.

The Mid-year Review was presented to the Audit Committee on 25 February 2019 and to the Council on 21 January 2019.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

The Council's Long Term Strategic directions are set out in *City Plan 2030 – Shaping our Future*. The 2018-2019 Annual Business Plan Budget, sets out the proposed services, programs and initiatives for the 2018-2019 Financial Year and explains how the Council intends to finance its continuing services, programs and initiatives which are to be undertaken during the financial year.

The Council's Long Term Financial Plan (LTFP), is a key document in the Councils Planning Framework. It is the primary financial management tool which links the Council's Strategic Plan, *City Plan 2030 – Shaping our Future*, Whole-of-Life Assets Management Plans, the Annual Business Plan and Budget.

The 2018-2019 Adopted Budget estimates an Operating Surplus of \$1.430 million.

FINANCIAL AND BUDGET IMPLICATIONS

The Third Budget Review for the 2018-2019 Financial Year, provides the opportunity to reflect any changes in projections based on the actual year-to-date results to February 2019 and forecast the 2018-2019 Operating result.

Details of material movements in the forecast from the Adopted Budget are contained in the Discussion section of this Report.

EXTERNAL ECONOMIC IMPLICATIONS

This report provides information on the planned financial performance of the Council for the year ended 30 June 2019 and has no direct external economic impacts.

SOCIAL ISSUES

Nil

CULTURAL ISSUES

Nil

ENVIRONMENTAL ISSUES

Nil

RESOURCE ISSUES

Nil

RISK MANAGEMENT

There are no risk management issues arising from this issue. All documents have been prepared in accordance with the statutory requirements.

CONSULTATION

- **Committee Members**
Cr Minney, Mayor Bria and Cr Stock, as Elected Members, have considered the issues at the Council Meeting held on 6 May 2019, when the Council endorsed the Third Budget Update.
- **Community**
Not Applicable.
- **Staff**
Responsible Officers and General Managers.
- **Other Agencies**
Not Applicable.

DISCUSSION

Budget Review

The 2018-2019 Adopted Operating Budget, forecast an Operating Surplus of \$1.430 million. At the Council meeting held on 4 February 2019, the Council considered the Mid-Year Budget Review which forecasted an Operating Surplus of \$1.767 million.

Following the Third Budget Review, the Operating Surplus is forecasted to be \$2.280 million, an improvement of \$0.850 million on the Adopted Budget.

The material movements in the components that make up the Operating Surplus following the Third Budget Review are detailed below.

Recurrent Budget

For 2018-2019, the Recurrent Budget forecast a Recurrent Operating Surplus of \$1.943 million. Following the Mid-Year Budget Review, the Recurrent Operating Surplus was increased to \$2.532 million.

As a result of the Third Budget Review, the Recurrent Surplus is forecasted to be \$2.962 million, an increase of \$0.430 million on the Adopted Budget. The major reasons for the movement in Operating Surplus are detailed in Table 1.

TABLE 1: MAJOR VARIANCES IN RECURRENT OPERATING BUDGET - THIRD BUDGET REVIEW

	Favourable/ (Unfavourable) \$
Interest from long term borrowings was revised down as anticipated loans associated with Norwood Oval Redevelopment Project will not be drawn down in 2018-2019.	402,207
As a result of the Council transitioning to LED street lighting, the street light budget has been reduced to reflect savings due to reduced consumption charges.	25,000

It should be noted, given the Federal Election on 18 May 2019, the forecast result does not include the additional grant income from the Federal Government Budget announcement that it will be advancing the 2019-2020 and 2021-2022 Supplementary Road Funding in June 2019.

Operating Projects

The Adopted Budget includes an estimate of operating project expenditure for the year under review and;

- previously approved and carried forward projects from the prior budget years; less
- an allowance for current year approved projects projected to be carried forward to subsequent budget years.

Carried Forward estimates (from prior financial years) are reviewed upon finalisation of the Annual Financial Statements. Additional expenditure required for non-completed Operating Projects at the end of the Financial Year, is incorporated in the Budget as part of First Budget Update.

Taking into account the carried forward Operating Project expenditure and new projects which have been endorsed by the Council, the 2018-2019 Adopted Operating Projects Budget forecast a cost to the Council of \$0.774 million.

Carried Forward Operating Project expenditure was estimated as part of the Adopted Budget to be \$205,000. Following the First Budget Update, the value of carried forward expenditure is \$347,000. The increase in the Carried Forward Budget, was due to projects not progressing as anticipated or the commencement being deferred.

The following projects which were carried forward and have now been completed include:

- The review of the Animal Management Plan;
- The review of the Council's By-Laws;
- Payment of the Council's contribution to the State Government Online Planning Portal; and
- The development of an Age Friendly Wayfinding Strategy.

The Mid-Year Budget Update forecast the cost of Operating Projects to be \$1.026 million. Following the Third Budget Update, the forecasted cost of Operating Projects for Financial Year 2018-2019 has been reduced to \$0.943 million. The major reasons for the movement are detailed in Table 2.

