

NOTICE OF MEETING

Pursuant to the provisions of section 88 (1) of the
Local Government Act 1999

Audit Committee Meeting of the



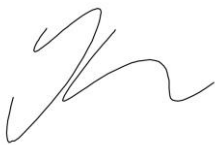
**Adelaide
Plains
Council**

will be held in

**Council Chamber
Redbanks Road, Mallala**

on

Monday 7 June 2021 at 4:30pm



James Miller
CHIEF EXECUTIVE OFFICER

In light of the coronavirus (COVID-19) public health emergency, and pursuant to section 302B of the Local Government Act 1999 and the Electronic Participation in Council Meetings Notice (No 1) 2020, **public access to all Council meetings, Committee meetings and Informal Gatherings will be facilitated via live stream on Council's YouTube channel.**

On the day of the meeting, a direct link to the live stream will be displayed on the homepage of Council's website www.apc.sa.gov.au

INDEX

Page
Number

| | | |
|-----------|--|-----|
| 1 | ATTENDANCE | |
| 2 | CONFIRMATION OF MINUTES | |
| 2.1 | Audit Committee Meeting – Monday 12 April 2021 | 3 |
| 3 | BUSINESS ARISING | |
| 4 | DECLARATION OF MEMBERS' INTEREST (material, actual, perceived) | |
| 5 | ADJOURNED ITEMS | |
| | Nil | |
| 6 | REPORTS FOR DECISION | |
| 6.1 | Draft 2021/2022 Annual Business Plan and Budget | 9 |
| 6.2 | Review of Audit Committee Terms of Reference | 70 |
| 6.3 | Update on Audit Committee Annual Work Program 2020-2021 | 80 |
| 7 | REPORTS FOR INFORMATION | |
| 7.1 | Committee Resolutions | 89 |
| 7.2 | Mallala Community Wastewater Management Scheme – Review of Charges | 91 |
| 7.3 | Interim Audit 2019/2020 – Update on Issues identified in the Management Report | 102 |
| 8 | CONFIDENTIAL ITEMS | |
| | Nil | |
| 9 | GENERAL BUSINESS | |
| 10 | NEXT MEETING | |
| | 4.30pm Monday 9 August 2021 | |
| 11 | CLOSURE | |



**Adelaide
Plains
Council**

2. Confirmation of Minutes

Monday 7 June 2021

- 2.1 “that the minutes of the Audit Committee Meeting held on Monday 12 April 2021 (MB Folios 174 to 179, inclusive), be accepted as read and confirmed.”

MINUTES

of the

Audit Committee Meeting

of the



**Adelaide
Plains
Council**

Pursuant to the provisions of section 88 (1) of the
Local Government Act 1999

HELD IN

**Council Chamber
Redbanks Road
Mallala**

on

Monday 12 April 2021 at 4.30pm

The Chairperson formally declared the meeting open at 4.30 pm.

1. ATTENDANCE AND WELCOME

1.1 Present

Mr Alan Rushbrook (Chairperson)

Mr Peter Fairlie-Jones

Mayor Mark Wasley

Deputy Mayor Marcus Strudwicke

Also in Attendance

Chief Executive Officer

General Manager – Finance and Business

General Manager – Infrastructure and Environment

Acting General Manager – Governance and Executive Office

Administration and Executive Support Officer/Minute Taker

IT Officer – *by audio-visual link*

Mr James Miller

Mr Rajith Udugampola

Mr Thomas Jones

Ms Alyssa Denicola

Ms Stacie Shrubsole

Mr Thomas Harris-Howson

1.2 Apologies:

Councillor Margherita Panella

2. CONFIRMATION OF MINUTES

2.1 Confirmation of Minutes – Meeting held 2 February 2021

Committee Resolution

Moved Mayor Wasley

Seconded

Mr Fairlie-Jones

2021/ 016

“that the minutes of the Audit Committee Meeting held on Tuesday 2 February 2021 (MB Folios 166 to 173, inclusive), be accepted as read and confirmed.”

CARRIED

3. BUSINESS ARISING

Nil

4. DECLARATION OF MEMBERS’ INTERESTS

Nil

5. ADJOURNED BUSINESS

Nil

6. REPORTS FOR DECISION

6.1 COVID-19 Rate Relief – Status Update

Committee Resolution

Moved Mayor Wasley

Seconded

Councillor Strudwicke

2021/ 017

“that the Audit Committee, having considered Item 6.1 – COVID-19 Rate Relief – Status Update, dated 12 April 2021, receives and notes the report and in doing so recommend to the Council that:

- 1. No new applications for COVID-19 Rate Relief be accepted after 1 May 2021;**
- 2. Current applicants on COVID-19 Rate Relief be provided with a grace period of one (1) month to 1 June 2021 to pay in full outstanding rates without incurring any fines or interest;**
- 3. After 1 June 2021, current applicants on COVID-19 Rate Relief are charged with statutory fines and interest for overdue rates under Section 181 (8) of the Local Government Act 1999; and**
- 4. Subject to paragraph 2 above, Council management is to commence the recovery of overdue rates as per ‘Rates Arrears and Debtor Management Policy’ after the current COVID-19 Rate Relief expires on 1 May 2021.”**

CARRIED

7. REPORTS FOR INFORMATION

7.1 Committee Resolutions

Committee Resolution

Moved Councillor Strudwicke Seconded Mr Fairlie-Jones **2021/ 021**

“that the Audit Committee, having considered Item 7.1 – *Committee Resolutions*, dated 12 April 2021, receives and notes the report and in doing so notes the recent updates of the Strategic Plan and Capital Works program and recommends that Council’s Long Term Financial Plan be updated as soon as practical.”

CARRIED

7.2 Review of Internal Financial Controls

Committee Resolution

Moved Mayor Wasley Seconded Mr Fairlie-Jones **2021/ 022**

“that the Audit Committee, having considered Item 7.2 – *Review of Internal Financial Controls*, dated 12 April 2021, receives and notes the report”

CARRIED

7.3 Financial Performance for the period July-March 2021

Committee Resolution

Moved Councillor Strudwicke Seconded Mayor Wasley **2021/ 023**

“that Audit Committee, having considered Item 7.3 – *Financial Performance for the period July-March 2021*, dated 12 April 2021, receives and notes the report.”

CARRIED**8. CONFIDENTIAL ITEMS**

Nil

9. GENERAL BUSINESS

Nil

10. NEXT MEETING

Monday 7 June 2021 at 4.30pm.

11. CLOSURE


There being no further business, the Chairperson declared the meeting closed at 6.07pm.

Confirmed as a true record.

Chairperson:.....

Date: ___/___/___

Subject to Confirmation

| | | |
|--|---|--|
|  Adelaide Plains Council | 6.1 | Draft 2021/2022 Annual Business Plan and Budget |
| | Department: Report Author: | Finance and Business General Manager - Finance and Business |
| Date: 7 June 2021 | Document Ref: | D21/24221 |

EXECUTIVE SUMMARY

- The purpose of this report is to provide for Audit Committee’s information and consideration, draft 2021/2022 Annual Business Plan and Budget and the feedback received from the community during public consultation period.
- At its April 2021 meeting, Council resolved that the Draft 2021/2022 Annual Business Plan (ABP) and Budget (**Attachment 1**) be released for public consultation.
- The draft 2021/2022 Budget estimates an Operating Deficit of \$0.221m which consists of:-
 - Recurrent budget surplus of \$0.512m;
 - CWMS Budget deficit of \$0.153m; and
 - Net Operating Project budget of \$0.579m (**Table 3**).
- The estimated Operating Deficit of \$0.221m takes into account an average rate increase of 2.25% (**Table 6**) on existing properties whereas current Long Term Financial Plan adopted in June 2019 assumed an average rate revenue increase of 3.50% for 2021/2022 Financial Year.
- Rates income from growth is currently estimated to be 2.07% in the next financial year which is significantly higher than 1.00% factored in the Long Term Financial Plan.
- Average rate increase of 2.25% also incorporates an increase to fixed charge from \$110 to \$112.
- With the proposed average rate increase, 29% of the properties will have their rates being reduced next year (**Figure 3**).
- The proposed capital expenditure program (**Table 4**) for 2021/2022 is estimated to be \$6.251m of which \$2.917m (47%) would be spent on assets renewals in line with Council’s Infrastructure and Assets Management Plans.
- The remaining capital expenditure of \$3.334m (53%) is proposed to be spent on new and upgraded assets some of which are 50% funded by government grants.
- New short-term loan borrowings (**Table 7**) are proposed to be \$2.743m.
- Annual kerbside waste collection charge is proposed to increase by 4.30% to \$167 mainly due to increase in recyclable disposal costs.
- CWMS charges for both Mallala and Middle Beach is proposed to increase by 3.00% to \$659 and \$443 respectively.
- The period of public consultation started on 5 May 2021 and concluded at 5:00 pm on 25 May 2021.
- During the public consultation period, Council received two (2) submissions as summarised below:-

- What's Council's plan on sealing seal the roads of Thompson Beach, Parham and Webb Beach esplanades?
- Concerns regarding the outcome of recent review of Mallala CWMS service charge

RECOMMENDATION

“that the Audit Committee, having considered Item 6.1 – *Draft 2021/2022 Annual Business Plan and Budget*, dated 7 June 2021, receives and notes the report and in doing so recommends to Council that it adopts the consulted upon *Draft 2021/2022 Annual Business Plan and Budget* as contained in the Attachment 1, subject to the following changes:-

- 1. Updated final valuation reports from the Valuer General**
- 2. Changes to the draft budget post-public consultation; and**
- 3.”**

BUDGET IMPACT

| | |
|---------------------------------|--|
| Estimated Cost: | \$0.221m (operating deficit) |
| Future ongoing operating costs: | Interest expenses associated with new borrowings |
| Is this Budgeted? | Yes |

RISK ASSESSMENT

Council's main source of revenue is general rates which accounts for 74% of total income. Therefore, if the Council does not generate sufficient income, particularly, rate income, to meet its planned activities, it will not be able to service its payment obligations on time (liquidity/credit risk) without borrowing (financial risk) more money. Overdue rates have increased significantly over the last 12 months mainly due to COVID-19 Rate Relief provided by the Council from May 2020. However, it has reduced recently and stands at \$0.776m as of 31 May 2021, a decrease of 4% when compared to the overdue rates balance of \$0.810m as of 30 June 2020.

Attachments

1. Draft 2021/2022 Annual Business Plan and Budget released for public consultation on 5 May 2021
2. Budget submissions received from Chris Scanlon of Dublin
3. Budget submission received from Greville Knight, President of Adelaide Plains Ratepayers & Residents Association

18.1 Moved Councillor Lush Seconded Councillor Keen 2021/ 177

“that Council instructs the Chief Executive Officer to explore all relevant funding opportunities with relevant stakeholder groups and interested parties in relation the construction and sealing of Thompson Beach Esplanade (end of road north of Kestrel Crescent to car park east of Heron Crescent – 3.39km), Parham Esplanade (north Parham Road to end of road south of Wilson Street – 1.32km) and Webb Beach Road (Parham Road to boat ramp – 1.88km) and associated tourism and business opportunities.”

Moved Councillor Strudwicke Seconded Councillor Parker 2021/ 178

“that the motion lay on the table.”

CARRIED

b) APRA expressed concern regarding recent review of Mallala CWMS service charges

Management comment

A recent independent review of CWMS service charges by Mr John Comrie of JAC Comrie Pty Ltd estimated that based on Essential Services Commission of South Australia’s CWMS pricing criteria, the average operating cost per CWMS connection unit is \$1,182 per connection for 2021/2022 Financial Year.

However, draft 2021/2022 budget released for public consultation is predicated only on a 3% increase in Mallala CWMS service charge from \$640 to \$659.

Two (2) public submissions received are contained in **Attachment 2** and **Attachment 3**.

Draft 2021/2022 Statement of Comprehensive Income (Profit & Loss Statement)

As shown in **Table 1** on the next page, based on 2.25% increase in average rates and further 2.07% growth from new assessments, it is estimates that for 2021/2022 Financial Year, there will be an Operating Deficit of \$0.221m from recurrent and operating project activities.

Table 1: Draft Statement of Comprehensive Income (\$'000)

| Description | 2020/2021 | 2021/2022 | | Budget Movement | |
|--|---------------------|-------------------|------------|-----------------|-------------|
| | Adopted Budget (\$) | Draft Budget (\$) | (%) | \$ | % |
| OPERATING INCOME | | | | | |
| Rates | | | | | |
| - General Rates - Existing Assessments | 9,614 | 9,830 | 72 | 216 | 2.25 |
| - General Rates - New Assessments | 0 | 214 | 2 | 214 | |
| - Rate Rebates | (94) | (93) | (1) | 2 | (1.74) |
| - Waste Levy | 605 | 653 | 5 | 49 | 8.07 |
| - Regional Landscape Levy | 188 | 193 | 1 | 5 | 2.50 |
| - Other Rates Income | 85 | 81 | 1 | (3) | (3.98) |
| Statutory charges | 410 | 496 | 4 | 86 | 21.07 |
| User charges | 168 | 170 | 1 | 2 | 1.18 |
| Grants, subsidies & contributions | 1,890 | 1,894 | 14 | 4 | 0.19 |
| Interest Income | 3 | 3 | 0 | - | - |
| Reimbursements | 125 | 126 | 1 | 1 | 0.88 |
| Other Income | 23 | 23 | 0 | 0 | 0.47 |
| TOTAL INCOME | 13,016 | 13,592 | 100 | 576 | 4.42 |
| OPERATING EXPENSES | | | | | |
| Employee Costs | 5,289 | 5,506 | 42 | 216 | 4.09 |
| Materials, contracts and other | 4,367 | 4,708 | 36 | 341 | 7.81 |
| Depreciation | 2,683 | 2,731 | 21 | 48 | 1.79 |
| Interest Expenses | 101 | 72 | 1 | (29) | (28.53) |
| Share of loss from GRFMA | 63 | 63 | 0 | - | - |
| TOTAL EXPENSES | 12,503 | 13,080 | 100 | 577 | 4.61 |
| RECURRENT SURPLUS | 512 | 512 | 5 | - | - |
| Net Cost of the 2 x CWMS | (115) | (153) | (1) | (38) | 32.89 |
| Funding for growth initiatives/OPs | (314) | (579) | (5) | (265) | 84.30 |
| OPERATING SURPLUS/(DEFICIT) | 83 | (221) | | (304) | |

Figure 1 below shows the distribution of recurrent income for 2021/2022 Financial Year

Figure 1: Recurrent Income (Excl. CWMS) -\$'000

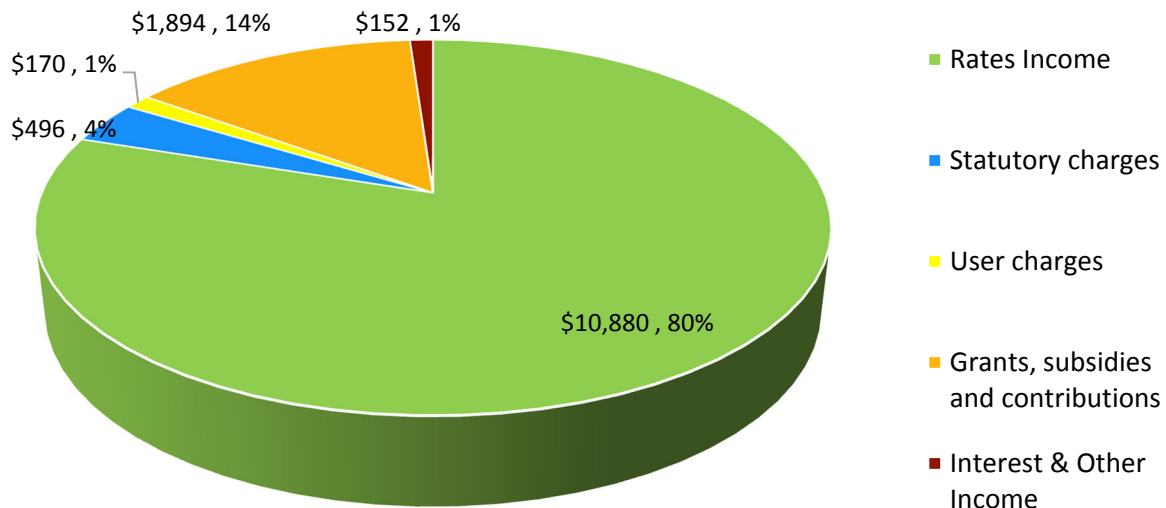
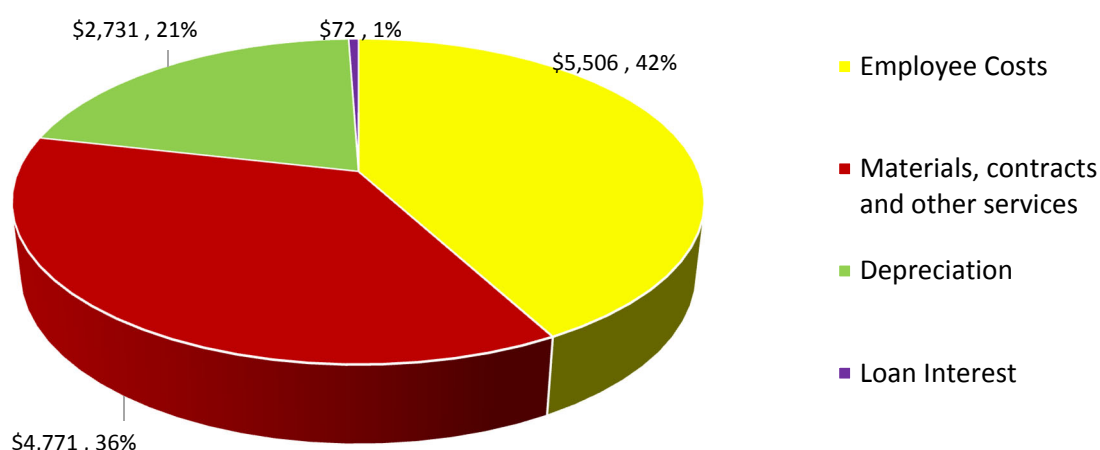


Figure 2 below shows the distribution of recurrent expenditure for 2021/2022 Financial Year

Figure 2: Recurrent Expenses (Excl. CWMS) - '\$000



Comparison between LTFP and Statement of Comprehensive Income

LTFP adopted by the Council on 27 June 2019, forecast that for 2021/2022 Financial Year, the operating deficit would be \$0.088m. However as shown below in **Table 2**, the updated operating deficit is \$0.221m mainly due to previously unbudgeted expenses and the reduction in average rate rises from 3.50% to 2.25% in the updated budget for 2021/2022 Financial Year.