TABLE 2: MAJOR VARIANCES IN OPERATING PROJECT BUDGET - THIRD BUDGET REVIEW

SERVICE INITIATIVE	Increase/ (Decrease) \$
The <i>Felixstow Reserve Redevelopment</i> , included reserve maintenance, which is to be undertaken during the defects liability period. As reserve maintenance is an operating expense, the budget which was allowed for within the overall project budget has been transferred from the Capital budget to the Operating Projects budget.	88,000
The installation of the <i>Electronic Document Management System</i> included additional temporary labour costs. This budget has been transferred from the Capital budget to the Operating Project budget.	65,000
As per the Council resolution made at the Council Meeting held on 1 April 2019, the budget was increased to sponsor the <i>International Youth Film Festival</i> , which is being held in August 2019. It should be noted that \$33,000 was transferred from the Little Rundle Street Art Party Project, which is not proceeding.	50,000
The budget for the <i>Stepney-Maylands-Evandale LATM</i> Project was increased to reflect the cost estimate provided by Tonkin Consulting to undertake on ground works.	45,000
The <i>Little Rundle Street Art Party</i> is no longer proceeding and the budget has been re-allocated to the International Youth Film Festival event.	(33,000)
The cost of Operating Projects which are forecast not to be completed by June 30 2019 and are required to be carried forward to 2019-2020 has increased to \$336,823 from \$40,000. Full list of projects being carried forward are shown in Table 3.	(296,823)

To provide a more accurate Budgeted Operating Result, the effect of Operating Projects not expected to be completed in the 2018-2019 Financial Year, is provided for in the 2019-2020 Adopted Budget. Following the Third Budget Review, it is estimated that Operating Projects costs not expected to be incurred in the 2018-2019 would increase to \$0.337 million.

TABLE 3: OPERATING PROJECTS NOT EXPECTED TO BE COMPLETED IN 2018-2019

SERVICE INITIATIVE	\$
<i>Stepney – Maylands-Evandale LATM Project</i> – The carry forward component relates to the installation of signage resulting from proposed speed reductions and delivery of feasibility study for proposed hard infrastructure.	83,951
<i>City Wide Parking Review</i> – Internal Data analysis of issue is planned to be completed by 30 June 2019, with funding carried forward to engage a consultant to develop and implement solutions to address identified issues.	70,000
<i>Electronic Document Management System</i> – Recruitment of the temporary staff member has commenced, with project due to commence on 1 June 2019.	65,000
<i>Felixstow Reserve Maintenance</i> to be delivered under the defect liability period from 1 July 2019 to 30 November 2019	36,667
<i>People Place & Activity Strategy</i>	30,000
Community Events – Norwood Oval Redevelopment Launch, to be deferred to the completion of the Clubrooms and Women’s Facilities.	10,000
<i>Borthwick Park Master Plan</i>	10,000
<i>Kent Town Urban Design Framework</i>	9,005
Work Health & Safety Initiatives – Balance of unspent funds from receipt of prize from WHS Best Practice Award	9,000
<i>Business and Economic Development Strategic Plan</i>	7,000
Culture & Business Excellence Development Program	6,200
TOTAL OPERATING PROJECTS NOT EXPECTED TO BE INCURRED IN THE 2018-2019	336,823

Capital Projects

The Council adopted a Capital Budget of \$29.142 million for 2018-2019, which comprised funding allocations for New Capital Projects involving new or the upgrading of existing assets (\$12.199 million), the renewal/replacement of existing assets (\$6.654million) and Carried Forward Projects from 2017-2018 (\$10.289 million).

The Mid-Year Budget Review forecasted that the Capital Project expenditure would increase to \$35.335 million. Following the Third Budget Review, the Capital Project expenditure is forecasted to decrease to \$19.143 million.

These projects and other budget variations identified in the Third Review are detailed in Table 4 below:

TABLE 4: MAJOR VARIANCES IN CAPITAL PROJECT EXPENDITURE BUDGET - THIRD BUDGET REVIEW

Capital Project	Increase/ (Decrease) \$
At the Council Meeting held on 4 March 2019, the Council endorsed an increase to the budget for the Syd Jones Concept Plan to accommodate the inclusion of new toilets and barbeque.	120,000
The transfer of the temporary labour cost from the <i>Electronic Document Management System</i> Project to the Operating Budget.	(65,000)
The transfer of Felixstow Reserve Maintenance Costs from Capital budget to the Operating Project budget	(88,000)
Building works budget for Norwood Concert Hall Foyers floor coverings was relinquished. The scope of the works is currently under review and works will not be undertaken within the next 12 months. Once the scope of works is clearly defined, a new funding request will be sought.	(112,478)
As a result of the <i>City Wide Flood Review</i> , the projects identified as part of this works program were relinquished and incorporated within 2019-2020 Stormwater Drainage Works Program	(4,146,456)
The cost of Capital Projects which are forecast not to be completed by June 30 2019 and are required to be carried forward to 2019-2020, has increased to \$11.9 million. The full list of works being proposed to be carried forward is in Table 5.	(11,900,020)

As the Third Budget Review, the Capital Projects not expected to be completed in the 2018-2019 Financial Year is \$11.900 million.

TABLE 5: CAPITAL PROJECTS NOT EXPECTED TO BE COMPLETED IN 2018-2019

SERVICE INITIATIVE	\$
Norwood Oval Project (Inc. Member Facility, Streetscape & Women's Facility)	6,655,129
Payneham Memorial Swimming Centre Main Pool Pipework & Refurbishment	1,637,083
Beulah Road Bicycle Boulevard	800,000
Payneham Oval Tennis Courts Construction	785,000
Syd Jones Concept Plan	580,760
Parade Median Streetscape Upgrade	300,000
Electronic Document Management System	220,000
Recreation & Open Space Works Program – E.T.Smith Drinking Fountain (\$65,000) and Drage Reserve Irrigation (\$190,000)	255,000
Drainage Program – Future Design for Laura Street, 113 George Street & First Lane, St Peters	147,670
Adey Reserve Master Plan	100,000
Burchell Reserve Upgrade Master Plan	100,000
Standby Power for St Peters Library	80,000
Buttery Reserve Tennis Court Upgrade	70,378
"All Things Are One" Installation	50,000
Implementation of Stepney-Maylands-Evandale LATM	50,000
Master Plan Concept Design for Swimming Centres	50,000
Christmas Decorations	13,000
City-Wide Business Website	6,000
TOTAL CAPITAL PROJECTS NOT EXPECTED TO BE INCURRED IN THE 2018-2019	11,900,020

For the 2018-2019 Financial Year completed Capital Projects are estimated to be \$19.143million. It is not expected that any additional borrowings will be drawn down during the 2018-2019 Financial year.

Regulation 9 (1) (b) of the Regulations states the Council must consider:

“between 30 November and 15 March (both dates inclusive) in the relevant financial year—a report showing a revised forecast of each item shown in its budgeted financial statements for the relevant financial year compared with estimates set out in the budget presented in a manner consistent with the Model Financial Statements.”

Further Regulation 9 (2) of the Regulations states the Council must consider:

“revised forecasts for the relevant financial year of the council's operating surplus ratio, net financial liabilities ratio and asset sustainability ratio compared with estimates set out in the budget presented in a manner consistent with the note in the Model Financial Statements entitled Financial Indicators.”

The revised Budgeted Financial Statements and Financial Indicators as a result of the Third Budget Update are included in **Attachment A**.

The Third Budget Update was received and adopted at the Council Meeting held on 6 May 2019.

OPTIONS

Not Applicable.

CONCLUSION

Nil

COMMENTS

Nil

RECOMMENDATION

That the Third Budget Update Report be received and noted.

Mayor Bria moved:

That the Third Budget Update Report be received and noted.

Seconded by Mr Peter Holmes and carried.

7.4 INTERNAL CONTROL AND RISK MANAGEMENT ASSESSMENT

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate Service
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/01823
ATTACHMENTS: A - B

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with an update on the status of the Council's major risks and the assessment of the Council's internal controls.

BACKGROUND

The Audit Committee's Work Program provides for the following:

Identify whether weaknesses in internal controls have been previously identified, e.g. by management or Council's external auditor, and if so whether action has been taken to have them addressed:

- *consider the range of documented internal control policies and procedures; and*
- *whether they are being followed.*

Develop and monitor the delivery of the Council's Strategic Internal Audit Plan by:

- *meeting with the Council's Internal Auditors to discuss any points of concern raised by the Internal Auditor, as part of the delivery of the Strategic Audit Plan;*
- *assessing the appropriateness of the Council's response to matters raised in the Internal Audit Reports; and*
- *annually review the appropriateness of the Council's three (3) year Strategic Internal Audit Plan.*

Review Management's assessment of Council's major risks.

Establish whether locally appropriate strategies exist to minimise the likelihood of occurrence and adverse consequence for obvious and major risks. Consider:

- *whether an assessment has been undertaken to identify foreseeable events with potentially catastrophic consequences and actions established to minimise their likelihood and effect*
- *whether a business continuity plan has been developed in case of major damage to key Council properties or other, (e.g. computer, assets);*
- *whether there are significant risks that have been identified by Council's insurers that have not been reasonably addressed and therefore could jeopardise insurance cover in this regard; and*
- *adequacy of insurance coverage.*

At its meeting held on 15 October 2010, the Audit Committee requested that Risk Management be a standard agenda item and that a brief report be prepared for each meeting confirming that the risks remain current and that the identified existing controls remain in place.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

Additional funding may be required to complete the work which has been requested by the Audit Committee, depending on the nature and timeframes set for any further work required to be undertaken.

EXTERNAL ECONOMIC IMPLICATIONS

Nil.

SOCIAL ISSUES

Nil.

CULTURAL ISSUES

Nil.

ENVIRONMENTAL ISSUES

Nil.

RESOURCE ISSUES

Refer to Financial Implications above.

RISK MANAGEMENT

The risks identified to be managed are contained in **Attachment B**.

CONSULTATION

- **Committee Members**
Not Applicable.
- **Community**
Not Applicable.
- **Staff**
Where Applicable.
- **Other Agencies**
Not Applicable.

DISCUSSION

Cyber Vulnerability Assessment

Committee Members may recall that the Council recently took advantage of a free service offered by Local Government Risk Services and commissioned CQR, Cyber Security specialists to perform a Vulnerability Assessment of the Councils IT Network. The testing that was undertaken was in two parts, a Baseline Cyber Security Assessment followed by an External Penetration Test.

The scope of works undertaken as part of the Baseline Cyber Security Assessment and External Penetration testing included:

- an external vulnerability scan to determine the internet footprint of NPSP and check for vulnerabilities;
- a controls review to determine what processes and controls are in place to address and mitigate risks;
- a security configuration review of a key network device;
- a security configuration review of the Windows Server; and
- an external network penetration test (simulation of a cyber attack).

The Vulnerability assessment identified 34 vulnerabilities, a cyber attack with one (1) vulnerability being assessed as high, 10 being assessed as moderate, 13 assessed as low and 10 vulnerabilities being identified for information.

The high risk vulnerability identified related to an old Windows 2000 server that the Council was utilising which was unsupported by Microsoft. This server is running the facilities bookings system, which has since been relocated and the old server decommissioned. The moderate risks identified related to ensuring that the Council was following best practise approaches with documents policies.

The penetration testing of the Council's internet-facing network showed the Council had a small footprint. The assessment indicates that, in most part, the Council has implemented sufficient controls to minimise a surface attack.

The Information Services team are reviewing the residual moderate and low risks and are working to develop controls where appropriate to mitigate these risks and vulnerabilities.

Business Continuity Plan Exercise

Committee Members may recall that the 2017-2018 Budget contained funding for a review of the Council's Business Continuity Plan. The review of the Plan was scheduled to be undertaken over two (2) years, with year two (2) involving undertaking desk top simulations to test the effectiveness of the plan.