Table 2: Draft Budget for 2021/2022 in comparison with LTFP Projections (\$'000)

| | LTFP | DRAFT BUDGET | VAR (\$) | VAR (%) |
|---|---------------|---------------|--------------|------------|
| OPERATING INCOME | | | | |
| Rates | | | | |
| - General Rates Revenue | 9,921 | 9,952 | 31 | - |
| - Waste Levy | 556 | 653 | 97 | 18 |
| - Regional Landscape Levy | 188 | 193 | 5 | 2 |
| - Other Rates Income | 87 | 81 | (6) | (7) |
| Statutory charges | 417 | 496 | 79 | 19 |
| User charges | 168 | 170 | 2 | 1 |
| Grants, subsidies and contributions | 2,029 | 1,894 | (135) | (7) |
| Investment Income | 3 | 3 | - | - |
| Reimbursements | 111 | 126 | 16 | 14 |
| Other Income | 39 | 23 | (17) | (42) |
| TOTAL INCOME | 13,519 | 13,592 | 73 | 1 |
| OPERATING EXPENSES | | | | |
| Employee Costs | 5,752 | 5,506 | 246 | 4 |
| Materials, contracts and other services | 4,087 | 4,708 | (621) | (15) |
| Depreciation | 3,229 | 2,731 | 498 | 15 |
| Interest Expenses | 72 | 72 | - | - |
| Share of loss from GRFMA | 63 | 63 | - | - |
| TOTAL EXPENSES | 13,203 | 12,979 | 224 | 2 |
| RECURRENT SURPLUS | 316 | 512 | 196 | 62 |
| Net Cost of the 2 x CWMS | (104) | (153) | (50) | 48 |
| Net Operating Project Expenses | (300) | (579) | (279) | 93 |
| OPERATING DEFICIT | (88) | (221) | (133) | 151 |

Proposed Operating Project Program 2021/2022

The cost of the draft Operating Project program is estimated to be \$0.614m of which \$0.035m applicable to two (2) projects is expected to be funded by Federal Government grant funding, resulting a net Operating Project Program budget of \$0.579m. However, these two (2) projects will not proceed if the grant applications are unsuccessful.

Table 3: Proposed Operating Projects Program for 2021/2022 (\$'000)

| Operating Project Name | Estimated Cost |
|---|----------------|
| 1) Resources required to meet growth in the Council area and develop local economy. | 514 |
| 2) GRFMA Charter Review. | 20 |
| 3) Community Survey 2021. | 10 |
| 4) Develop Recreational trail strategy.* | 50 |
| 5) Stage Adelaide Plains Food and Business Festival.* | 20 |
| Total cost of the draft Operating Project Program | 614 |

*50% to be funded under 'Building Better Regions Programs'.

Proposed Capital Project Program for 2021/2022

Council is proposing to invest \$6.251m in assets renewal and new/upgraded assets in the next financial year as summarised below. The estimated cost of the capital renewal program is \$2.917m whereas only \$2.400m has been allocated for 2021/2022 in the long term financial plan, an increase of \$0.517m.

Table 4: Draft Four (4) Year Capital Works Program (\$'000)

| Asset Class | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 |
|---|------------------|------------------|------------------|------------------|
| Fleet | - | 135 | 120 | 60 |
| Plant & Equipment | 939 | 534 | 369 | 692 |
| Streetscape* | 302 | 397 | 82 | 89 |
| Sealed Roads | 3,150 | 3,227 | 609 | 609 |
| Unsealed Roads | 1,195 | 974 | 974 | 974 |
| Site Improvements | 585 | 537 | 200 | 200 |
| Structures/Levee | 80 | 272 | 507 | 793 |
| Stormwater/ Pump Station | - | 325 | - | - |
| Total Draft Capital Expenditure | 6,251 | 6,401 | 2,861 | 3,417 |
| Renewal | 2,917 | 2,981 | 2,300 | 2,535 |
| Upgrade | 504 | - | - | - |
| New | 2,830 | 3,420 | 561 | 885 |
| Total Draft Capital Expenditure | 6,251 | 6,401 | 2,861 | 3,417 |
| Extract from LTFP | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 |
| Renewal | 2,400 | 2,525 | 2,378 | 3,122 |
| New/Upgrade | 414 | 392 | 72 | 684 |
| Total Capital Expenditure as per I&AMP | 2,814 | 2,917 | 2,450 | 3,806 |

Rates Modelling – Property Valuation

An extract from the property valuation data (as of 11 April 2021) from Valuer General (VG) is given below in **Table 5** in comparison to similar information as of 30 June 2020.

Table 5: An Extract from latest valuation data from the VG

| Description | 11 April 2021 | 30 June 2020 |
|--|------------------|-----------------|
| Increase in number of properties through sub-division | 226 | 173 |
| Sub-Division Growth (valuation increase) - \$'Mn | 34 | 24 |
| Building Development Growth (valuation increase) - \$'Mn | 1 | 54 |
| Total Development Growth - \$'Mn | 35 | 78 |
| Total Development Growth - % | 2.07 | 2.04 |
| Increase in Rates income due to Development Growth - \$'Mn | 0.214 | 0.197 |
| Increase in Rates income due to Development Growth - % | 2.23 | 2.15 |
| Natural Growth (valuation increases due to reasons other than development) - % | 4.43 | 1.86 |

Table 6 below shows the average rate by land use category based on 2.25% increase in average rates.

Table 6: Average Existing Rates (Inclusive of building developments on existing properties)

| Land Use | 2020/2021 \$ | 2020/2021 \$ | Increase (%) |
|---------------------------|-----------------|-----------------|--------------|
| Residential | 1,703 | 1,743 | 2.33 |
| Commercial | 1,358 | 1,311 | (3.52) |
| Commercial - Other | 2,370 | 2,277 | (3.93) |
| Industry - Light | 1,479 | 1,485 | 0.45 |
| Industry - Other | 6,262 | 6,231 | (0.49) |
| Primary Production | 2,504 | 2,565 | 2.46 |
| Vacant Land | 833 | 832 | (0.17) |
| Other | 1,223 | 1,226 | 0.26 |
| All Land Use Codes | 1,845 | 1,886 | 2.25 |

Actual rate rises

As Council rate is determined by multiplying capital value of the property (decided by the VG) by the rate in the dollar (decided by the Council) applicable to the property, average rate calculated above does not show the actual general rate rises. Actual rate rises is also determined by a combination of other factors such as;

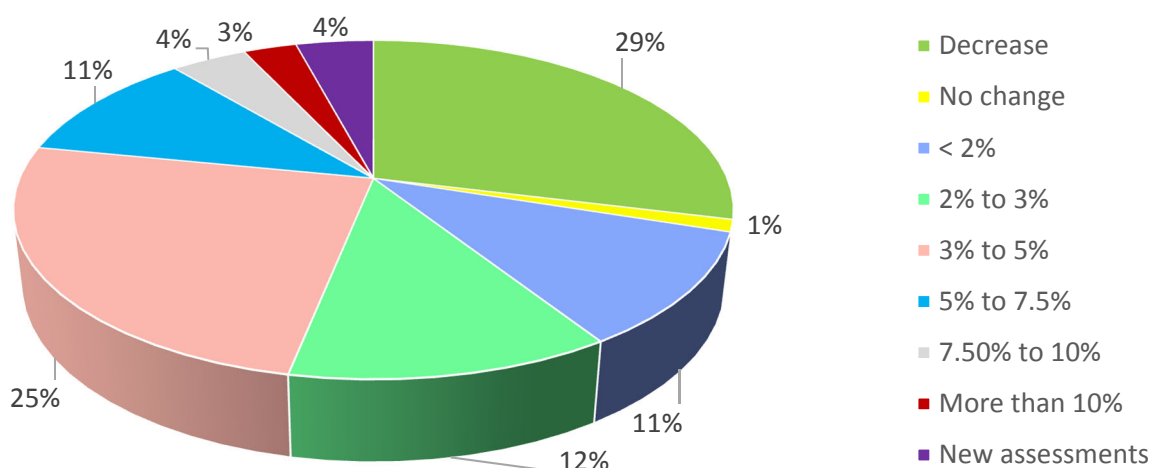
- a) development/improvement on the land resulting value of the property being increased,
- b) general valuation increase/decrease by VG due to market conditions.

For example, **Figure 3** below shows that with the proposed 2.25% average rate increase;

- a) 29% of the properties will have their rates being reduced next year;
- b) 1% of the properties will have their rates remained unchanged;
- c) 11% of the properties will have their rates increased by less than 2.00%;
- d) 12% of the properties, will have their rate increase would be between 2% and 3%;
- e) 25% of the properties, will have their rate increase would be between 3% and 5%;
- f) 11% of the properties, will have their rate increase would be between 5% and 7.5%;

- g) 4% of the properties, will have their rate increase would be between 7.5% and 10%;
- h) 3% of the properties will have their rates gone up by more than 10.00%.; and
- i) 4% new assessments have been created for the next financial year.

Figure 3: Breakdown of General Rates Increase by Percentage (inclusive of development growth)



Financing the budget with short-term borrowings

An operating deficit means, Council is spending more than what it generates as income in delivering services to the community. In addition, Council has loan obligations to pay as well as the need to fund new and upgraded assets. Therefore, if the Council decides to continue the same level of service and draft operating/capital project program as included in this report with an average rate increase of 2.25%, it has to borrow \$2.743m as summarised in the **Table 7** below. Out of the new borrowings;

- \$1.145m will be used to fund Council's co-contribution required under State Government's LGIPP;
- \$0.035m will be used to fund Council's co-contribution required under Building Better Regions Fund;
- \$0.844m will be spent on other new/upgraded assets across the Council district;
- \$0.507m will be allocated for loan repayments; and
- \$0.010 will be allocated for other day-to-day Council's operations.

While the maximum amount to be borrowed is \$2.743m, the timing of the actual borrowings would depend on the progress of the operating and capital projects program. Local Government Finance Authority has made available convertible cash advance debenture of 3 years for LGIPP funded projects at a concessionary rate of 1.30% to a maximum limit of \$1.238m.

Table 7: Funding Shortfall for 2021/2022 (\$'000)

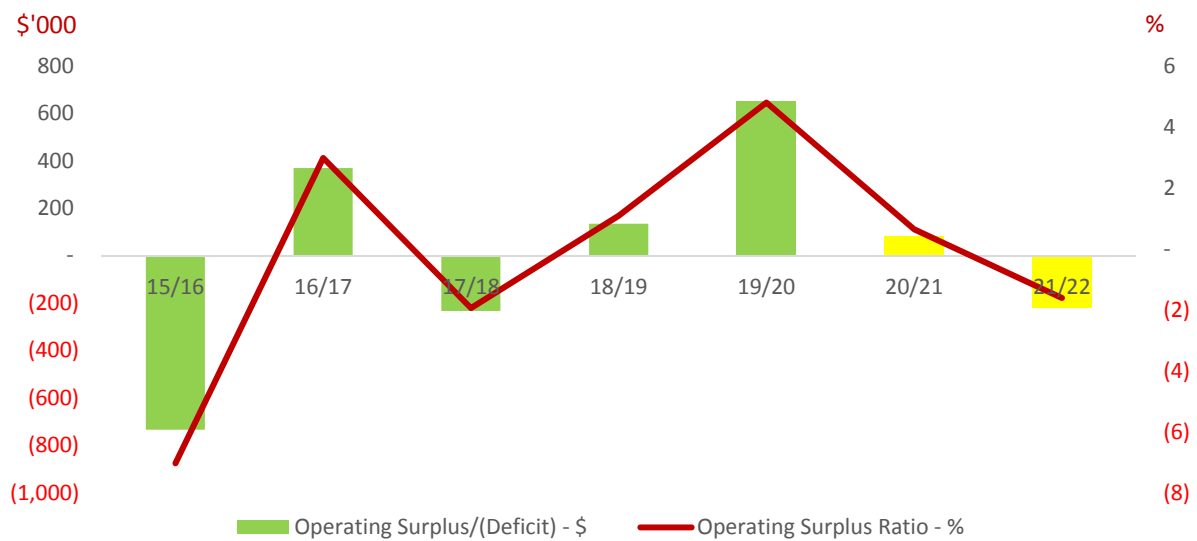
| Description | Amount |
|---|---------|
| Cash shortfall due to Operating Deficit | (221) |
| Cash injection from sale of surplus/replaced assets | 67 |
| Share of loss - joint ventures & associates (non-cash transactions) | 63 |
| To fund capital Program - Money available through depreciation | 2,862 |
| - Proposed assets renewal expenditure | (2,917) |

| | |
|--|----------------|
| - Proposed new capital expenditure | (3,334) |
| Grants specifically for new or upgraded assets | 1,245 |
| Loan Repayment | (507) |
| Total funding shortfall | (2,743) |

Budgeted Financial Indicators

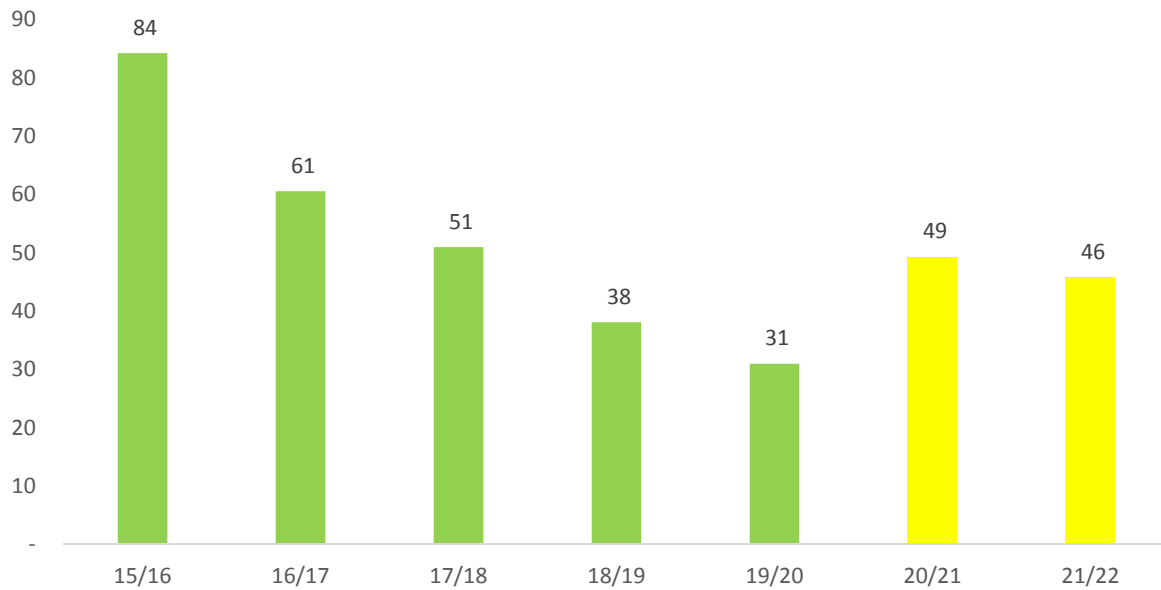
The following graph shows, Adelaide Plains Council's budgeted financial indicators for 2020/2021 and 2021/2022 Financial Years in comparison to actual results for the previous five (5) financial years.

1. Operating Surplus/ (Deficit) Ratio



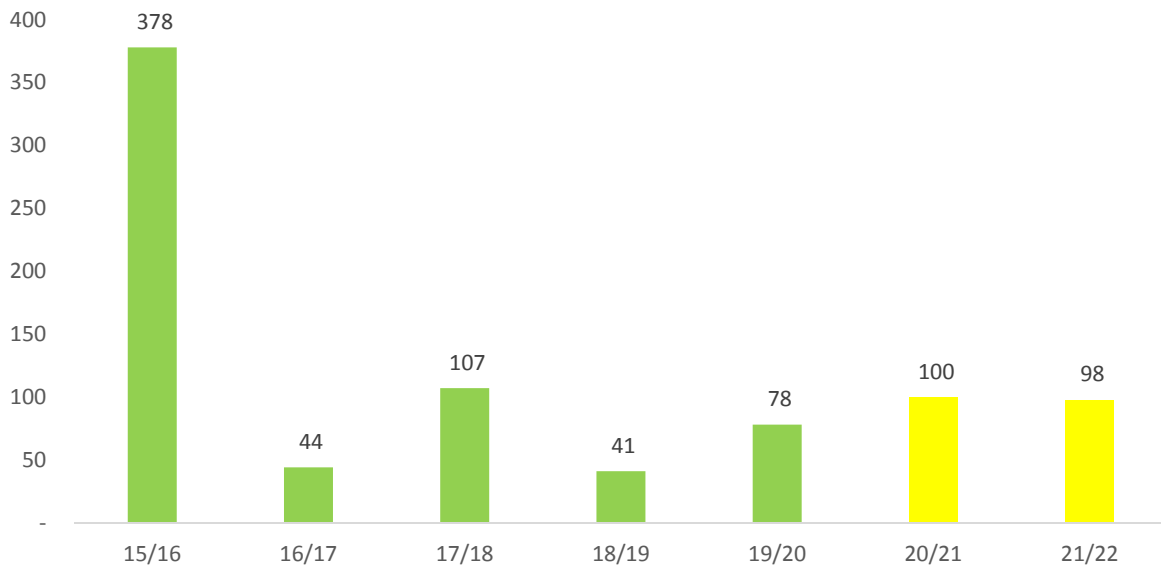
Note: Financial Sustainability Information Paper 9 of the LGA recommend an Operating Surplus Ratio of between 0% and 15% on average over long term.

2. Net Financial Liabilities Ratio (%)



Note: Financial Sustainability Information Paper 9 of the LGA recommend a Net Financial Liabilities Ratio of greater than zero but no more than 100% of total operating revenue on average over long term.