A desktop simulation exercise was undertaken on the 9 April 2019.

The desktop simulation involved a scenario which represented a low frequency/high consequence event involving a 'Pandemic' which evolved over 3 phases lasting up to a period of 4 weeks. This scenario combined the elements of a 'community emergency' and 'business continuity'.

In general, the test showed a good understanding of the Plan and participation by all staff during the exercise. Good leadership was shown by the Continuity Management Team with a well facilitated conversation which enable the impacts to various functions based on current information and consideration for 'work arounds' where possible or the need to shut down certain functions.

The Business Continuity Plan will continue to evolve via ongoing reviews and exercise scenarios like this. Continuing to understand the changing needs of business and reviewing the plan as part of ongoing business will continue to develop and refine the plan.

A copy of the Business Continuity Plan Exercise Report is included in **Attachment A**.

Risk Management Assessment

At the time of preparing this report, no additional risks, to those identified as part of the Risk Workshop held on 27 July 2015, have been identified. Of those identified risks, eleven (11) risks have been identified with a target risk greater than the residual risk as a result of exiting mitigating controls that have been implemented by the Council. The status of the risks requiring additional mitigation strategies and controls is contained in **Attachment B**.

Information Security Breaches

Since the Audit Committee Meeting held on 25 February 2019 there have been no Information Security breaches to report.

Internal Controls

Finance staff recently commenced a risk assessment review of the Council's Financial Internal Controls. The risk based framework assess the extent which the existing internal controls that relate to a particular financial risk, mitigate the residual risk to an acceptable level. The annual self-assessment of all the Financial Internal Controls is due to be undertaken in June 2019.

Upon completion of the risk assessment, it is proposed that those controls, which have been rated with an unacceptable residual risk, are review, with enhanced control put in place. For those controls, where no further controls can be put in place, the review frequency of the effectiveness of the control will be increase commensurate to the residual risk.

OPTIONS

Nil.

CONCLUSION

Nil.

COMMENTS

Nil.

RECOMMENDATION

That the report be received and noted

Mr Peter Holmes moved:

That the report be received and noted

Seconded by Ms Sandra Di Blasio and carried unanimously.

7.5 BORROWING & INVESTMENT PERFORMANCE FORECAST FOR YEAR ENDED 30 JUNE 2018

REPORT AUTHOR: Accountant
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/01823
ATTACHMENTS: A

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with information on the management of the Councils' borrowings and investment performance, for the year ended 30 June 2019.

BACKGROUND

Pursuant to Section 140 of the *Local Government Act 1999* (the Act), the Council is required, at least once in each year, to review the performance (individually and as a whole) of its investments.

This report provides a summary of the outstanding debenture loans as at 30 April 2019, details pertaining to new loan agreements which have been entered into and the existing loans which have been finalised during the period of 1 May 2018 and 30 April 2019, together with the outcome of the Councils investment performance.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

The Council's *Treasury Management Policy* which was adopted by the Council on 5 March 2018, requires a Treasury Management performance report to be presented to the Council, at least annually.

FINANCIAL AND BUDGET IMPLICATIONS

The financial implications arising from this report, relate to the Councils ability to meet loan instalment payments inclusive of interest when they fall due.

EXTERNAL ECONOMIC IMPLICATIONS

Nil.

SOCIAL ISSUES

Nil.

CULTURAL ISSUES

Nil.

ENVIRONMENTAL ISSUES

Nil.

RESOURCE ISSUES

Nil.

RISK MANAGEMENT

The risk management issues relate to the Councils ability to meet loan instalment payments when they fall due. This risk is minimised by the Annual Budget process which recognises the timing of cash requirements and the revenue required to manage the Councils operations.

CONSULTATION

- **Committee Members**
Not Applicable.
- **Community**
Not Applicable.
- **Staff**
Nil.
- **Other Agencies**
Not Applicable.

DISCUSSION

Borrowings

Pursuant to Section 134 of the *Local Government Act 1999*, the Council can enter into financial arrangements as deemed appropriate by the Council, to borrow monies to fund recurrent operations and capital expenditure requirements.

The Council's Policy is to borrow on a fixed interest basis for the term of the loan to fund Capital Projects. To minimise future financing costs, the current funding strategy is to utilise surplus funds in the first instance, with short-term funding needs being met through the utilisation of the Cash Advance Drawdown (CAD) facility with the Local Government Financing Authority (LGFA).

As at 30 April 2019, the balance of outstanding borrowings is forecast to be \$7.870 million. The balance comprises nine (9) active fixed interest rate loans. In addition, the Council has one (1) Cash Advance Drawdown (CAD) variable rate facility, held with the Local Government Financing Authority. Due to current cash reserves, it is not anticipated that funds will be required to be drawn down under this facility.

The active fixed interest loans have been provided by the Local Government Financing Authority. The loan terms range from ten (10) years to twenty (20) years, with the respective interest rates varying between 4.20% pa and 6.8% pa.

A listing of the Council's active loans is contained in **Attachment A**.

For the financial year to 30 April 2019, one (1) new long term borrowing was taken out on 15 March 2019 for the purchase of the property located at Sixth Avenue St. Peters (adjacent Hannaford Reserve). The amount of the loan is for \$656,000 with a 20 year term and the interest rate at 4.2%.

Given the current cash reserves and projected capital expenditure, it is not anticipated that any further Long Term Borrowing will be required before 30 June 2019. The Council has approved loan borrowings to the value of \$10.5 million, which have yet to be drawn down.

Principal repayments made on long term active loans for the year to 30 April 2019, are forecast at \$1.967 million.

The details of the movement in the loan balances are contained in **Attachment A**.

Investments

Pursuant to Section 139 of the *Local Government Act 1999*, the Council can invest monies under its control.

The Council's *Treasury Management Policy* allows for surplus funds which cannot be applied to reduce existing borrowings to be invested. Surplus funds are to be invested either:

- a. "At Call" with the Local Government Finance Authority; or
- b. fixed term investment products, where the term of the investment does not exceed a point in time where the funds could be applied to defer new borrowings or reduce existing borrowings.

For the 2018-2019 financial year, surplus funds are invested "At Call" with the Local Government Finance Authority. The balance of funds invested at 30 April 2019 was \$9.983 million. Interest earned on funds which have been invested, was \$146,339.

In addition to the 'At Call' account, the Council manages the 'St Peters RSL Trust Account'. The balance of Trust Account at 30 April 2019 was \$60,000. Interest earned from May 2018 to 30 April 2019 was \$2,275.

In addition, on 6 July 2018, the Council opened a new term deposit for the funds received as the result of the sale of 48 Nelson Street, Stepney. The value of the term deposit is \$806,202. At the Council Meeting held on 5 May 2008, the Council adopted the Master Plan for Dunstone Grove/Linde Reserve, which included the provision that the proceeds from the sale of 48 Nelson Street, Stepney would be used to offset the cost of the redevelopment of Dunstone Grove/Linde Reserve. However, the sale of 48 Nelson Street settled on 28 June 2018, and given the time span between the completion of the reserve redevelopment and the sale of the property, the proceeds received cannot be offset against the redevelopment costs of the reserve. At the Council Meeting held on 4 June 2018, the Council solved that the net proceeds from the sale of the 48 Nelson Street would be invested in a 3 month term deposit held with the Local Government Finance Authority and will be used to avoid future borrowing costs, associated with a future reserve development. At 30 April 2019, the balance of the term deposit has increased to \$819,165, due to the interest earned on the deposit.

OPTIONS

Not Applicable.

CONCLUSION

Nil.

COMMENTS

Nil.

RECOMMENDATION

That Borrowing and Investment Report for the period ended 30 April 2019 be recommended to the Council for endorsement.

Mayor Bria moved:

That Borrowing and Investment Report for the period ended 30 April 2019 be recommended to the Council for endorsement.

Seconded by Ms Sandra Di Blasio and carried.

7.6 LONG TERM OUTSTANDING RATES COLLECTION

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate Services
CONTACT NUMBER: 83664548
FILE REFERENCE: S/2764
ATTACHMENTS: A

PURPOSE OF REPORT

The purpose of this report is to update the Committee on the status of long term outstanding rates balances, the processes that have been implemented to collect outstanding rates and to seek the Committees endorsement of Rates Debt Collection Guidelines, including the process for the recovery of rates balances which are more than three (3) years in arrears.

BACKGROUND

The majority of Council rates which are assessed against a property are paid in full by the end of each financial year. There are some assessments where arrears accumulate however, these represent a minority of the total. Over the past three (3) financial years, the value of rates outstanding has slowly increased as shown in Table 1 below however, with the focus that has been placed on collecting older debts this is projected to return to decrease over the coming twelve (12) months.

TABLE 1: BALANCE OF RATES OUTSTANDING

	1 July 2018	1 Jul 2017	1 Jul 2016
Rates Assessment with Credit balance	(229,215)	(218,247)	(207,280)
Rates levied in previous years outstanding	1,563,701	1,286,050	1,046,460
Postponed Rates	46,069	38,470	30,134
Legal Fees	4,723	5,944	9,253
Total Outstanding	\$1,385,279	\$1,112,216	\$878,568

Pursuant to Section 184 of the *Local Government Act 1999*, (the Act) a Council may sell any property where the rates have been in arrears for three (3) years or more. Prior to selling the property, the Council is required to:

- notify the owner of the land of its intention to sell the land,
- provide the owner with details of the outstanding amounts; and
- advise the owner of its intention to sell the land if payment of the outstanding amount is not received within one (1) month.

The sale of a property for the non-payments of rates is however a “last resort”.

The Council’s Rating Policy states that except in extraordinary circumstances, the Council will enforce the sale of a property for arrears of rates. Notwithstanding this, a review of the Council’s existing Credit Policy was undertaken to define the “extraordinary circumstances” which would create an exception and better outline how the Council will manage and collect outstanding rates balances.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

The collection of outstanding Council rates and associated processes that are undertaken are outlined in the Council’s Rating Policy and Credit Policy.

FINANCIAL AND BUDGET IMPLICATIONS

Outstanding Council rates impacts the amount of cash inflows which the Council receives each year, which may result in the Council having to take out short term borrowing to meet shortfalls in operational cash needs. However, as the outstanding balance relatively consistent from one rating period to the next there is no foreseen impact on the Councils cash position.

EXTERNAL ECONOMIC IMPLICATIONS

Nil

SOCIAL ISSUES

Councils Rates staff endeavours to contact property owners to discuss individual circumstances which resulted in Council rates not being paid. Reasons that property owners provide to staff to explain overdue balances include but are not limited to a severe health event, recent unemployment, dispute with tenants in respect to responsible party for payment of rates, general bill pressures or no extenuating circumstance.

Pursuant to Section 182 of the Act and the Councils Rating Policy property owners can lodge a request for Remission or Postponement of Rates and/or Fines. All requests must provide evidence of financial hardship, which usually requires a property owner to attend a suitably accredited financial counsellor.