3. Assets Sustainability Ratio (%)



Note: Financial Sustainability Information Paper 9 of the LGA recommend an Asset Sustainability Ratio of greater than 90% but less than 110% on average over long term.

Conclusion

The report will provide the Audit Committee members with an opportunity to consider and discuss the draft Budget for the 2021/2022 Financial Year and the public submissions received on the draft Annual

Business Plan and Budget before the final adoption of the Annual Business Plan and the Budget for the 2020/2021 Financial Year by the Council.

References

Legislation

Regulation 9 of the Local Government (Financial Management) Regulations 2011

Section 123 (13) of the Local Government Act 1999

Council Policies/Plans

Budget Management Policy

Council Vehicle Policy

Funding Policy

Treasury Management Policy

Infrastructure and Assets Management Plans

Strategic Plan 2017-2021

Strategic Plan 2021-2024

DRAFT 2021/2022
Annual Business Plan
and Budget
For Public Consultation

Contents

| | |
|---|----|
| 1. Preamble..... | 1 |
| 2. Foreword from the Mayor..... | 2 |
| 3. Message from the Chief Executive Officer..... | 3 |
| 4. Summary of 2021/2022 Budget..... | 5 |
| 5. Strategic Plan 2017-2020..... | 6 |
| 6. Infrastructure and Asset Management Plan | 6 |
| 7. Assessment of the 2020/2021 Strategic Objectives | 7 |
| 8. Significant Budget Influences and Assumptions..... | 8 |
| 9. Services Provided by the Council to its Community | 10 |
| 10. 2021/2022 Recurrent and Project Budgets..... | 14 |
| 10.1 Sources of Council Revenue | 14 |
| 10.2 How Council's Revenue is spent? | 16 |
| 10.3 Budgeted Statement of Comprehensive Income | 18 |
| 10.4 Operating Income and Expenditure by Council Functions/Services | 19 |
| 10.5 2021/2022 Operating Project Program | 20 |
| 10.6 2021/2022 Capital Projects Program..... | 21 |
| 10.7 2021/2022 Capital Program in Details..... | 23 |
| 11. Loan Borrowings | 25 |
| 11.1 Current Long-Term Borrowings..... | 26 |
| 11.2 New borrowings for 2021/2022 Financial Year..... | 26 |
| 12. Rating Structure and Policy | 27 |
| 12.1 What are Rates? | 27 |
| 12.2 Strategic Focus..... | 27 |
| 12.3 Method Used to Value Land | 27 |
| 12.4 Impact of Rates..... | 28 |
| 12.5 Differential General Rates..... | 31 |
| 12.6 Fixed Charge | 32 |
| 12.7 Regional Landscape Levy | 32 |
| 12.8 Service Charges..... | 33 |
| 12.9 Mandatory Township Kerbside Waste Collection Charges..... | 35 |

| | | |
|-------|---|----|
| 12.10 | Payment of Rates..... | 35 |
| 12.11 | Remission and Postponement of Rates | 36 |
| 12.12 | Rebate of Rates | 36 |
| 12.13 | Sale of Land for Non-Payment of Council Rates | 36 |
| 13. | Budgeted Financial Statements | 37 |
| 14. | How to Measure Council Performance | 41 |

DRAFT

1. Preamble

Under section 123 of the *Local Government Act 1999* (the Local Government Act), a council must have a budget for each financial year. This budget must be considered in conjunction with the council's annual business plan (and be consistent with that plan) and must be adopted before 31 August for the financial year.

Adelaide Plains Council therefore prepares, as part of its budget development process, an Annual Business Plan. Section 123(2) of the Local Government Act provides that each annual business plan of a council must:

- (a) include a summary of the council's long-term objectives (as set out in its strategic management plans);
- (b) include an outline of:
 - (i) the council's objectives for the financial year;
 - (ii) the activities that the council intends to undertake to achieve those objectives; and
 - (iii) the measures (financial and non-financial) that the council intends to use to assess the performance of the council against its objectives over the financial year;
- (c) assess the financial requirements of the council for the financial year and, taking those requirements into account, set out a summary of its proposed operating expenditure, capital expenditure and sources of revenue;
- (d) set out the rates structure and policies for the financial year;
- (e) assess the impact of the rates structure and policies on the community based on modelling that has been undertaken or obtained by the council;
- (f) take into account the council's long-term financial plan and relevant issues relating to the management and development of infrastructure and major assets by the council; and
- (g) address or include any other matter prescribed by the regulations.

Before a council adopts its annual business plan it must prepare an annual business plan and undertake a public consultation process that, as a minimum, meets the requirements of section 123(4) of the Local Government Act.

This document presents the draft Annual Business Plan and Budget for 2021/2022 Financial Year for the Adelaide Plains Council for public comment. These draft documents have been developed in consultation with the Council Members, Infrastructure & Environment Committee, Audit Committee and the Council management, in the context of Council's Strategic Plan 2017-2020.

2. Foreword from the Mayor

Here we are 12 months on from the outbreak of the COVID-19 pandemic and the Adelaide Plains region has fared quite well given the circumstances. What this has meant to us as individuals is that we have been able to go about our daily business, keep jobs as much as possible and weather this situation. Your Council has made some tough but necessary decisions along the way resulting in as little disruption to services as possible. Local government has not shut down, in fact, adapting to changes put upon us and implementing different ways of continuing our service has been at the forefront.

Our Council has a relatively low income for its size. Pressure to maintain existing infrastructure and at the same time also provide new facilities for the growing population is indeed a balancing act. The draft budget has been worked through by elected members and staff at many workshops, informal gatherings and sub committees to reach this point.

You will have noticed significant improvements and changes around the district made possible through stimulus funding and grants received from the two higher levels of government – not at ratepayer cost. This is flowing on into the 2021/2022 financial year and with unprecedented external funding available, your Elected Members have seen the value in taking up the “50/50” contribution schemes. What this means is projects such as road sealing for example can be achieved at effectively half price to the ratepayers. Combined with extremely low interest rates, now is an opportune time to achieve these goals which have been out of reach for some time.

There is, however, a limit to how much extra work on top of existing services can be delivered with our existing staff and equipment. Even with the better than projected growth in our area, there is a finite limit. Therefore, a staged approach is needed which the elected members have worked through to ensure realistic goals are achieved. There will never be a better time to borrow money to partner with the governments “50/50” stimulus and grant funding, rather than fully paid for by ratepayers.

The 2021/2022 draft budget is somewhat not what we would have expected 6 months ago, but adapting and overcoming adversity, recognising new opportunities and not being afraid to make changes based on facts has been the reasoning of your elected chamber. I hope you will agree this draft budget builds on our future and is a sign of positive ways forward.



Mark Wasley
Mayor

3. Message from the Chief Executive Officer

2021/2022 promises to be a year like no other.

While the COVID-19 pandemic threw up unprecedented challenges for local government last financial year, this financial year will be centred on the recovery effort; investment, employment, infrastructure delivery and economic prosperity for our region.

This year's draft Annual Business Plan and Budget is the culmination of four months work. I believe it to be a fair and equitable blueprint for our ratepayers as we factor in:-

- valuation increases;
- allotment growth ;
- the need to subsidise government funding and associated loan borrowings to complement same;
- consideration of the COVID-19 climate on our ratepayers;
- delivery of our program to align with both our Long Term Financial Plan (LTFP) and Infrastructure and Asset Management Plan (IAMP).

Our program for 2021/2022 foreshadows:-

- \$2.917 million to be spent on asset renewals in line with priorities of the IAMP;
- \$3.334 million to be spent on new and upgraded assets, many of which will be participate funded through significant state and federal government grants ;
- concerted freight and tourism road network sealing program to be staged over two years and to include Cheek Road, Aerodrome Road, Middle Beach Road and Barabba Road (secured through a \$2.340 million state government grant);
- community survey;
- recreation precinct masterplans and tourism/recreational trail strategy;
- Gawler River Floodplain Management Authority Charter Review (primarily focused on a review of percentages for each constituent council toward flood mitigation infrastructure);
- advancement of the Light & Adelaide Plains Region Economic Development Authority (geared at investment and infrastructure spend/delivery).

In order to meet the ever-growing demands of our ever-expanding community, labour will move ahead in line with the projections of the LTFP and largely respond to our obligations under the new Planning and Design Code (health and building surveying), economic development and tourism-led initiatives (noting the Tourism and Economic Development Strategy will be delivered in 2021/2022) and parks and gardens maintenance (noting the substantial green spaces to be handed over at both Eden and Liberty this year and beyond).

To achieve all of the above, your elected members have sought to consult on a modest average rate increase for this financial year of 2.25 percent.

I encourage our community to review this year's draft Budget and provide comment as a means of arriving at a sound and responsible program for 2021/2022. It is against this

backdrop that I commend the draft 2021/2022 Annual Business Plan and Budget to you, the ratepayers and residents of the Adelaide Plains.

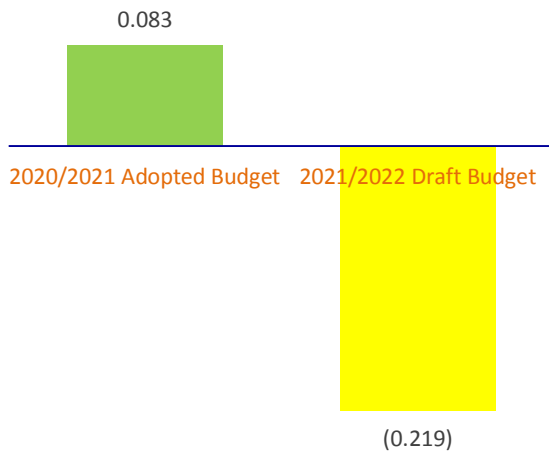


James Miller
Chief Executive Officer

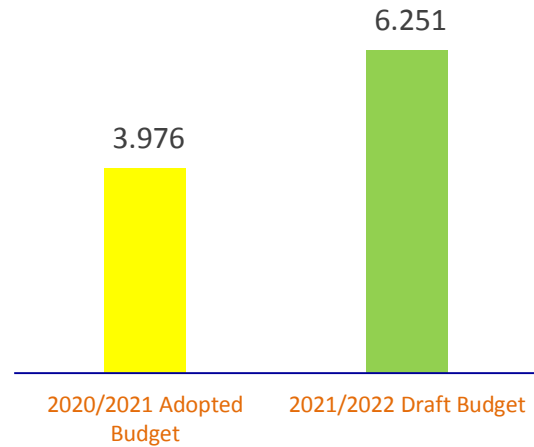
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4. Summary of 2021/2022 Budget

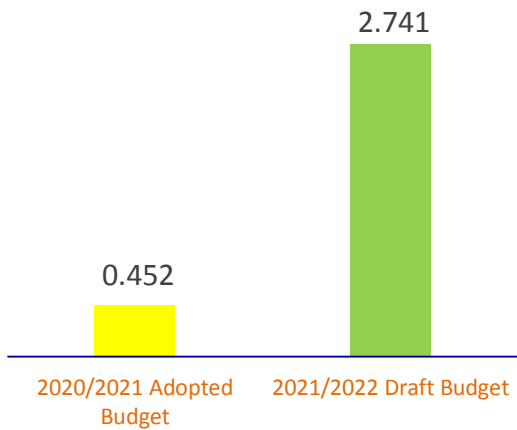
Operating Surplus/(Deficit) (\$'Mn)



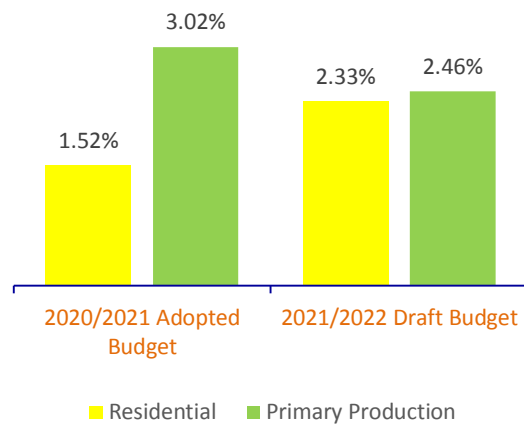
Investment in Infrastructure/assets (\$'Mn)



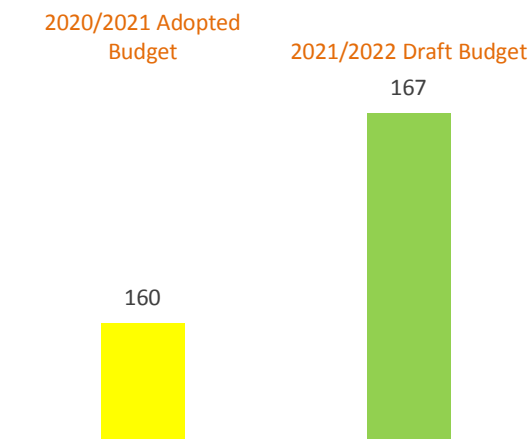
New Borrowings (\$'Mn)



Average Rate Increase (%)



Waste Levy (\$)



Growth from development



5. Strategic Plan 2017-2020

Under the Focus area **“4.5 Accountable & Sustainable Governance”**, the following Council strategies have budgetary implications, in 2021/2022 and beyond.

1. Actively seek government, business and industry funding and partnerships;
2. Streamline Council processes;
3. Engage the community in Council decisions and initiatives;
4. Provide friendly and responsive customer service;
5. Maintain a positive and forward thinking culture;
6. Strategically plan for and sustainably maintain Council’s assets and finances;
7. Advocate for and represent the interests of the community;
8. Listen and use evidence to make appropriate organisational decisions based on risk management principles;
9. Attract and retain a skilled competent workforce;
10. Continue to improve staff health, safety and wellbeing;
11. Meet all legislative compliance requirements; and
12. Implement Risk Management Policy and Procedures

Council aims to deliver a budget that not only contributes to its strategic objectives, but is also financially sound and allows the Council to meet its financing commitments from cash derived from operating activities without placing a burden on ratepayers through excessive and/or ad-hoc rate revenue increases or borrowing money to deliver current Council services that will create **intergeneration inequality**.

Therefore, the focus in developing the 2021/2022 Annual Business Plan and Budget, has been on ensuring that Council can maintain the service standards for its existing services (business as usual) and that those services receive appropriate funding, balanced with ensuring that the community does not face significant increases in their annual rates contribution in this year or in future years.

An update to Council’s strategic management plan was adopted by the Council on 27 January 2021. Given the timing of the adoption of Strategic Plan 2021-2024, this draft Annual Business Plan has been underpinned by Strategic Plan 2017-2020. However, based on the updated strategic management plan, Council is currently in the process of updating I& for the period 2021-2024 which in turn will feed in to the Long-Term Financial Plan of the Council which is expected to be reviewed in October/November 2021.

6. Infrastructure and Asset Management Plan

One of the six (6) priorities in Council’s *Strategic Plan 2017-2020* is:-

“Sound management of community assets such as Community Wastewater Management Systems, Built Infrastructure, Roads, Open Space, Stormwater and Flood Management”.

Under Focus Area **“4.3 Great Places & Infrastructure”**, Council’s objective is to ensure that Adelaide Plains Council is a place:-

- Where Council buildings, facilities and assets are actively used by business and community;
- With safe and fit for purpose roads and transport networks;
- Quality design and planning outcomes;
- With attractive pedestrian and cycle friendly open spaces and streetscapes, and inviting town entrances; and
- That celebrates its rural character so close to the city and protects and activates its heritage places;

7. Assessment of the 2020/2021 Strategic Objectives

Following table shows Councils strategic objectives for 2020/2021 Financial Year and the assessment of whether the activities Council has undertaken as of 31 March 2021 have achieved those objectives.

Table 1: Assessment of Strategic Objectives for 2020/2021 Financial Year

| Operating Project to achieve Council's Strategic Objective | |
|--|-------------------------|
| Strategic Objective : Growing Economy, Great Places & Infrastructure | |
| 1) Economic Development Initiatives (Two Wells Crown Land, ITHC), Two Wells main street Grant Funding Application, Two Wells main street design) and GRFMA Charter Review. | In progress |
| 2) Deliver an annual capital construction and renewal program | In progress |
| 3) Delivery of annual plant/fleet replacement program | In progress |
| 4) Establish Horse Floating Park Area following any necessary approvals, at Section 631 the Esplanade, Parham. | Potential carry over to |
| 5) Middle Beach boat ramp investigation and remediation | In progress |
| 6) Mallala Office underpinning - realign and stabilise the foundation soil. | Completed |
| 7) Two Wells Resource Recovery Centre – Additional bin retaining wall and container for mattresses | In progress |
| 8) Feasibility Study on Lewiston Drainage | In progress |
| Strategic Objective : Vibrant Community | |
| 9) Animal Management Plan Review | In progress |
| 10) Drought Communities Program involving various projects | Completed |
| Strategic Objective : Resilient Environment & Community | |
| 11) Parham Community Emergency Management Plan | In progress |
| Strategic Objective : Accountable & Sustainable Governance | |
| 12) Prudential Review of office accommodation | In progress |
| 13) Representation Review | In progress |
| 14) Review of Rating Structure | Completed |

8. Significant Budget Influences and Assumptions

The Annual Business Plan is Council's key annual operational and financial planning document. It describes what services and projects Council plans to deliver to the community in the 2021/2022 Financial Year and how to finance those planned services and projects.

The Annual Business Plan has been developed in the context of delivering Council's long term strategic direction as set out in the *Strategic Plan 2017-2020* and *Infrastructure and Asset Management Plans (I&)*, and as required under the Local Government Act.