CULTURAL ISSUES

Nil

ENVIRONMENTAL ISSUES

Nil

RESOURCE ISSUES

Nil

RISK MANAGEMENT

The key risk identified to the Council is the impact to the Councils liquidity if the outstanding rates balance grows uncontrollably. This risk is being managed through the monitoring of the balance of outstanding rates and having Councils Rates staff actively pursuing property owners for the payment of outstanding balances.

CONSULTATION

- **Committee Members**
Nil
- **Community**
Nil
- **Staff**
Nil
- **Other Agencies**
Nil

DISCUSSION

As at 30 June 2018, the balance of unpaid rates was \$1,385,279. Adjusting for assessments that were in credit, the balance of unpaid rates was \$1,514,454 which represents 4.5% of the value of the rates assessed for the 2017-2018 year. A breakdown of this debt by full years outstanding is detailed in Table 2 below. The Information provided in this table highlights that as at 30 June 2018 45.5% of the outstanding balance is less than two (2) years old. It should also be noted that in terms of the number of outstanding assessments 92.7% of the properties have an arrears balance of less than two (2) years.

TABLE 2: RATES OUTSTANDING AS AT 30 JUNE 2018 BY YEARS OUTSTANDING

Years Outstanding	Balance Outstanding	% of Total Outstanding Balance	Number of Assessments
Less than 1 year	415,251	27.4%	1,317
1	273,364	18.1%	124
2	137,709	9.1%	39
3	126,018	8.3%	21
4	97,789	6.5%	15
5	123,047	8.1%	13
6	77,533	5.1%	8
7	79,492	5.2%	8
12	23,207	1.5%	1
13	88,542	5.8%	8
Postponed Rates	72,504	4.8%	5
Total	\$1,514,454		1,559

Over the course of the 2018-2019 financial year the Councils Rates staff have focused on the collection of outstanding debts with \$620,267 of outstanding rate payments being collected up to 6 May 2019. Pleasingly, as detailed in Table 3 below, \$184,077 or 30% of the outstanding balance which have been collected are from debts older than two (2) years.

TABLE 3: AMOUNT COLLECTED BY YEARS OUTSTANDING

Years Outstanding	Balance Outstanding	% of Collected Amount	Number of Assessments Paid
Less than 1 year	272,719	44.0%	1,234
1	116,508	18.8%	54
2	50,899	8.2%	15
3	43,767	7.1%	5
4	23,062	3.7%	4
5	62,443	10.1%	6
6	24,548	4.0%	2
7	9,318	1.5%	1
13	17,002	2.7	1
Total	\$620,267		1,322

Debts over two (2) years old have been the primary focus of the Councils Rates staff and this has resulted in 29 assessments being settled in full or a reduction of 25% of the overdue assessments in this category. The Councils Rates staff have agreed with owners to 27 payment arrangements totalling \$74,910. Of these arrangements, three (3) property owners have defaulted on their respective agreements, twelve (12) have deviated from the agreed respective arrangements but are continuing to make payments and ten (10) agreements are being adhered to.

Formal debt collection processes, which involved the engagement of a debt collection agency and a letter of demand being sent to each property owner, has commenced for the recovery of outstanding rates from 28 property owners, totalling \$33,828.

Properties selected for formal debt collection met the following criteria:

- an outstanding balance of greater than \$10,000 and no contact with the property owner has been able to be made; or,
- the property owner has repeatedly defaulted on agreed payment arrangements.

Contact has been received from the owners of ten (10) property owners and agreed terms on payment arrangements totalling \$133,500 (40% of the balance). Property owners who have not made contact with council staff, have been served with a minor civil action claim.

Given the effectiveness of the collections, it is intended that the approach of selecting small groups of rate payers for formal debt collection will continue. It should be noted that it is anticipated that some of the property owners will not resolve their respective debts with the only options available to the Council being to wait for the property sale or to commence a section 184 process. Further analysis of the properties, which it is believed that no payments will be received, will be undertaken, and a report will be presented to the Council to determine what further action will be undertaken.

In conjunction with the debt recover action, a review of the Council's Credit Policy has been undertaken and is contained in **Attachment A**. Following the review, it is recommended that given the different nature of rates debts to general debts owed to the Council, that the Credit Policy be updated to include a specific section with respect to the collection of outstanding rates. The key points that are recommended to be included are:

- all arrears balances will receive a reminder notice within 14 days from a missed instalment date;
- arrears balances greater than \$3,000 or over 18 months, will be reviewed for commencement of formal Debt Collection; and,
- principles have been established for an arrears balance being granted an exemption from formal Debt Collection. The proposed exemptions are set out in Table 4 below.

TABLE 4: DEBT COLLECTION EXEMPTION CRITERIA

Criteria	Action
Postponed rates	No action required
Payment arrangement	Review adherence to payment arrangement
Health/social issues	Review on a case by case basis. Documentary Evidence to support claim and have a payment arrangement established.
Financial Distress	Requests must be lodged in writing. All requests must attach supporting documentation from a financial counsellor and have a payment arrangement established.
Awaiting Sale or Settlement	Review on a case by case basis. Evidence of impending sale to be provided.

OPTIONS

The Committee can choose to:

1. recommend to the Council, the adoption of the revised Credit Policy as contained in **Attachment A**; or
2. the Committee can chose to amend Credit Policy as it sees fit; or
3. elect not to recommend the reviewed Credit Policy for adopted by the Council

Option one (1) is recommended as the proposed revisions are consistent with the overall objectives of the Credit Policy.

CONCLUSION

Nil

COMMENTS

Nil

RECOMMENDATION

1. That the Audit Committee notes the actions which have been undertaken to date to recover long term outstanding rate balances.
2. That the Credit Policy as amended and contained in Attachment A be recommended to the Council for adoption.

Mr Peter Holmes moved:

- 1. That the Audit Committee notes the actions which have been undertaken to date to recover long term outstanding rate balances.*
- 2. That the Credit Policy as amended and contained in Attachment A be recommended to the Council for adoption.*

Seconded by Ms Sandra Di Blasio and carried.

7.7 GOVERNANCE ARRANGEMENTS – REGIONAL SUBSIDIARIES

REPORT AUTHOR: General Manager, Corporate Services
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/01823
ATTACHMENTS: A - E

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a record of information which has been provided to the Council since the last meeting.

BACKGROUND

At the Audit Committee meeting held on 21 January 2010, it was resolved:

“That reports be prepared by the General Managers responsible for each Regional Subsidiary on any matters of concern within the Subsidiary, for consideration by the Audit Committee in lieu of the distribution of minutes etc.”

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

There are no financial implications associated with the preparation of this report.

EXTERNAL ECONOMIC IMPLICATIONS

Not Applicable.

SOCIAL ISSUES

Not Applicable.

CULTURAL ISSUES

Not Applicable.

ENVIRONMENTAL ISSUES

Not Applicable.

RESOURCE ISSUES

There are no resource issues arising from this report.

RISK MANAGEMENT

There are no risk management issues arising from this report.

CONSULTATION

- **Committee Members**
Cr Minney is a Board member of ERA Water. Mr Peter Holmes is a member of the Audit Committee of ERA Water.
- **Community**
Not Applicable.
- **Staff**
Chief Executive Officer
General Manager, Urban Services.
General Manager, Urban Planning and Environment.
- **Other Agencies**
Not Applicable.

DISCUSSION

Eastern Health Authority (EHA)

Since the last Audit Committee Meeting held on 25 February 2019, the Council has received the EHA's Second and Third Budget Review for the 2018-2019 Financial Year.

As part of the Second Budget Review, EHA reported that it is forecast to receive additional funding to deliver an expanded School Immunisation Program, which includes the delivery of Meningococcal B and Meningococcal ACWY vaccines to students.

As the funding is matched by additional expenditure, EHA continued to forecast a breakeven position, which was in line with its adopted Budget.

As part of the Third Budget Review, EHA is forecasting an Operating Surplus of \$20,000, which is predominantly driven by savings in employee expenses. While cost neutral, it is pleasing to note that EHA is forecasting an increase in vaccines sold at public clinics.

The Council's share of the forecast Operating Surplus is \$6,074.

In addition, the Council has received EHA's Draft 2019-2020 Annual Business Plan and Budget.

The key priorities outlined in the Annual Business Plan include:

- to finalise the review of the EHA Business Continuity Plan and the Emergency Management Plan;
- facilitate the review of the Regional Public Health Plan on behalf of Constituent Councils; and
- continue to review the high risk activities within beauty premises and ensure appropriate standards are maintained.

EHA are forecasting an operating deficit of \$28,000, with this Council's share of the Operating deficit being \$8,924.

It should be noted that the Council's share of EHA has increased from 30.37% to 31.87%.

Pursuant to Schedule 1 of the EHA Charter, each Constituent Council's share ownership is based on the weighted activities across nine (9) categories which are detailed in Table 1 below:

TABLE 1: ACTIVITY WEIGHTING

Activity Description	Activity Weighting	NPSP Share
Administration	12.5%	Shared Equally
Number of Food Premises	35.0%	13.26%
Environmental Health Complaints	7.0%	2.5%
Supported Residential Facilities	6.5%	1.08%
Cooling Towers	6.5%	2.24%
Hairdresser/Beauty	6.5%	0.19%
Swimming Pools	2.0%	0.6%
Year 8/10/11 Enrolments (Vaccinations)	15.0%	4.8%
Average Number of Clients Receiving Vaccinations	15.0%	4.8%

The increase in share for this Council is due to the number of food premises within the Council area compared to other Constituent Councils.

The annual increase in contribution which EHA is seeking from Constituent Councils is 1.98% or \$34,000. Despite the 1.98% increase in contributions, as a result of the change in share of the services provided by EHA due to the high concentration of food business, this Council's contribution increased by 7.0% to \$559,954 (an increase of \$36,700).

The Council's Draft 2019-2020 Budget includes a funding allocation for the provision of environmental health services of \$560,000 plus a share of the joint venture loss of \$8,924. The draft Annual Business Plan and Budget is contained in **Attachment A**.

The Council has also received the EHA Delegates Report which provides a summary of the reports considered by the Eastern Health Authority Board on 20 February 2019.

A copy of the Delegates Report is contained in **Attachment B**.

East Waste

At the Council Meeting held on 1 April 2019, the Council considered the East Waste draft 2019-2020 Annual Plan ("the Plan"). As a Constituent Council, there are financial implications for the Council's Budget, emanating from the Plan and while Constituent Councils are not required, pursuant to the East Waste Charter, to approve the East Waste Budget ("the Budget"), by virtue of the endorsement of the Plan, the Councils ostensibly endorse the Budget.

The draft 2019-2020 Budget is developed based on a Common Fleet Costing methodology, with Common Fleet Costs, which predominately relate to collection costs, which are charged to Constituent Councils based on the cost to undertake the collection of the respective Council's waste streams. The allocation of the Common Fleet Costs is based on the Authority's GPS System.

In addition, where Constituent Councils utilise East Waste for other services such as Contract Management Services (Disposal and Resource processing) and Waste Bin Maintenance, these services are on charged to Councils at cost.