In this context, in preparing 2021/2022 Annual Business Plan (ABP) and Budget, Council has considered several significant factors/assumptions. These include:

- **External Budget Influences**

- The Reserve Bank of Australia has an inflationary target of between 2% and 3% per annum.
- The Mid-Year Economic and Fiscal Outlook released by the Federal Government in December 2020 predicts that the CPI for Australia would be 1.50% in 2021/2022.
- The CPI for South Australia in 2021/2022 is expected to be 1.25% as per 2020/2021 State Budget.
- Increase in population due to new residents moving in to the Eden housing development in Two Wells. For example, in 2019/2020 Financial Year, Council has added 173 new rateable properties whereas 226 new properties are already added in the first nine (9) months of 2020/2021 Financial Year.
- Increase in demand for updated IT infrastructure to ensure cyber security and data integrity.
- Increase in community demand for new assets such as sealing of unsealed roads, footpaths and stormwater drainage.
- Adelaide Plains Council population had grown by nearly 5.5% from 2011 to 8,801 in 2016. It is projected to grow by 10,557 persons to a population of 19,358 by 2050 at 1.20% per annum compared to 0.90% for Greater Adelaide.
- The Estimated Resident Population within the district as per Australian Bureau of Statistics is 9,441 as of 30 June 2020 and 9,137 as of 30 June 2019. Since 30 June 2019, the population within the Council area has grown by 3.33% (Greater Adelaide was 1.19%.);
- Commitments to projects and partnership initiatives continuing over more than one year e.g. Barossa Regional Procurement Group, Regional Development Australia Barossa Inc, Central Local Government Region of South Australia and Local Government Association of South Australia.

- **Internal Budget Influences**

- Cost of maintaining infrastructure assets handed over to the Council from Eden housing development in Two Wells. Budget for next financial year will be developed on the assumption that the new infrastructure will have same service level as previously provided by the developer unless Council decides otherwise.

- Demand for labour resources for project management as a result of;
 - Local Roads and Community Infrastructure funding
 - Bridges Renewal Program Round 5 - Wasleys Bridge Upgrade
 - New Two Wells Roundabout – Heavy Vehicle Safety and Productivity Program
 - Strategic project delivery
- Increase demand for labour resources for compliance and inspectoral activities due to significant growth in residential dwellings.
- Overdue Rates balance was \$1.004m as at 13/04/2021 (\$0.810m as at 30/06/2020 and \$0.692m as at 30/06/2019).
- Additional depreciation expenses associated with significant infrastructure spending in 2019/2020 and 2020/2021 financial years.
- Increase in salaries/wages as per enterprise bargaining agreement (being negotiated);
- Council's long-term financial objective of being financially sustainable by achieving an operating break even position and the need to exercise prudent financial management practices to ensure financial sustainability.
- Requirements to maintain and improve infrastructure assets to acceptable standards including roads, kerbing, footpaths, Community Waste Management Scheme, storm water drainage, parks and gardens, and Council's buildings, plants, machinery, equipment, furniture and fittings, in consistent with the I&.

Council is committed to ongoing reviews of its operations in order to provide optimum benefit to the community and also to ensure that Council deliver quality services in the most cost-effective and efficient manner. Therefore, Council will aim to:

- Actively target Federal and State Government grant programs available as part of economic recovery efforts of upper tiers of governments post COVID-19;
- Continuously review, prioritise and validate current services and programs;
- Continuously review systems and procedures to ensure that internal operations are effective and efficient; and
- Empower community organisations with appropriate support to manage and maintain specific community assets by the community itself. It is believed that this will enhance the autonomy of these organisations through site ownership and control.

Figure 1 below shows the growth in Council's operating expenditure since the 2017/2018 Financial Year. While employee costs have remained consistent, around \$4.800m from 2017/2018 to 2018/2019 Financial Years, it is has increased since 2020/2021 to strengthen Council's internal capacity to respond to significant increase in economic development opportunities and residential growth within the district over the coming years.

Material, Contracts and Other Expenses are showing an upward trend over the period mainly due to increased cost to Council in relation to contracting kerbside waste collection and disposal service, information technology, general maintenance, water, electricity, insurances, legal fees and the delivery of several new initiatives partially funded by the Federal Government.

Interest Expenses have decreased over the years mainly due to a reduction in Council’s short-term cash advance (CAD) loan. In addition, new interest expense of \$0.050m has been budgeted for 2021/2022 financial year based on estimated borrowings shown in **Table 12**.

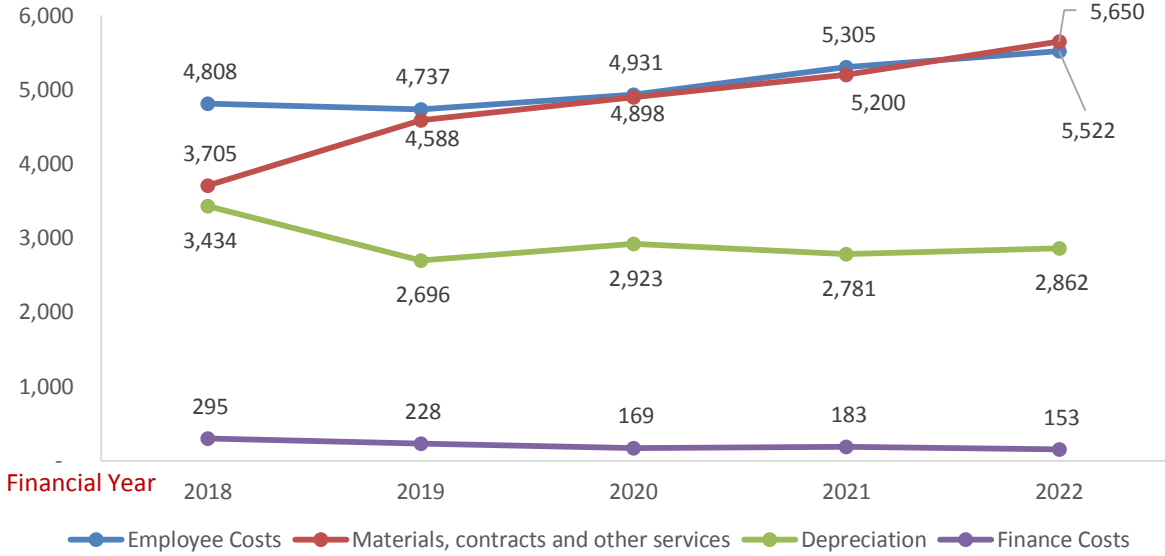


Figure 1: Growth in Council's Operating Expenses (Including CWMS) - \$'000

Depreciation Expenses have increased by \$0.080m or 2.88% in 2021/2022 when compared to 2020/2021 Financial Year Mainly due to additional depreciation associated with new assets handed over to the Council by developers following the completion of initial maintenance obligations.

9. Services Provided by the Council to its Community

Council provides services in response to the needs and priorities of the community. In providing these services, and carrying out all of its daily functions, Council is highly regulated by the provisions of the Local Government Act as well as various other legislation, including, but not limited to, the following:

- *Burial and Cremation Act 2013 (SA)*
- *Community Titles Act 1996 (SA)*
- *Crown Land Management Act 2009 (SA)*
- *Development Act 1993 (SA)*
- *Dog and Cat Management Act 1995 (SA)*
- *Environment Protection Act 1993 (SA)*
- *Evidence Act 1929 (SA)*
- *Expiation of Offences Act 1996 (SA)*
- *Fair Work Act 1994 (SA)*
- *Fences Act 1975(SA)*
- *Fines Enforcement and Debt Recovery Act 2017 (SA)*
- *Food Act 2001 (SA)*
- *Freedom of Information Act 1991 (SA)*
- *Land and Business (Sale and Conveyancing) Act 1994 (SA)*
- *Liquor Licensing Act 1997 (SA)*
- *Local Government (Elections) Act 1999 (SA)*

- *Local Nuisance and Litter Control Act 2016 (SA)*
- *Natural Resources Management Act 2004 (SA)*
- *Real Property Act 1886 (SA)*
- *Return to Work Act 2014 (SA)*
- *Road Traffic Act 1961 (SA)*
- *Roads (Opening and Closing) Act 1991 (SA)*
- *Safe Drinking Water Act 2011(SA)*
- *South Australian Public Health Act 2011(SA)*
- *Supported Residential Facilities Act 1992 (SA)*
- *State Records Act 1977 (SA)*
- *Strata Titles Act 1988 (SA)*
- *Unclaimed Goods Act 1987 (SA)*
- *Work Health and Safety Act 2012 (SA)*

In addition to complying with, administering and enforcing the above legislation, there are also various related mandatory regulations and policies, and associated guidelines, that govern daily operations. Generally, a council decides what services they will provide locally (discretionary services), however there are some services that a council is required to provide by law (statutory services).

Discretionary and statutory services provided by each department of Adelaide Plains Council can be summarised as follows:

Governance and Executive Office

The majority of services provided by Council's Governance and Executive Office Department are mandated by legislation.

- Practice adequate records management;
- Work Health and Safety and Risk Management – monitoring, reporting and compliance
- Human Resource Management;
- Management of Council's Governance Framework, including management of Council Code of Conduct complaints and handling queries or requests from the Ombudsman SA and the Independent Commissioner Against Corruption;
- Council Member Support and Training (including the provision of advice and preparation and distribution of agendas and minutes);
- Preparation of Annual Report ;
- Local Government Elections (preparation and assistance);
- Delegations;
- Development and maintenance of statutory and other Council Registers (including register of interest, resolution registers, confidential items register, delegations register, gifts register, policy register, lease register, register of allowances and benefits, register of by-laws);
- Provision of internal and external customer service (including handling customer requests, receive and distribute information, receive and transfer calls and correspondence, daily banking and receipting, assist customers with dog registration requirements, rates enquiries, general enquiries, application forms); and
- Communication and Community Engagement – management of all Council communication platforms, distribution of Council publications including newsletters, public consultation notices and media releases etc.

Development and Community

- Planning and development, including building safety assessment;
- Dog and cat management;
- Preparation of strategic plans for the area;
- Public health services such as monitoring cooling towers for Legionnaire's Disease;
- Fire prevention;
- Provision of advice and support relating to Crown Land under Council's care, control and management;
- Undertake road closures and reviews;
- Libraries;
- Community development;
- Social planning;
- Control of public nuisances;
- Playgrounds;
- Monitoring unsanitary conditions;
- Food safety inspections;
- Footpath planning;
- Stormwater management planning;
- Parks and gardens planning;
- Traffic management planning;
- Traffic management compliance and local road safety;
- Ovals and other sporting facilities (open space) planning;
- Roadside rubbish compliance and clean up;
- Property management assistance;
- Provision of advice and support in relation to Crown Land under Council's care, control and management;
- General animal management;
- Development and Community information service;
- Skate park planning;
- Arts and cultural activities;
- Tourism information and support;
- Environmental management;
- Festival and event planning and facilitation;
- Short stay accommodation planning and facilitation;
- Cemeteries;
- Wetland planning;
- Local Museum and heritage support;
- Coastal management planning;
- Business support;
- Stormwater recycling;
- Landcare program planning;
- Dry zones planning and facilitation;
- Aged care facilitation;
- Cycling path planning;
- Crime prevention through environmental design;
- Community leadership and advocacy; and
- Community Wastewater Management Schemes (SA Water does not provide sewers to townships).

Infrastructure and Environment

- Fleet and plant maintenance;
- Engineering design and specifications;
- Engineering support to development assessment;
- Asset management planning;
- Emergency management and support during floods and fire;
- Administration of Heavy vehicle applications;
- Building and structure maintenance;
- Building security;
- Public toilets;
- Building cleaning;
- Playgrounds;
- Roads (local roads - that is, not national highways or State arterial roads);
- Footpaths;
- Boat ramps;
- Stormwater drains and Flood protection/levees;
- Parks and gardens;
- Weed control;
- Street lights;
- Traffic management and local road safety;
- Reserves and picnic areas;
- Ovals & other sporting facilities;
- Rubbish collection, disposal and recycling;
- Illegal dumping;
- Vandalism;
- Environmental management;
- Support to festivals and events;
- Campgrounds;
- Cemeteries maintenance;
- Wetlands maintenance;
- Local Museums and Heritage support;
- Coast Care projects and Landcare programs; and
- Community Wastewater Management Schemes.

Finance and Business

- Administer and maintain Council's property database and Council's assessment records;
- Collect overdue Council rates;
- Administer Council cemeteries;
- Accounts payable and receivable;
- Administer and process Council payroll system;
- Administer and maintain Council's accounting system including assets registers;
- Prepare annual business plan and budgets and carry out quarterly budget revisions;
- Regulatory compliance in relation to the reporting of GST, Fuel Tax Credits, FBT, PAYG;
- Process insurance claims relating to fleet vehicles;
- Management of Council insurances with Local Government Risk Services;
- Review and completion of grant acquittals;
- Annual review of Council fees and charges;

- Assist Council's Audit Committee to carry out its legislated functions;
- Manage Council cash flow in order to minimise interest expenses;
- Preparation of Council's Annual Financial Statements;
- Assist Council auditors to carry out interim and final audit of Council accounting records;
- IT services and support, including development and implementation of programs and processes;
- Provide administrative assistance to Adelaide Plains Historical Committee; and
- Review and maintain finance related Council policies and monitor their implementation.

10. 2021/2022 Recurrent and Project Budgets

Council's 2021/2022 Budget consists of Recurrent Budget, Operating Projects and Capital Projects Budgets.

Recurrent Budget

The Recurrent Budget includes the amount of operating income that Council will receive in 2021/2022 Financial Year from general rates, service charges, government grants, fees and charges and investment and operating expenditures to provide Council's day-to-day operations and services in the course of its normal operating activities (on a 'business as usual' basis) such as kerbside rubbish collection, street lighting, parks and ovals maintaining and issuing building consents. It also includes costs related to the capital expenditure programme such as interest on loan obtained for capital program, maintenance of Council assets and depreciation.

Operating Projects

Some programs/activities of Council are categorised as Operating Projects rather than Recurrent Budget, where that program or activity does not make up part of Council's regular core services or there is a finite funding life required.

Capital Projects

The expenditure included in the Capital Projects category is the amount of money Council will invest either in upgrading existing assets or in the creation of new assets in accordance with the Council's Strategic Plan objectives and Infrastructure and Asset Management Plans.

10.1 Sources of Council Revenue

In order to fund its operations and programs, Council collects revenue from sources such as general rates, fees and charges levied on Council services (Statutory Charges and User Charges), grants from State and Federal Governments, interest income from investing excess cash in short-term investments, reimbursements and other sundry revenue sources. **Figure 2** below illustrates the main sources of the estimated Council revenues in 2021/2022 Financial Year (excluding income from Community Wastewater Management Scheme).

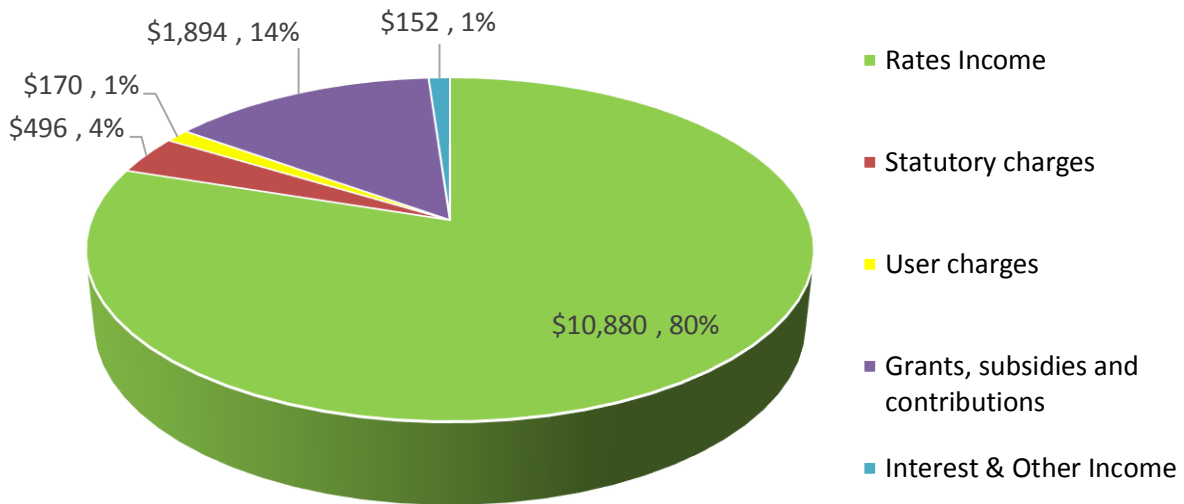


Figure 2: Distribution of Operating Income in 2021/2022 (\$'000 & %) – Excluding CWMS

Rates

Rates are the main sources of funding for the Council. A total of \$10.880m (\$10.398m in 2020/2021) are to be collected in 2021/2022 Financial Year, to help pay for essential, non-discretionary services such as roads maintenance, public lighting, kerbside waste collection and disposal, citizenship ceremonies, public health and safety as well as discretionary services such as Council libraries, outdoor cinemas, and assistance to community programs and events.

Statutory Charges

Statutory Charges relate mainly to fees and fines levied in accordance with legislation and include development application fees, animal registrations, health act registrations and parking fines. It is estimated that the Council will collect statutory charges of \$0.496m in 2021/2022 Financial Year (\$0.410m in 2020/2021).

User Charges

User charges relate mainly to the recovery of service delivery costs through the charging of fees to users of Council's services. These include rent income from Mallala Aged Homes, charges for the use of Council facilities, library printing and photocopy charges, Section 7 property searches and burial fees. User charge income is expected to increase marginally from \$0.168m in 2020/2021 Financial Year to \$0.170m in 2021/2022 Financial Year.

Grants, subsidies and contributions

Grants include monies received from State and Federal sources for the purposes of funding the delivery of Council's services to ratepayers. Grants income has been budgeted based on confirmed funding only. The main sources of grant to be received by the Council are;

Table 2: Summary for Estimated Operating Grants Income for 2021/2022 (S'000)

| Grant Program | Amount |
|---|--------------|
| Financial Assistance grant (FAG) from Federal Government | 1,500 |
| Roads to Recovery (R2R) grant from Federal Government * | 263 |
| Library operating grant from State Government | 29 |
| Coastal Officer Grant (Green Adelaide formerly NRM Board)** | 102 |
| Total Grants, subsidies and contributions Income | 1,894 |

* For accounting purpose R2R grant is recorded as operating income. However, as per R2R guidelines, grant should be spent on roads renewal/upgrades (Capital)

**53% of the Regional Landscape Levy collected from Adelaide Plains Council is invested back in the region through this grant.

Investment Income

The Council earns investment income primarily in the form of interest from the investment of cash surpluses throughout the financial year and loans to community organisations.