The Draft Budget is reporting an Operating Surplus of \$137,000, which is based on the authorities Budget Framework which seeks to achieve an Operating Surplus equal to 1-2% of Common Fleet Costs plus a breakeven cash position, to enable East Waste to meet its annual loan repayments. The Council's share of the draft Operating Surplus is \$19,591, which is based on an ownership share of 14.3%.

East Waste's collection costs have increased by 2.3% on the 2018-2019 Budget, as per the Second Budget review. The main drivers for the increase is rising diesel fuel prices and additional staff to meet operational and customer service needs.

Common Fleet costs recovery has increased by 3.32% to \$12.159 million, which includes an additional \$120,000 to enable East Waste to meet its Budget framework target of budgeting for an Operating Surplus of between 1-2% of the Common Fleet Costs, which are estimated to be \$12.038 million.

The Council's Draft Waste Management Recurrent Budget, reflects a proposed Common Fleet fee of \$2.017 million (2018-2019 \$1.908 million) to be charged for the collection of this Councils waste streams, which include Domestic waste, Green Organics, Recyclables, Public Litter Bins, Illegal Dumping and booked Hard Rubbish Collection. The year-on-year increase in the Common Fleet Cost is 5.8%, which is made up of the Council's share of the increased common fleet costs (\$44,880), the increase in the Council's share of Common Fleet Costs from 16.2% to 16.6% (\$46,302) and the Councils share of the Operating Surplus as per East Waste's Budget Framework (\$19,920).

It should be noted that East Waste are currently in the final stages of contract negotiation for the processing of the kerbside recyclable materials. While these negotiations are yet to be finalised, based on the information which has been provided by East Waste, it is anticipated that the gate price is likely to be less than the 2018-2019 gate price.

In previous years, Constituent Councils have made a capital contribution (\$0.021m) to the East Waste Equity Loan. This loan is associated with the formation of the current East Waste entity, following the creation of the Highbury Landfill Authority (which comprises the former Constituent Councils of East Waste prior to the establishment of the current East Waste).

East Waste currently has cash reserves of \$2 million and have no defined plan for the use of the cash reserves, therefore the draft Budget is based on East Waste utilising its cash reserves to make the final payment on East Waste Equity loan rather than seek capital contributions from the Constituent Councils.

The Council resolved to approve the draft 2019-2020 Annual Plan, subject to an explanation as to why the Eastern Waste Management Board is seeking an Operating Surplus equal to 1.2% of Common Fleet costs.

The East Waste Draft 2019-2020 Annual Plan is contained in **Attachment C**.

ERA Water

Since the last Committee Meeting held on 25 February 2019, the Council has received the Second Budget Review for the 2018-2019 Financial Year.

As part of the Second Budget Review, ERA Water is forecasting an Operating Deficit of \$919,000, compared to an adopted Operating Deficit of \$375,000. This Council's share of the revised Operating Deficit is \$306,000.

The increase in the Operating Deficit is primarily due to water sales, which is a result of the low rainfall experienced during the year. The low rainfall coupled with reduced bore capacity due to the failure of one of the original bores, has severely impacted water production which in turn has delayed commissioning activities to the reduced water available within the system. The Schemes operating expenditure is forecast to below the adopted budget (saving of \$147,000) due to the delay in undertaking commissioning activities.

A copy of the second Budget Review is contained in **Attachment D**.

In addition to the second Budget Review, the Council has received the draft 2019-2020 ERA Water Budget (the Budget).

Given the impacts of the reduced water availability within the system (for the reasons set out above) at its meeting held on 10 December 2018, the ERA Water Board (the Board) considered its forecast cash flow to 30 June 2019. Based on the review, the Board concluded that there would be a cash flow deficit in the order of \$225,000 to meet its expenses from 1 May 2019 to 30 June 2019.

To address the funding issue and bore capacity issues which are impacting on the operational capacity of the Scheme, the ERA Board sought endorsement from each of the Constituent Councils for the following:

- approval of expenditure to increase bore capacity;
- sale of water to customers commencing in 2020; and
- the Authority's debt limit be increased by \$2.3m.

Following consideration of the report at its meeting on 1 April 2019, the Council resolved to approve:

- increasing the capacity of the bore (i.e. an additional bore) to achieve the original design capacity of the Scheme;
- subject to availability, sale of water to external customers to commence in 2020; and
- an increase in the debt limit.

Based on the unanimous agreement from the Constituent Councils, the draft 2019-2020 Budget based on a replacement bore to increase bore capacity to the designed Scheme capacity, water sales commencing in 2020 and the increased borrowing capacity. ERA Water is proposing an Operating Deficit of \$713,000 for the 2019-2020 Financial Year, with this Council's share of the Operating Deficit being \$238,000. It should be noted that the proposed Operating Deficit is greater than the initial estimate received from ERA Water, with the increase being due to additional operational and maintenance costs being incurred as a result of the deferral of the commissioning activities due to the dry winter experienced in 2018.

A copy of the Draft Budget is contained in **Attachment E**.

Highbury Landfill Authority

At the time of writing this report, the Council has yet to receive any details on the draft 2019-2020 Budget for Highbury Landfill Authority.

OPTIONS

Nil.

CONCLUSION

Nil.

COMMENTS

Nil.

RECOMMENDATION

That the report be received and noted.

Mr Peter Holmes moved:

That the report be received and noted.

Seconded by Mayor Bria and carried.

8. CONFIDENTIAL REPORTS
Nil

9. OTHER BUSINESS
Nil

10. NEXT MEETING
Monday 22 July 2019

11. CLOSURE

There being no further business the Presiding Member declared the meeting closed at 8.45pm.

Cr John Minney
PRESIDING MEMBER

Minutes Confirmed on _____
(date)