Reimbursements

Council is part of the self-funded insurance scheme administered by Local Government Risk Services (LGRS). Annually LGRS redistribute part of its profit from the operations of Workers Compensation Scheme and other insurance schemes back to the Council along with performance rebates. During 2021/2022, it is estimated that the Council will receive reimbursements of \$0.126m of which majority is from LGRS compared to \$0.125m in 2020/2021.

Other Income

Other income relates to a range of unclassified items that do not fit within the aforementioned main revenue categories. Other income is expected to be remained unchanged at \$0.023m in the 2021/2022 Financial Year.

10.2 How Council's Revenue is spent?

Employee Expenses

Employee expenses include all labour related expenditure such as salaries, wages, allowances and on-costs (Annual Leaves, Long Service Leaves, Superannuation, Workers Compensation Insurances etc.). For 2021/2022 Financial Year, employee costs on recurrent operations (excluding CWMS operations) are expected to increase to \$5.506m compared to \$5.289m in 2020/2021, an increase of 4% exclusive of any employee costs associated with new positions that may be created as part of increasing resources required to meet growth in the Council district and develop local economy.

Table 3: Estimated Employee Expenses for 2021/2022 Financial Year – Exc. CWMS (\$'000)

| Description | Costs |
|-----------------------------------|--------------|
| Salaries & Wages | 4,719 |
| Long Service Leave | 117 |
| Superannuation | 458 |
| Workers Compensation Insurance | 212 |
| Total Employee Cost budget | 5,506 |

Figure 3 below shows Council’s staff levels at the end of each financial year from 2012/2013 Financial Year, and the budgeted staff numbers for 2021/2022 financial year on a full-time equivalent basis (FTE). Accordingly, the budgeted FTEs for 2021/2022 is 57 which is the same level of FTEs as in 2016/2017 Financial Year.

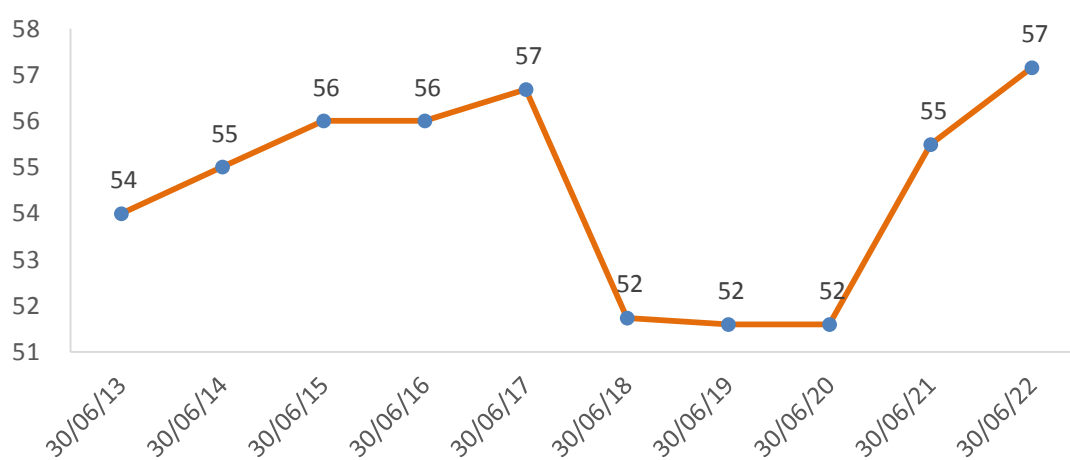


Figure 3: Adelaide Plains Council Workforce (FTEs)*

*30/06/13 to 30/06/20 are actual staff numbers and 30/06/2021 and 30/06/22 are budgeted (FTE) staff numbers.

Materials, Contracts and Other Expenses

Materials include items such as electricity, water, fuel, road products, library books, printing and stationary costs. Contracts relate to the provision of Council services by external providers and include items such as kerbside waste collection, street sweeping, security, leases and infrastructure repairs and maintenance.

Other Expenses relate to a range of unclassified items including contributions to community groups, advertising, insurances, motor vehicle registrations, payment of the Regional Landscape levy and other miscellaneous expenditures.

It is estimated that the Council will spend \$4.670m in 2021/2022 Financial Year on Materials, Contracts and Other Expenses, compared to \$4.430m in 2020/2021 Financial Year, an increase of \$.0240m or a 5.49% mainly due to increase in legal costs, building reserve & seal road maintenance and kerbside recyclable disposal costs.

Depreciation, Amortisation and Impairment

Depreciation is an accounting charge which measures the usage of Council’s property, plant and equipment (including infrastructure assets such as roads and drains) over the estimated effective useful life of the assets. In 2021/2022 the forecast amount of depreciation is \$2.731m compared to \$2.683m for 2020/2021, an increase of \$0.048m or 1.79% mainly due to new depreciation expenses associated with infrastructure assets handed over to the Council by developers after the initial maintenance period.

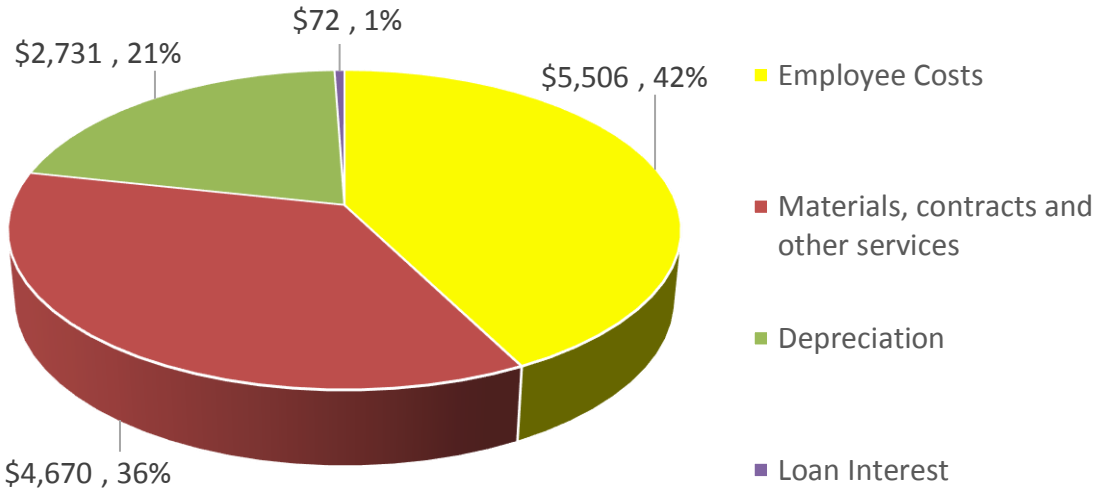


Figure 4: Distribution of Operating Expenses in 2021/2022 (\$'000 & %) – Excluding CWMS

Finance Charges

Finance charges relate to interest charged by the Local Government Financing Authority on funds that have been borrowed by Council. Interest costs have been estimated based on Council’s loan portfolio as at June 2021 and expected new borrowings for the next year.

Interest costs are expected to decrease by 29% from \$0.101m in 2020/2021 Financial Year to \$0.072m in 2021/2022, mainly due to the combined impact of interest being paid reduced progressively when repaying loan instalments overtime and additional interest expenses of \$0.050m associated with new borrowings required for 2021/2022 Financial Year.

10.3 Budgeted Statement of Comprehensive Income

For the 2021/2022 Financial Year, the estimated operating deficit is \$0.219m from recurrent and operating project activities based on 2.25% increase in average rates. The estimated operating deficit consists of;

- Recurrent budget surplus of \$0.613m;
- CWMS Budget deficit of \$0.153m; and
- Net Operating Project budget of \$0.679m (Table 6).

Table 4: Statement of Comprehensive Income for 2021/2022 Financial Year (\$'000)

| Operating Income | LTFP | Draft Budget | Variance | |
|---|---------------|---------------|--------------|------------|
| | | | (\$) | (%) |
| Rates | | | | |
| - General Rates Revenue | 9,921 | 9,952 | 31 | - |
| - Waste Levy | 556 | 653 | 97 | 18 |
| - Regional Landscape Levy | 188 | 193 | 5 | 2 |
| - Other Rates Income | 87 | 81 | (6) | (7) |
| Statutory charges | 417 | 496 | 79 | 19 |
| User charges | 168 | 170 | 2 | 1 |
| Grants, subsidies and contributions | 2,029 | 1,894 | (135) | (7) |
| Investment Income | 3 | 3 | - | - |
| Reimbursements | 111 | 126 | 16 | 14 |
| Other Income | 39 | 23 | (17) | (42) |
| Total Operating Income | 13,519 | 13,592 | 73 | 1 |
| Operating Expenses | | | | |
| Employee Costs | 5,752 | 5,506 | 246 | 4 |
| Materials, contracts and other services | 4,087 | 4,606 | (520) | (13) |
| <i>Including legal expenditure</i> | 120 | 200 | (80) | (67) |
| Depreciation | 3,229 | 2,731 | 498 | 15 |
| Interest Expenses | 72 | 72 | - | - |
| Share of loss from GRFMA | 63 | 63 | - | - |
| Total Operating Expenses | 13,203 | 12,979 | 224 | 2 |
| Recurrent Surplus | 316 | 613 | 297 | 94 |
| Net Cost Of The 2 X CWMS | (104) | (153) | (50) | 48 |
| Net Operating Project Expenses | (300) | (679) | (379) | 126 |
| Operating (Deficit) | (88) | (219) | (131) | 149 |

10.4 Operating Income and Expenditure by Council Functions/Services

The following table shows operating income and expenditure for the 2021/2021 Financial Year by the Council functions/service *excluding* operating projects. (*Council administration covers functions such as financial management, Chief Executive Officer, Council offices and chambers maintenance, customer service, human resources management, communications & public relations, payroll management, information technology, rates administration, governance, Work, Health and Safety & Risk management, records management and Council's assets management).

Table 5: Operating Income and Expenditure by Council Functions/Services (\$'000)

| Council Services/Functions | Income | Expenses | Net Costs |
|--|-----------------|---------------|--------------|
| Volunteer Administration | - | 7 | 7 |
| Economic Development | - | 10 | 10 |
| Children & Youth Services | - | 10 | 10 |
| Community Events/Bus/Donations | (2) | 32 | 31 |
| Bridges and culverts Maintenance | (1) | 19 | 18 |
| Illegal Roadside Dumping | (1) | 29 | 29 |
| Heritage | (1) | 36 | 36 |
| Cemeteries | (50) | 49 | (1) |
| Mallala Aged Units | (58) | 53 | (5) |
| Street Lighting | - | 56 | 56 |
| Emergency Services and fire prevention | (4) | 64 | 60 |
| Community Safety | (8) | 66 | 59 |
| Street Cleaning | - | 70 | 70 |
| Public Conveniences | - | 76 | 76 |
| Resource Recovery Centre | (30) | 79 | 49 |
| Ovals, Playgrounds & Other Sporting Facilities | - | 87 | 87 |
| Community Services | - | 102 | 102 |
| Stormwater Management | - | 110 | 110 |
| Coastal Conservation | (102) | 118 | 16 |
| Flood Prevention | - | 124 | 124 |
| Environmental Health | (100) | 124 | 24 |
| Dog & Cat Control | (199) | 162 | (37) |
| Elected Members | - | 172 | 172 |
| Building Maintenance | - | 182 | 182 |
| Footpaths & kerbing Maintenance | - | 193 | 193 |
| Libraries | (30) | 352 | 322 |
| Community Wastewater Management | (240) | 394 | 153 |
| Parks, Gardens & Reserve Maintenance | - | 555 | 555 |
| Depot operation | (4) | 621 | 617 |
| Kerbside Waste Collection | (649) | 647 | (2) |
| Plant Maintenance | - | 658 | 658 |
| Planning & Compliance | (187) | 1,340 | 1,153 |
| Roads Maintenance | (1) | 2,297 | 2,296 |
| Government Grants | (1,763) | - | (1,763) |
| Council Administration* | (10,401) | 4,475 | (5,926) |
| Total Income and Expenses | (13,832) | 13,373 | (459) |

10.5 2021/2022 Operating Project Program

The cost of the draft Operating Project program is estimated to be \$0.814m of which \$0.135m applicable to three (3) projects is expected to be funded by Federal and State Government grant funding, resulting a net Operating Project Program budget of \$0.679m. However, these three (3) projects will not proceed if the grant applications are unsuccessful.

Table 6: Proposed Operating Projects Program for 2021/2022 (\$'000)

| Operating Project Name | Estimated Cost |
|--|----------------|
| Resources required to meet growth in the Council district and develop local economy. | 514 |
| GRFMA Charter Review. | 20 |
| Develop Two Wells and Mallala Oval Master Plan. ** | 200 |
| Develop Recreational trail strategy.* | 50 |
| Stage Adelaide Plains Food and Business Festival.* | 20 |
| Community Survey 2021. | 10 |
| Total cost of the draft Operating Project Program | 814 |

**50% to be funded under 'Open Space and Places for People Funding'.

*50% to be funded under 'Building Better Regions Programs'.

10.6 2021/2022 Capital Projects Program

Depreciation and Assets Renewal

Depreciation is the wearing out, consumption or other loss of value of an asset whether arising from use, passing of time or obsolescence through technological and market changes. *Assets Renewal Expenditure* are the expenditure on an existing asset which returns the service potential or the life of the asset to the level which it had originally.

Infrastructure Backlog

According to sound asset management principles, Council should (on average) spend annually on assets renewal an amount equal to its annual depreciation expenses. Council has been able to achieve this since 2019/2020 Financial Year with a very significant assets renewal expenditures that cleared major part of infrastructure back log in 2019/2020. With the proposed asset renewal expenditures, it is expected that Council will not increase its infrastructure backlog as summarised in the following table.

Table 7: Depreciation and Assets Renewal Expenditure (\$'000)

| Description | 21/22 | 20/21 | 19/20 | 18/19 | 17/18 |
|---------------------------------|-----------|-------------|------------|----------------|----------------|
| Depreciation | 2,862 | 2,683 | 2,923 | 2,696 | 3,434 |
| Assets Renewal Expenditure | 2,917 | 2,589 | 3,149 | 1,454 | 1,729 |
| Infrastructure (backlog) | 55 | (94) | 226 | (1,242) | (1,705) |

Adelaide Plains Council is responsible for a large portfolio of assets with a value of \$164m as of 30 June 2020 and an estimated depreciation expense of \$2.862m (including depreciation on CWMS assets) in 2021/2022 Financial Year. It is therefore critical for the long term sustainability of assets that the Council engages in practises that optimise assets useful lives for the benefit of the community.

Proposed Capital Project Program for 2021/2022

Council is proposing to invest \$6.251m in assets renewal and new/upgraded assets in the next financial year as summarised below. The estimated cost of the capital renewal program is

\$2.917m whereas only \$2.400m has been allocated for 2021/2022 in the long term financial plan, an increase of \$0.517m.

Table 8: Draft Four (4) Year Capital Works Program (\$'000)

| Asset Class | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 |
|--|--------------|--------------|--------------|--------------|
| Fleet | - | 135 | 120 | 60 |
| Plant & Equipment | 939 | 534 | 369 | 692 |
| Streetscape* | 302 | 397 | 82 | 89 |
| Sealed Roads | 3,150 | 3,227 | 609 | 609 |
| Unsealed Roads | 1,195 | 974 | 974 | 974 |
| Site Improvements | 585 | 538 | 200 | 200 |
| Structure | 80 | - | - | - |
| Levee | - | 272 | 507 | 793 |
| Stormwater | - | 320 | - | - |
| Pump Station | - | 5 | - | - |
| Total Draft Capital Expenditure | 6,251 | 6,401 | 2,861 | 3,417 |
| Renewal | 2,917 | 2,981 | 2,300 | 2,535 |
| Upgrade | 504 | - | - | - |
| New | 2,830 | 3,420 | 561 | 885 |
| Total Draft Capital Expenditure | 6,251 | 6,401 | 2,861 | 3,417 |

* Streetscapes includes Footpath, Kerbing and Street Trees

| Extract from LTFP | 2021/2022 | 2022/2023 | 2023/2024 | 2024/2025 |
|---|--------------|--------------|--------------|--------------|
| Renewal | 2,400 | 2,525 | 2,378 | 3,122 |
| New/Upgrade | 414 | 392 | 72 | 684 |
| Total Capital Expenditure as per I&AMP | 2,814 | 2,917 | 2,450 | 3,806 |

Next year capital program is planned to deliver;

- a) 35.80 km of road resheeting;
- b) 10.90 km of road resealing;
- c) 19.15 km of sealing of unsealed roads;
 - 2021-2022 – 10.25km (Aerodrome, Barabba and Cheek Roads)
 - 2022-2023 – 8.90km (Middle Beach Road)
- d) 1 km of new footpath, kerbing and street trees

New/Upgraded Assets to be delivered with external grant funding

State Government's Local Government Infrastructure Partnership Program (LGIPP) has recently approved \$2.340m for Adelaide Plains Council to seal four (4) unsealed roads over two (2) financial years that are vital for the freight and tourism of the area. Council's matching contribution to these LGIPP works \$2.340m that is proposed to be funded by combination of new borrowings and rates income over two (2) financial years.

In addition, Council has applied for a grant of \$0.135m from the Federal Government's Building Better Regions Fund and \$0.100m from Open Space and Places for People Funding Program. While the outcome of these two (2) grant applications are yet to be confirmed, they

have been included in the draft budget with the expectation that if the grant application is unsuccessful those programs will not proceed.

New/Upgraded Assets to be delivered with Council's own funding

The draft capital programme has also identified new/upgraded assets to the value of \$0.844m that will be funded from a combination of new borrowings and rates income. Please refer to **Table 9** below for the details and the reasons for spending in those new/upgraded assets.

Table 9: New/Upgraded Assets to be delivered with Council's own funding (\$'000)

| Type of Expenditure | Description | Budget | Comment |
|---|---|------------|--|
| New | Plant Replacement | 135 | New excavator and trailer – Increase activities requiring an excavator, purchasing will lower the requirements for plant hire. |
| New | Street Scape (Footpath, Kerbing and Street Trees) | 292 | Part of IAMP |
| Upgrade | Intersection Upgrade - Hill Street (Dublin Road and Balaklava Road) | 100 | Upgrade required due to accelerated deterioration of asset and increased frequently of maintenance. |
| Upgrade | Germantown Road - Gawler Road to Temby Road | 110 | Upgrade required due to accelerated deterioration of asset and increased frequently of maintenance. |
| New | Parham Playground - Shade shelter | 60 | All playgrounds in APC have shelters over the playground elements except for Parham. |
| New | Parham Playground - New element | 15 | To provide further playground equipment for the community enjoyment. |
| New | Mallala Playground - New element | 15 | To provide further playground equipment for the community enjoyment. |
| New | Computer Monitors and Laptops | 23 | End of Lease Buy-out |
| Upgrade | Council Chamber and Meeting Rooms Audio/Video equipment | 94 | Council resolution |
| Total Expenditure on New/Upgraded Assets | | 844 | |

10.7 2021/2022 Capital Program in Details

Table 10 below provides details of the capital program proposed for 2021/2022 Financial Year.

Table 10: Draft 2021/2022 Capital Project Budget in Details (\$'000)

| Capital Project to achieve Council's Strategic Objective | Rationale | Type | Costs |
|--|-----------|---------|------------|
| Strategic Objective : Great Places & Infrastructure | | | |
| 1) Plant Replacement | A | Renewal | 687 |
| 2) Plant Replacement | B | New | 135 |
| 3) End of Lease Buyout of Computer Monitors and Laptops | B | New | 23 |
| 4) Council Chamber/Meeting Rooms Audio/Video Upgrade | B | Upgrade | 94 |
| Investment in Plant & Equipment Program | | | 939 |

| | | | | |
|--|--|---|---------|--------------|
| 5) | Elizabeth Street - William Street to Donaldson Road | A | New | 31 |
| 6) | Donaldson Road - Elizabeth Street to Wilson Road | A | New | 58 |
| 7) | Second Street (Dublin) - Sixth Street to Seventh Street | A | New | 28 |
| 8) | Mary Street - Chivell Street to Elizabeth Street | A | New | 24 |
| 9) | Elizabeth Street (Mallala) - Joseph Street to Mary Street | A | New | 41 |
| 10) | Joseph Street - Chivell Street to Elizabeth Street | A | New | 22 |
| 11) | Butler Street - Irish Street to End of Seal | A | New | 88 |
| 12) | Pram Ramp renewal to DDA compliant | A | Renewal | 10 |
| Investment in Street Scope (Footpath, Kerbing and Street Trees) | | | | 302 |
| 13) | Intersection Upgrade - Hill St (Dublin Rd and Balaklava Rd) | A | Upgrade | 100 |
| 14) | Germantown Road - Gawler Road to Tembys Road | A | Upgrade | 110 |
| 15) | Dawkins Road (Judd Road to Boundary Road) | A | Renewal | 165 |
| 16) | Hayman Road (Williams to Boundary) | A | Renewal | 485 |
| 17) | Sealing of Cheek Road | C | New | 620 |
| 18) | Sealing of Barabba Road | C | New | 1,020 |
| 19) | Sealing of Aerodrome Road | C | New | 650 |
| Investment in Sealed Road Program | | | | 3,150 |
| 20) | Artesian Road West - Fertile Avenue to Buckland Park | A | Renewal | 21 |
| 21) | Boundary Road - Bache Road to Redbanks Road | A | Renewal | 69 |
| 22) | Bubner Road - Port Parham Road to Ruskin road | A | Renewal | 47 |
| 23) | Cowan Road - Buckland Park Road to Halstead Rd West | A | Renewal | 22 |
| 24) | Davies Road - Fidge Road to Collins Road | A | Renewal | 34 |
| 25) | Day Road - Hall Road to Germantown Road and Matters Road to Verner Road | A | Renewal | 67 |
| 26) | Frost Road North - Gawler Road to Sharpe Road | A | Renewal | 82 |
| 27) | Griggs Road - Port Gawler Road to Shellgrit Road | A | Renewal | 10 |
| 28) | Halstead Road West - Buckland Park Road to End | A | Renewal | 30 |
| 29) | Hunters Road - Port Wakefield Road to Shannon Road | A | Renewal | 71 |
| 30) | Johnson's Road - Calomba Road to Shannon Road | A | Renewal | 90 |
| 31) | Navvy Hill Road - Porter Road to Church Road | A | Renewal | 47 |
| 32) | Owen Road - Farrelly Road to March Road | A | Renewal | 185 |
| 33) | Pritchard Road (Windsor) - Long Plains Rd to Avon Rd | A | Renewal | 63 |
| 34) | School Road - Rowe Road to Church Road | A | Renewal | 21 |
| 35) | Shannon Road - Hunters Road to Carslake Road | A | Renewal | 98 |
| 36) | Tembys Road - Williams Road to Hall Road | A | Renewal | 71 |
| 37) | Verner Road - Paddys Bridge Road to Tembys Road and Germantown Road to Hall Road | A | Renewal | 59 |
| 38) | Wasleys Road - End Bridge to Pritchard Road | A | Renewal | 20 |
| 39) | Welivere Road - Long Plains Road to House | A | Renewal | 20 |
| 40) | Williams Road - Kenner Road to Simpkin Road | A | Renewal | 34 |
| 41) | Windsor Road - Port Wakefield Road to Carter Road | A | Renewal | 32 |
| Investment in Unsealed Road Program | | | | 1,195 |
| 42) | Two Wells Oval - Irrigation system | A | Renewal | 95 |
| 43) | Parham Playground - Shade shelter | B | New | 60 |
| 44) | Parham Playground - New element | B | New | 15 |
| 45) | Mallala Playground - New element | B | New | 15 |

| | | | |
|--|---|---------|--------------|
| 46) Two Wells Oval Entrance - Paths, landscaping, furniture. | B | Renewal | 70 |
| 47) Dublin Lions Park - Paths, landscaping, furniture. | B | Renewal | 70 |
| 48) Lewiston Reserve - Fencing | B | Renewal | 10 |
| 49) Various locations - Reserve and street furniture | B | Renewal | 15 |
| 50) Various locations - Signage - wayfinding and information | B | Renewal | 35 |
| 51) Parham Short Stay Facility Upgrade | C | Upgrade | 200 |
| Investment in Site Improvements Program | | | 585 |
| 52) Dublin Institute/ Hall - Toilets | A | Renewal | 80 |
| Investment in Buildings & Structure Program | | | 80 |
| Total Council Investment in Infrastructure and Assets in 2021/2022 Financial Year | | | 6,251 |
| Renewal of existing assets as per Assets Management Plans | | | 2,917 |
| Upgraded Assets | | | 504 |
| New assets | | | 2,830 |
| Total Council Investment in Infrastructure and Assets in 2021/2022 Financial Year | | | 6,251 |

Rationale

- A. Infrastructure & Asset Management Plan;
- B. Staff initiatives to reduce cost and improve productivity/service standard; and
- C. Grant applications

11. Loan Borrowings

In developing the Long Term Financial Plan, borrowing was identified as an important funding source, particularly for bridging short-term cash flow gaps. Borrowings are undertaken in accordance with Council's *Treasury Management Policy* which underpins Council's decision making financing its operations in the context of cash flow, budgeting, borrowings and investments.

As borrowing is an important financial management tool in the overall context of funding Council's expenditures, Council's *Treasury Management Policy* links closely to the Council's overall strategic management plans in the context of:

- Strategic planning for the future of the Council, covering short, medium and long term spending and investment issues;
- Current and estimated future revenues and the ability to increase the revenue stream through Council rates, user charges or additional grant funds;
- Inter-generational equity considerations in terms of the ratepayers who benefit from the expenditure and therefore on a user pay basis who should pay for the costs associated with such expenditure;
- Current and future funding needs for both operating and capital expenditures;
- Potential movements in interest rates; and
- Any other strategic imperative such as development of local economy that is linked to revenue and expenditure capacities (for example, sealing of major freight routes servicing commercial sector).

11.1 Current Long-Term Borrowings

At the end of 2020/2021 Financial Year, Council has five (5) outstanding fixed rates long-term borrowings with a total value of \$2.297m. **Table 11** below shows the details of the outstanding long-term borrowings.

Table 11: Outstanding Long-term Loans as at 30 June 2021 (\$'000)

| Purpose of the Loan | Amount | To be repaid on |
|--|--------------|-----------------|
| Gawler River Scheme - Flood Plain Management | 44 | 15/01/2022 |
| To purchase community land in Mallala | 19 | 15/05/2022 |
| Resource Recovery shed and Ruskin Shannon Rd Development | 38 | 15/06/2022 |
| Funding Mallala Depot Construction and Other Capital Program | 384 | 16/04/2022 |
| Council investment in Mallala CWMS | 1,812 | 15/06/2036 |
| Total outstanding long-term loans | 2,297 | |

11.2 New borrowings for 2021/2022 Financial Year

An operating deficit means, Council is spending more than what it generates as income in delivering services to the community. In addition, Council has loan obligations to pay as well as the need to fund new and upgraded assets. Therefore, if the Council decides to continue the same level of service and draft operating/capital project program as included in this report with an average rate increase of 2.25%, it has to borrow \$2.741m as summarised in the **Table 12** below. Out of the new borrowings;

- \$1.145m will be used to fund Council's co-contribution State Government's LGIPP;
- \$0.235m will be used to fund Council's co-contribution required under Building Better Regions Fund and Open Space and Places for People Funding if the funding application is successful;
- \$0.844m will be spent on other new/upgraded assets (**Table 9**) across the Council district;
- \$0.507m will be allocated for loan repayments; and
- \$0.010 will be allocated for other day-to-day Council's operations.

While the maximum amount to be borrowed is \$2.741m, the timing of the actual borrowings would depend on the progress of the operating and capital projects program. Local Government Finance Authority has made available convertible cash advance debenture of 3 years for LGIPP funded projects at a concessionary rate of 1.30% to a maximum limit of \$1.238m.

Table 12: Funding Shortfall for 2021/2022 (\$'000)

| Description | Amount |
|---|---------|
| Cash shortfall due to Operating Deficit | (219) |
| Cash injection from sale of surplus/replaced assets | 67 |
| Share of loss - joint ventures & associates (non-cash transactions) | 63 |
| To fund capital Program - Money available through depreciation | 2,862 |
| - Proposed assets renewal expenditure | (2,917) |

| | |
|--|----------------|
| - Proposed new capital expenditure | (3,334) |
| Grants specifically for new or upgraded assets | 1,245 |
| Loan Repayment | (507) |
| Total funding shortfall | (2,741) |

Interest expenses associated with new borrowings is approximately \$0.050m.

12. Rating Structure and Policy

12.1 What are Rates?

Rates are levied as a tax on property in accordance with the provisions of the Local Government Act. Rates are not a service or user charge. For example, some property owners may choose to not use the library, but nevertheless make a contribution to the service through their rates. Because rates are levied on the value of property, those in higher valued properties pay more in rates than those in lower valued properties.

General Rates are the principal source of funding for Council services representing approximately 74% of total operating income in 2021/2022 and 2020/2021 Financial Years.

12.2 Strategic Focus

In adopting its rates for the 2021/2022 Financial Year, Council will consider its *Strategic Plan 2017-2020*, the current economic climate, specific issues faced by the community, the budget requirements for the 2021/2022 Financial Year.

Land use categories as provided in the *Local Government (General) Regulations 1999* are used as the basis of Council's general rate calculation.

12.3 Method Used to Value Land

All land within a council area, is rateable, except for land specifically exempt e.g. Crown land, council occupied land. Council continues to use capital value as the basis for valuing land within the council area. Council considers that this method of valuing land provides the fairest method of distributing the rates across all ratepayers because:

- Property value is a relatively good indicator of market value of a property, providing the fairest method of calculating rates and therefore, it is the most appropriate measure of relative wealth in the community;
- As a measure of wealth it most closely reflects property owners' the capacity to pay; and
- It accords with the taxation principle, that people should contribute to the community social and physical infrastructure, in accord with their capacity to pay, as measured by property wealth.

Other valuation methods available are site value (value of land only) and annual value (value of rental potential of property). These are not considered appropriate with regard to Adelaide Plains Council.

Council will be adopting the valuations made by the Valuer-General and which are applicable for the financial year commencing 1 July 2021. If a property owner is dissatisfied with a property valuation, then an objection may be made to the Valuer-General in writing, within 60 days of receiving notice of the valuation, explaining the basis for the objection. Further contact details can be obtained from Council's Rates Officer on (08) 8527 0200. *It is important to note that Council has no role in the valuation process.*

12.4 Impact of Rates

General Council rates of a property are determined by two factors:

- valuation of a property as determined by the Valuer of General of South Australia; and
- rates in the dollar specific to land use code (LUC) of the property which is determined by the Council.

The following tables outline these factors:

Rates in the dollar - As determined by the Council for the past 5 years;

Increase in the rate in the \$ - Annual increase in the rate in the \$; and

relativity - This shows the relationship between various LUCs where rate in the dollar applicable to commercial and industrial properties is 30% more than that of residential properties and for primary producers it's 9% less than residential properties.

Table 13: Rates information for the past five (5) financial years and proposed for 2021/2022

| Land Used | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/022 |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Residential, Vacant Land & Other | 0.00452 | 0.00463 | 0.00463 | 0.00463 | 0.00458 | 0.00450 |
| Commercial & Industrial | 0.00587 | 0.00602 | 0.00602 | 0.00602 | 0.00596 | 0.00585 |
| Primary Production | 0.00411 | 0.00421 | 0.00421 | 0.00421 | 0.00417 | 0.00409 |
| Fixed Charge | 100.00 | 102.50 | 105.06 | 108.21 | 110.00 | 112.00 |

Change in the Rate in the dollar (%)

| Land Used | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 |
|----------------------------------|-------|-------|-------|-------|--------|--------|
| Residential, Vacant Land & Other | 3.40 | 2.50 | 0.00 | 0.00 | (1.00) | (1.75) |
| Commercial & Industrial | 3.40 | 2.50 | 0.00 | 0.00 | (1.00) | (1.75) |
| Primary Production | 3.40 | 2.50 | 0.00 | 0.00 | (1.00) | (1.75) |
| Fixed Charge increase | 0.00 | 2.50 | 2.50 | 3.00 | 1.65 | 1.82 |

Relativity

| Land Used Code | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 |
|----------------------------------|-------|-------|-------|-------|-------|-------|
| Residential, Vacant Land & Other | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Commercial & Industrial | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| Primary Production | 0.91 | 0.91 | 0.91 | 0.91 | 0.91 | 0.91 |

Rates Modelling – Property Valuation

An extract from the latest property valuation data (11 April 2021) available from Valuer General (VG) is given below in **Table 14** in comparison to similar information as of 30 June 2020.

Table 14: An Extract from latest valuation data from the VG

| Description | 11 April 2021 | 30 June 2020 |
|--|---------------|--------------|
| Increase in number of properties through sub-division | 226 | 173 |
| Sub-Division Growth (valuation increase) - \$'Mn | 34 | 24 |
| Building Development Growth (valuation increase) - \$'Mn | 1 | 54 |
| Total Development Growth - \$'Mn | 35 | 78 |
| Total Development Growth - % | 2.07 | 2.04 |
| Increase in Rates income due to Development Growth - \$'Mn | 0.214 | 0.197 |
| Increase in Rates income due to Development Growth - % | 2.23 | 2.15 |
| Natural Growth (valuation increases due to reasons other than development) - % | 4.43 | 1.86 |

A summary of movement in number of properties and the property valuation is given below based on most recent valuation data from the Valuer General.

Table 15: Movement in Number of Properties and Property Valuation (11 April 2021)

| Land Use | 2020/2021 FY | | 2021/2022 Financial Year (Valuation as at 11 April 2021) - Inclusive of Growth | | | | | | | Total No of Properties | Total District Valuation (\$Mn) |
|------------------------------------|------------------|---------------------------------|--|--|---|----------------------|-------------------------------|---|-------|------------------------|---------------------------------|
| | No of Properties | Total Property Valuation (\$Mn) | No. of Existing Assessments | Total Existing Properties Valuation (\$Mn) | % Increase in existing properties valuation | No of New Properties | New Property Valuation (\$Mn) | % increase in valuation due to new properties | | | |
| Residential (Excl. Eden) | 2,959 | 1,020 | 2,964 | 1,068 | 0.05 | 3 | 1 | 0.09% | 2,967 | 1,069 | |
| Commercial | 26 | 6 | 27 | 6 | (0.01) | - | - | 0.00% | 27 | 6 | |
| Commercial - Other | 75 | 29 | 77 | 29 | (0.02) | - | - | 0.00% | 77 | 29 | |
| Industry - Light | 6 | 1 | 6 | 1 | 0.02 | - | - | 0.00% | 6 | 1 | |
| Industry - Other | 17 | 16 | 15 | 16 | (0.01) | - | - | 0.00% | 15 | 16 | |
| Primary Production | 1,403 | 815 | 1,398 | 847 | 0.04 | 10 | 3 | 0.43% | 1,408 | 850 | |
| Vacant Land (Excl. Eden & Liberty) | 464 | 65 | 461 | 66 | 0.01 | 56 | 11 | 17.25% | 517 | 77 | |
| Other | 53 | 13 | 53 | 13 | 0.02 | - | - | 0.00% | 53 | 13 | |
| Vacant Land - Eden | 34 | 10 | 27 | 8 | (0.23) | 77 | 14 | 137.06% | 104 | 22 | |
| Residential - Eden | 100 | 45 | 106 | 48 | 0.07 | 3 | 0 | 1.08% | 109 | 49 | |
| Vacant Land - Liberty | 42 | 11 | 31 | 10 | (0.10) | 77 | 12 | 103.76% | 108 | 22 | |
| Residential - Liberty | 27 | 8 | 38 | 11 | - | - | - | - | 38 | 11 | |
| All Land Use Codes | 5,206 | 2,040 | 5,203 | 2,122 | 0.04 | 226 | 42 | 2.07% | 5,429 | 2,165 | |

Rates Modelling – Options to consider

Given a significant increase in 'Natural Growth', to achieve a 2.26% increase in average rates as recommended by the Audit Committee (**Option 2**), a reduction in rate in the dollar by 1.75% will be applied in the rates modelling calculations.

Alternatively, if the Council wish to reduce the reliance on borrowings to deliver new/upgraded assets program, it can do so by increasing the average rate by more than 2.26%. Given below are some of the options that the Council can consider.

For example, a 1.28% increase in average rate (Option 1) would reduce the rate income by \$0.097m that may need to be funded from new borrowings if not matched by similar reduction in operating expenses. However, a 3% increase in average rates (Option 3) would generate an additional income of \$0.072m that could be allocated to the delivery of new/upgraded assets program reducing the need to rely on borrowed funds.

Table 16: Rates modelling – Options to consider

| Description | Option 1 | Option 2 | Option 3 |
|--|--------------|---------------|---------------|
| Reduce Rate in the \$ by | 2.75% | 1.75% | 1.00% |
| Increase in Fixed Charge \$ | 112.00 | 112.00 | 112.00 |
| Land Use Category | Option 1 | Option 2 | Option 3 |
| Residential Properties | 1.35 | 2.33 | 3.06 |
| Commercial | (4.42) | (3.52) | (2.85) |
| Commercial - Other | (4.86) | (3.93) | (3.23) |
| Industry - Light | (0.51) | 0.45 | 1.17 |
| Industry - Other | (1.49) | (0.49) | 0.26 |
| Primary Production | 1.45 | 2.46 | 3.21 |
| Vacant Land | (1.06) | (0.17) | 0.50 |
| Other | (0.67) | 0.26 | 0.96 |
| Average Rate Increase for all properties | 1.26 | 2.25 | 2.98 |
| % of ratepayers with less than 2.00% increase in rates | 54% | 41% | 33% |
| Total Rates Income (\$'000) | 9,931 | 10,028 | 10,100 |
| Increase/(reduction) in Income (\$'000) | (97) | - | 72 |

Table 17 below shows the impact on average rate based on Option 2.

Table 17: Average Existing Rates (Inclusive of building developments on existing properties)

| Land Use | 2020/2021 (\$) | 2020/2021 (\$) | Increase (%) |
|---------------------------|----------------|----------------|--------------|
| Residential | 1,703 | 1,743 | 2.33 |
| Commercial | 1,358 | 1,311 | (3.52) |
| Commercial - Other | 2,370 | 2,277 | (3.93) |
| Industry - Light | 1,479 | 1,485 | 0.45 |
| Industry - Other | 6,262 | 6,231 | (0.49) |
| Primary Production | 2,504 | 2,565 | 2.46 |
| Vacant Land | 833 | 832 | (0.17) |
| Other | 1,223 | 1,226 | 0.26 |
| All Land Use Codes | 1,845 | 1,886 | 2.25 |

Actual rate rises

As Council rate is determined by multiplying capital value of the property (decided by the VG) by the rate in the dollar (decided by the Council) applicable to the property, average rate calculated above does not show the actual general rate rises. Actual rate rises is also determined by a combination of other factors such as;

- a) development/improvement on the land resulting value of the property being increased,
- b) general valuation increase/decrease by VG due to market conditions.

For example, **Figure 5** below shows that under **option 2** of rate modelling;

- a) 29% of the properties will have their rates being reduced next year;
- b) 1% of the properties will have their rates remained unchanged;
- c) 11% of the properties will have their rates increased by less than 2.00%;
- d) 12% of the properties, will have their rate increase would be between 2% and 3%;
- e) 25% of the properties, will have their rate increase would be between 3% and 5%;
- f) 11% of the properties, will have their rate increase would be between 5% and 7.5%;
- g) 4% of the properties, will have their rate increase would be between 7.5% and 10%;
- h) 3% of the properties will have their rates gone up by more than 10.00%.; and
- i) 4% new assessments have been created for the next financial year.

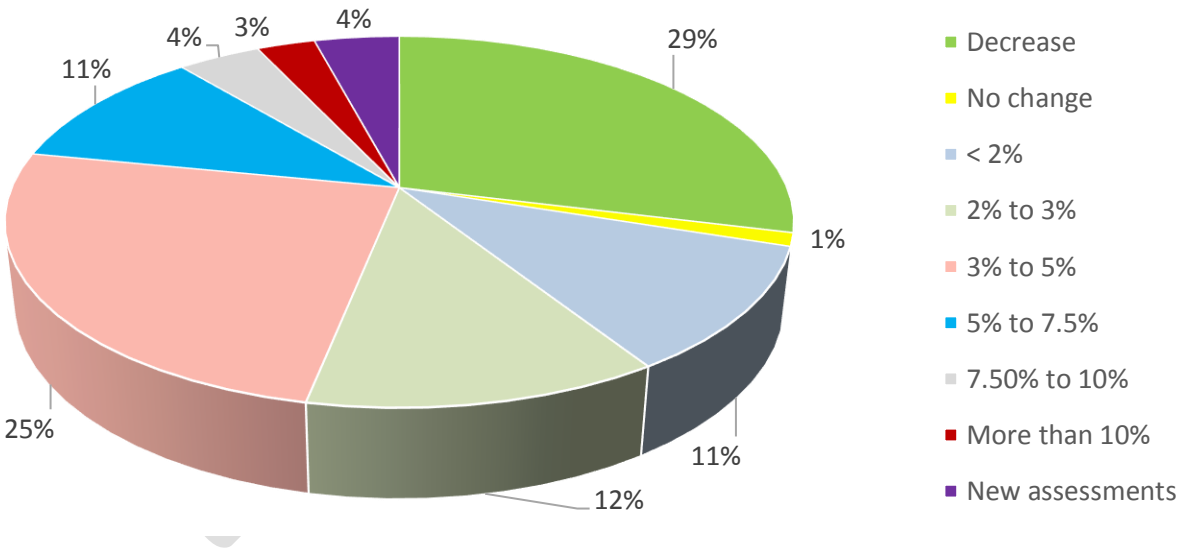


Figure 5: Breakdown of General Rates Increase by Percentage (incl. development growth)

12.5 Differential General Rates

Every resident will benefit from the general amenity of the Council area in some way, whether that is at the present time or in the future. The amenity includes the local economy, general Council operations and the option to use Council facilities.

It is acknowledged that the system of council rates is in essence a system of taxation against property prescribed through the provisions of the Local Government Act. However, Council has assessed that the level of differential rating imposed is governed in part by the ability to

pay, the potential for income tax deductions and the perception of accessibility or useability of council services by the residents and consumers. To this end, Council has determined the following.

Commercial Properties

Commercial properties generally have available to them, their employees and customers the same services as other ratepayers. However, in most cases commercial users have a greater impact on the main services such as road maintenance and generally derive a greater benefit from the services provided. In addition, commercial properties have potential taxation benefits.

Industrial Properties

Industrial properties generally have available to them, their employees and customers the same services as other ratepayers. However, in most cases industrial users have a greater impact on the main services such as road maintenance and generally derive a greater benefit from the services provided, particularly where, for example, large amounts of raw or unrefined product is delivered to site for processing utilising Council's infrastructure. Similar to commercial properties, industrial properties have potential taxation benefits.

Primary Production Properties

Primary Production properties tend to be more remote from some of the services provided by Council. In terms of infrastructure adjacent to their properties, they may not have sealed or formed roads, footpaths or street lighting. However they do have capacity to enjoy the formed roads, footpaths or street lighting and enjoy the same level of amenity as other residents of the Council area. Primary production properties also have potential taxation benefits.

12.6 Fixed Charge

A council may impose a fixed amount payable by way of rates, provided that it has not imposed a minimum charge. Where two or more adjoining properties have the same owner and are occupied by the same occupier, only one fixed charge is payable by the ratepayer.

In 2021/2022 the fixed charge is proposed to increase from \$110 to \$112. This will be applicable to approximately 4,994 rateable properties. Council considers it appropriate that all rateable properties make a base level contribution to the cost of administering Council's activities and to the cost of creating and maintaining the physical infrastructure that supports each property.

12.7 Regional Landscape Levy

The whole of the Council area is located within the boundaries of the Northern & Yorke Natural Resource Management Board. An estimated contributions of \$0.193m are sought for 2021/2022 Financial Year (\$0.188m in 2020/2021). Council is operating as a revenue collector for the Northern & Yorke Natural Resource Management Board in this regard. It does not retain this revenue or determine how the revenue is spent.

12.8 Service Charges

Community Wastewater Management System (CWMS)

Mallala CWMS Charge

Mallala CWMS charges is proposed to increase from \$640 to \$659 (3% increase) in 2021/2022 in order to cover the costs associated with full operation of the scheme including maintenance and loan interest payments. The estimated income in **Table 13** below was calculated based on a CWMS charge of \$659 per connection but notwithstanding this, the total income is not sufficient to cover the estimated operating costs for 2021/2022 Financial Year by \$0.155m.

Middle Beach CWMS Charge

In relation to the Middle Beach Scheme, the CWMS charge for both “small tank” and “large tank” is to increase from \$430 to \$443, an increase of 3%.

Notwithstanding above service fee increase, the income generated for Mallala CWMS is not sufficient to cover its operating expenses as shown below in **Table 12** and not compliant with National Water Initiative Pricing Principles and Essential Services Commission’s (ESCOSA) price determination that is applicable to CWMS. Therefore, Council is planning to gradually increase Mallala CWMS service charge over several years in order to comply with ESCOSA.

Table 18: CWMS Budget for 2021/2022 (\$'000)

| Description | Mallala | Middle Beach |
|---|--------------|--------------|
| CWMS service charges (345 connections X \$659 per connection) | 227 | |
| CWMS service charges (52 connections X \$443 per connection) | | 23 |
| Less : CWMS Rebates | (10) | - |
| Total Income | 217 | 23 |
| Less : Operating Expenses | | |
| Depreciation | 125 | 5 |
| Salaries and Wages | 16 | - |
| Interest Payments - CWMS Loan | 80 | - |
| Consultants | 10 | - |
| Consumables and Hardware | 9 | 1 |
| Contractors | 82 | 7 |
| Electricity | 28 | 6 |
| Insurance | 9 | 1 |
| ESCOSA Licence Fee | 2 | - |
| Materials | 10 | - |
| Other Expenses | 1 | 1 |
| Total Expenses | 372 | 21 |
| Net Operating Surplus/(Deficit) | (155) | 2 |

Kerbside Waste Collection Program

Council provides a three bin refuse collection service (Domestic Waste, Recycling and Organic) within the townships of Mallala, Two Wells and Dublin and a two bin refuse collection service (Domestic Waste and Recycling) in rural and coastal settlement areas. The service is provided to those ratepayers in Council's area that are able to access the service along the designated collection routes. In addition, Council provides a weekly service in which all public bins (street, parks and reserves and sporting club bins) within the district are emptied to ensure the continued ambience of public space.

Council has engaged a contractor to carry out kerbside waste collection since February 2018. Outsourcing this service has resulted in a 30% reduction in waste levy from \$180.00 in 2017/2018 Financial Year to \$126.00 in 2018/2019 Financial Year. However, since then, there has been a considerable increase in the disposal costs of waste and recyclables mainly due to changes in the Australian waste collection market following dramatic cuts to the volumes of waste China imports from the rest of the world since January 2018.

In addition, there was a substantial increase in Solid Waste Levy by the South Australian government from 1 July 2019 (Waste levy applicable to Adelaide Plains Council has increased from \$55 per tonne from 1 July 2019 to \$71.50 per tonne from 1 July 2020) which has resulted in a significant increase in Council's Waste Levy for 2020/2021. This upward trend in waste disposal costs is expected to continue in to 2021/2022 Financial Year.

Kerbside Waste Collection Charges

For 2021/2022 Financial Year, it is estimated that the total cost of the kerbside waste collection program is expected to be increased by 4.30% mainly due to increase cost of recyclables disposal. Therefore, the annual waste collection service charge is expected to increase from \$160 to \$167. Accordingly, following waste collection charges are proposed for next financial year.

Table 19: Proposed Waste Collection Service Charge for 2021/2022 (\$'000)

| Waste Service Description | Annual Waste Levy (\$) |
|--|------------------------|
| Standard 3-bin or 2-bin waste Service | 167 |
| Additional Organic Bin | 72 |
| Additional Recycle Bin | 55 |
| Additional General Waste Bin | 80 |
| Waste Service 1 (distance to pick up point) - 25% discount | 125 |
| Waste Service 2 (distance to pick up point) - 50% discount | 83 |

Where the service is provided to rebated land, a service charge is still levied against the land.

Some residents may have to utilise one of 21 collection points to have their bin emptied as the waste collection truck does not traverse all roads in the district. Those residents are entitled to the following waste levy reductions if the resident's collection point is greater than 500 metres from the access point to their land:-

1. If greater than 500 metres but no more than 2 kilometres from the resident's access point to their land, 75% of the annual levy is charged;
2. If greater than 2 kilometres but less than 5 kilometres, 50% of the annual levy is charged;
3. If 5 kilometres or more from the resident's access point to their land, no annual levy is charged.

12.9 Mandatory Township Kerbside Waste Collection Charges

The waste levy is mandatory for properties located within the townships of Mallala, Two Wells and Dublin.

12.10 Payment of Rates

Under section 181 of the Local Government Act, Council must provide the opportunity for all ratepayers to pay rates by quarterly instalments. Council payment dates for the 2021/2022 Financial Year will be 3 September 2021, 3 December 2021, 4 March 2022 and 3 June 2022.

Late Payment of Rates

The Local Government Act provides that Council may impose an initial penalty of 2% on any payment for rates, whether by instalment or otherwise, that is received late. A payment that continues to be late is then charged an interest rate, set each year according to a formula in the Act, for each month it continues to be late. Council allows a further three working days after the due date for payment as a grace period. Thereafter late payment penalties are applied in accordance with the Local Government Act.

Council issues a final notice for payment of rates when rates are overdue i.e. unpaid by the due date. Should rates remain unpaid more than 28 days after the issue of the final notice, then Council will refer the debt to their debt collection agency for collection. All Court costs incurred by Council in the recovery of outstanding rates and fines are payable by the ratepayer. When Council receives a payment in respect of overdue rates, Council applies the money received as follows:

- i. firstly – in payment of any costs awarded to, or recoverable by, the Council in any court proceedings undertaken by the Council for the recovery of the rates;
- ii. secondly – in satisfaction for any liability for interest;
- iii. thirdly – in payment of any fine;
- iv. fourthly – in satisfaction of liabilities for rates in the order in which those liabilities arose in payment of rates, in date order of their imposition (starting with the oldest account first).

12.11 Remission and Postponement of Rates

Postponement of Rates - Hardship

Section 182 of the Local Government Act permits Council, on the application of the ratepayer, to partially or wholly remit rates or to postpone rates, on the basis of hardship. Where a ratepayer is suffering hardship in paying rates they are invited to contact Council's Rates Officer, on (08) 8527 0200 to discuss the matter. Such enquiries are treated confidentially by Council.

Seniors Rate Postponement

Section 182A of the Local Government Act provides the option for State Senior Card holders to apply to postpone part of their council rates on a long term basis. The deferred amount is subject to a monthly interest charge, with the accrued debt being payable on the disposal or sale of the property. Postponement is similar to a reverse mortgage by relying on the equity in the property. A ratepayer who has a State Seniors Card may apply for postponement of a portion of the council rates payable on property they own if it is their principal place of residence and if no other person other than their spouse has an interest as owner of the property and there is appropriate equity in the property. Further information can be obtained from Council's Rates Officer on (08) 8527 0200.

12.12 Rebate of Rates

The Local Government Act requires councils to rebate the rates payable for certain land uses. This includes a 100% rate rebate granted on places of worship, public cemeteries, hospitals and land occupied by universities, and 75% rate rebates have been granted on educational facilities (subject to some qualifications).

Discretionary rebates may be applied by the Council under section 166 of the Local Government Act. Council annually considers many applications for rate rebates and has in the past, and is again for the 2021/2022 Financial Year, has rebated rates charged to various district community and sporting organisations.

12.13 Sale of Land for Non-Payment of Council Rates

The Local Government Act provides that a council may sell any property where the rates have been in arrears for three years or more. The Council is required to provide one (1) month's notice to the principal ratepayer and the owner (if not the same person) of the land of its intention to sell the land and provide the owner with details of the outstanding amounts. If payment of the outstanding amount is not received within one month the property may be sold. Except in extraordinary circumstances, Council enforces the sale of land for arrears of rates, in accordance with the Local Government Act.

13. Budgeted Financial Statements

Budgeted financial statements for the 2021/2022 Financial Year are given below.

| ADELAIDE PLAINS COUNCIL | |
|---|---------------|
| BUDGETED STATEMENT OF COMPREHENSIVE INCOME FOR 2021/2022 | |
| INCOME | \$'000 |
| Rates | 10,880 |
| Statutory charges | 496 |
| User charges | 170 |
| Grants, subsidies and contributions | 1,894 |
| Investment Income | 3 |
| Reimbursements | 126 |
| Other Income | 23 |
| TOTAL INCOME | 13,592 |
| EXPENSES | |
| Employee Costs | 5,506 |
| Materials, contracts and other services | 4,607 |
| Depreciation, Amortisation & Impairment | 2,731 |
| Finance Costs | 72 |
| Share of loss - joint ventures & associates | 63 |
| TOTAL EXPENSES | 12,979 |
| OPERATING SURPLUS / (DEFICIT) | 613 |
| Net Cost of the CWMS (Mallala & Middle Beach) | (153) |
| Net Operating Project Expenses | (679) |
| OPERATING SURPLUS / (DEFICIT) | (219) |
| Asset Disposal & Fair Value Adjustments | 67 |
| Amounts specifically for new or upgraded assets | 1,245 |
| Physical resources received free of charge | 2,000 |
| NET SURPLUS (DEFICIT) | 3,093 |
| OTHER COMPREHENSIVE INCOME | |
| Changes in assets revaluation surplus | 1,500 |
| TOTAL COMPREHENSIVE INCOME | 4,593 |

ADELAIDE PLAINS COUNCIL
BUDGETED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

| | \$'000 |
|---|----------------|
| ASSETS | |
| Current Assets | |
| Cash and cash equivalents | 306 |
| Trade & other receivables | 1,031 |
| Inventories | 154 |
| Total Current Assets | 1,491 |
| Non-Current Assets | |
| Financial Assets (Investment in GRFMA) | 5,928 |
| Infrastructure, Property, Plant and Equipment | 124,385 |
| Other Non-current Assets | 14 |
| Total Non -Current Assets | 130,327 |
| Total Assets | 131,818 |
| LIABILITIES | |
| Current Liabilities | |
| Trade & Other Payables | 1,353 |
| Borrowings | 3,216 |
| Provisions | 1,009 |
| Total Current Liabilities | 5,578 |
| Non-current Liabilities | |
| Borrowings | 1,767 |
| Provisions | 220 |
| Total Non-current Liabilities | 1,987 |
| Total Liabilities | 7,565 |
| NET ASSETS | 124,253 |
| EQUITY | |
| Accumulated Surplus | 40,834 |
| Asset Revaluation Reserve | 81,130 |
| Other Reserves | 2,289 |
| TOTAL EQUITY | 124,253 |

ADELAIDE PLAINS COUNCIL
BUDGETED STATEMENT OF CASH FLOWS FOR 2021/2022

\$'000

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts

| | |
|--|--------|
| Rates - general & other | 11,120 |
| Fees & other charges | 496 |
| User charges | 170 |
| Investment receipts | 3 |
| Grants utilised for operating purposes | 2,029 |
| Reimbursements | 126 |
| Other revenues | 23 |

Payments

| | |
|---------------------------------------|---------|
| Employee costs | (5,522) |
| Materials, contracts & other expenses | (5,587) |
| Finance payments | (153) |

| | |
|---|--------------|
| Net Cash provided by (or used in) Operating Activities | 2,705 |
|---|--------------|

CASH FLOWS FROM INVESTING ACTIVITIES

Receipts

| | |
|--|-------|
| Grants specifically for new or upgraded assets | 1,245 |
| Sale of replaced assets | 67 |

Payments

| | |
|--|---------|
| Expenditure on renewal/replacement of assets | (2,917) |
| Expenditure on new/upgraded assets | (3,334) |

| | |
|---|----------------|
| Net Cash provided by (or used in) Investing Activities | (4,939) |
|---|----------------|

CASH FLOWS FROM FINANCING ACTIVITIES

Receipts

| | |
|------------------------------|-------|
| Proceeds from New Borrowings | 2,741 |
|------------------------------|-------|

Payments

| | |
|--------------------------|-------|
| Repayments of Borrowings | (507) |
|--------------------------|-------|

| | |
|---|--------------|
| Net Cash provided by (or used in) Financing Activities | 2,234 |
|---|--------------|

| | |
|---|------------|
| Net Increase (Decrease) in cash held | (0) |
|---|------------|

| | |
|--|-----|
| Cash & cash equivalents at beginning of period | 306 |
|--|-----|

| | |
|---|------------|
| Cash & cash equivalents at end of period | 306 |
|---|------------|

ADELAIDE PLAINS COUNCIL
BUDGETED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2021

| | \$'000 |
|--|----------------|
| ACCUMULATED SURPLUS | |
| Balance at end of previous reporting period | 37,741 |
| Net Result for Year | 3,093 |
| Balance at end of period | 40,834 |
| ASSET REVALUATION RESERVE | |
| Balance at end of previous reporting period | 79,630 |
| Gain on revaluation of infrastructure, property, plant & equipment | 1,500 |
| Balance at end of period | 81,130 |
| OTHER RESERVES | |
| Balance at end of previous reporting period | 2,289 |
| Balance at end of period | 2,289 |
| TOTAL EQUITY AT END OF REPORTING PERIOD | 124,253 |

ADELAIDE PLAINS COUNCIL
BUDGETED UNIFORM PRESENTATION OF FINANCES FOR 2021/2022

| | \$'000 |
|---|-----------------|
| Operating Revenues | 13,967 |
| <i>less</i> Operating Expenses | (14,186) |
| Operating Surplus / (Deficit) before Capital Amounts | (219) |
| <i>less</i> Net Outlays on Existing Assets | |
| Capital Expenditure on renewal and replacement of Existing Assets | 2,917 |
| <i>less</i> Depreciation, Amortisation and Impairment | (2,862) |
| <i>less</i> Proceeds from Sale of Replaced Assets | (67) |
| | (12) |
| <i>less</i> Net Outlays on New and Upgraded Assets | |
| Capital Expenditure on New and Upgraded Assets | 3,334 |
| <i>less</i> Amounts received specifically for New and Upgraded Assets | (1,245) |
| | 2,089 |
| Net Lending / (Borrowing) for Financial Year | (2,297) |

14. How to Measure Council Performance

Council's success is measured by the achievement of the strategic objectives outlined in the *Strategic Plan 2017-2020*, which also identifies the desired outcomes expected from the strategic objectives. In addition to the strategic outcomes, Council also measures its achievements through the following non-financial and financial Indicators.

Non-Financial Indicators

To ensure that Council delivers on the strategic objectives set out in the *Strategic Plan 2017-2020* and *Annual Business Plan*, it is paramount that annual budget activities and projects are completed on time while delivering project outcomes as planned. Therefore, the progress of the activities and projects will be closely monitored to ensure that there will be no project delays and budget overruns.

Financial Indicators

When evaluating activities undertaken during any given financial year, Council considers a number of factors, one being its future financial sustainability.

A series of financial indicators have been developed by the local government sector to assist in determining whether a council is financially sustainable or moving to a position of financial sustainability.

Financial indicators which are used by the Council to measure performance and financial sustainability as recommended by the Model Financial Statements approved by the Minister for Local Governments and Local Government Association of South Australia are:-

1. Operating Surplus Ratio - Desired level is 0% and 10% on average over long term;
2. Asset Sustainability Ratio - Desired level is greater than 90% but less than 110% on average over long term; or
3. Net Financial Liabilities Ratio- Desired level is greater than 0% but no more than 100% on average over long term.

Operating Surplus/ (Deficit) Ratio

Council's long term financial sustainability is dependent upon ensuring that, on average over time, its operating income is higher than operating expenses (i.e. an operating surplus).

The operating surplus ratio is the operating surplus (deficit) expressed as a percentage of operating income. A positive ratio indicates the percentage of operating income available to help fund planned capital expenditure. A negative ratio indicates the percentage increase in operating income or the approximate decrease in operating expenses required to achieve a break-even operating result.

Figure 6 below shows Adelaide Plains Council’s operating results and Operating Surplus/(Deficit) Ratio since 2015/2016 Financial Year. Accordingly it has reported an operating deficit throughout the period, except for in two (2) financial years.

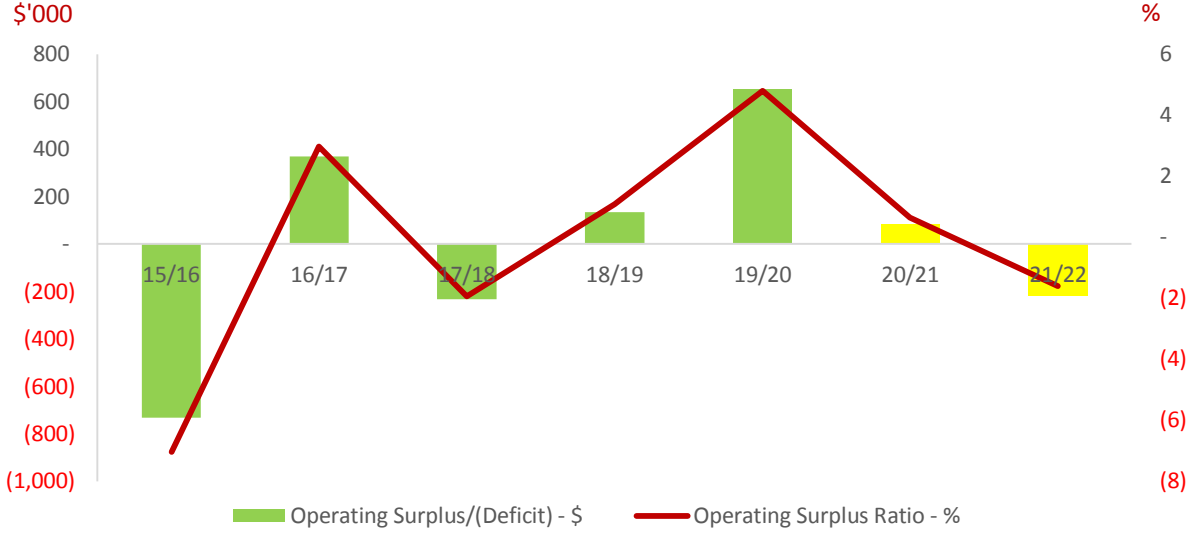


Figure 6: Operating Surplus/ (Deficit) Ratio

Asset Sustainability Ratio

Asset Sustainability Ratio measures whether Council is renewing or replacing existing physical assets (roads, footpaths, stormwater drainage, buildings, plant and equipment and furniture and fittings etc.) at the same rate the stock of these assets is wearing out. The ratio is calculated by measuring actual capital expenditure on renewal or replacement of assets, relative to the expenditure on renewal or replacement of assets as per Council’s Infrastructure and Asset Management Plan.

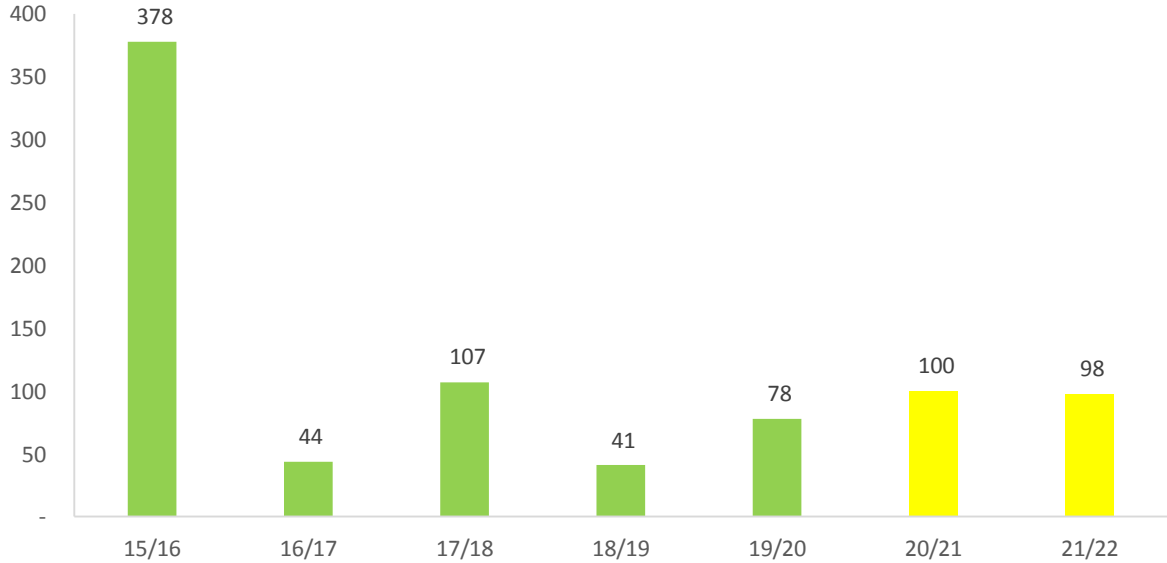


Figure 7: Asset Sustainability Ratio (%)

Net Financial Liabilities Ratio

This ratio indicates the extent to which the net financial liabilities of Council or its total indebtedness can be met by Council’s total operating revenue. Net financial liabilities measure a council’s indebtedness. It is a broader measure than net debt as it includes all of a council’s obligations including provisions for employee entitlements and creditors.

The net financial liabilities ratio is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating income for the year. Net financial liabilities equals total liabilities less financial assets where financial assets include cash, investments, and loans to community groups, receivables and prepayments. Where the ratio is increasing, it indicates a greater amount of a council’s operating revenues is required to service its financial obligations.

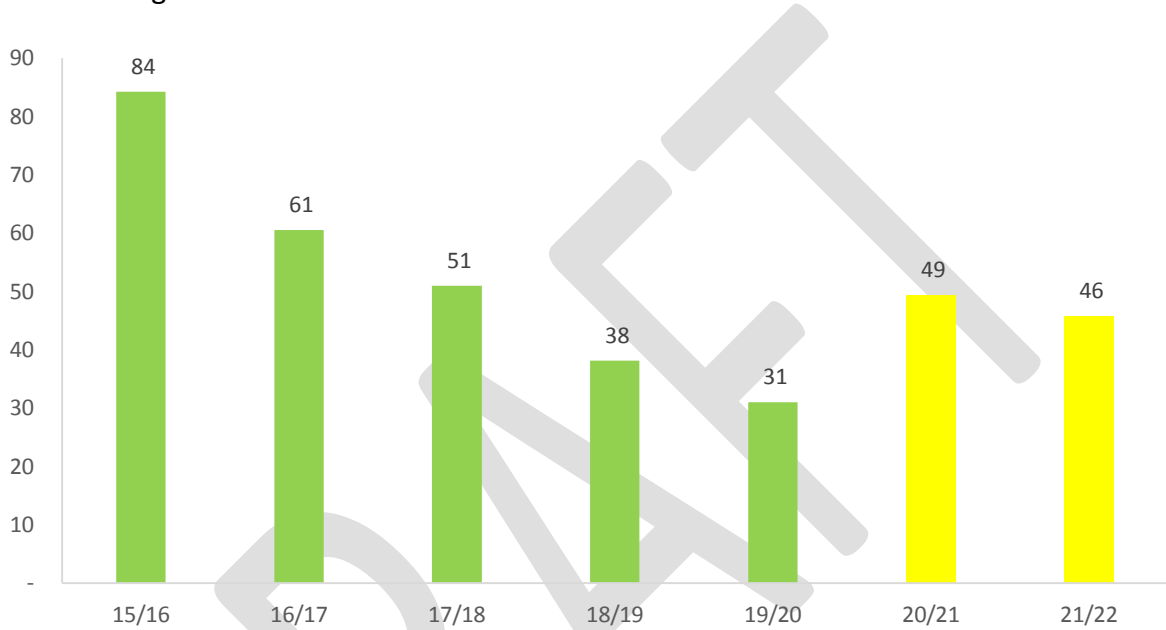


Figure 8: Net Financial Liabilities Ratio (%)

Rajith Udugampola

From: info@apc.sa.gov.au
Sent: Tuesday, 4 May 2021 8:30 PM
To: Info

Contact Details

Firstname: Chris
Surname: Scanlon
Email: [REDACTED]
Mobile: [REDACTED]
Home phone:
Work phone:
Address line 1: PO Box 159
Address line 2:
Postcode: 5501
Suburb: Dublin

Request Form

Type of Request: After reading the budget plan for the next 12 months.also the proposal to borrow extra funds to seal the roads of thompson beach,parham and webb beach esplanades having been rejected. Could you please let me know what plans the council have to upgrade the roads of these beaches areas. Also what plans are in place to upgrade the existing assets within these areas. It would be great to have a councillor come to our meetings to keep residents informed of guaranteed commitments and not prposals that just get rejected at council meetings. Regards Chris scanlon

Address/Location of Request: PO Box 159

Action Requested: Improvments of roads and assets


Rajith Udugampola

From: info@apc.sa.gov.au
Sent: Tuesday, 25 May 2021 2:01 PM
To: Info
Subject: New Submission - Draft Annual Business Plan Feedback Form

Your Name: Greville Knight
Organisation (if Applicable): APRRA - President
Contact Number: [REDACTED]
Email Address: [REDACTED]

Feedback/Comments: Generally, the draft ABPnB reads well and aside from some copy and paste errors that have been carried over from the previous years doco, i.e. Page 33, 12.8 Table 13 should read Table 18 and associated texts clearly copied from the previous year save for some minor adjustments with 'dollar' amounts :-). Moving on, APRRA are very concerned regarding recent comments and agenda items upon the Mallala CWMS, Audit Committee, comments by Mayor Wasley 'we need to get this right', and most recently last night's Council Meeting. APRRA believe that there should be a formal investigation into where 'APC went wrong' with the Mallala CWMS and closer scrutiny of the costs and charges associated. Further increases beyond the ability of users to pay will be strongly opposed. Why should other ratepayers of Two Wells etc pay for my CWMS? Good Question and Well Asked, Greville. Quite simply, everybody is paying for the Two Wells Main Street Upgrade, the separate levy for Eden & Liberty parks, gardens and playgrounds disappeared, I doubt there would be a separate levy for sealing of our esplanades and coastal thoroughfares; in a nutshell, we are all in this together. Continuing this threatening mischievous suggestion of increasing the Mallala CWMS Levy to in excess of \$1200 over a period of 7-years will have a very negative effect on the Mallala Community and may well have already put Gracewood on the shelf.

Supporting Attachments: No file uploaded

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|  Adelaide Plains Council | 6.2 | Review of Audit Committee Terms of Reference |
| | Department: | Finance and Business |
| | Report Author: | General Manager - Finance and Business |
| Date: 7 June 2021 | Document Ref: | D21/24236 |

EXECUTIVE SUMMARY

- The purpose of this report is for the members of the Audit Committee (Committee) to make recommendations to Council in relation to the upcoming review of the Committee’s Terms of Reference.
- The Audit Committee’s current Terms of Reference was last adopted by the Council in April 2018.
- To ensure its relevance, a review was undertaken in June 2021 by the Management. Accordingly, no changes are proposed except for:
 - a) minor formatting changes;
 - b) Replaced the words ‘*Whistle Blowing*’ with the words ‘*Public Interest Disclosure*’
 - c) reference to Council’s recently adopted strategic management plan; and
 - d) changes to position titles based on current organisational structure.

RECOMMENDATION

“that the Audit committee, having considered Item 6.2 – *Review of Audit Committee Terms of Reference*, dated 7 June 2021, receives and notes the report and in doing so recommends that Council consider updated Terms of Reference as presented in Attachment 1 to this report at the time of reviewing Audit Committee’s Terms of Reference subject to the following:

- 1.**
- 2.”**

BUDGET IMPACT

| | |
|---------------------------------|-----------------|
| Estimated Cost: | Not Applicable |
| Future ongoing operating costs: | Not Applicable. |
| Is this Budgeted? | Not Applicable |

RISK ASSESSMENT

Not Applicable

Attachments

1. Marked-up version of the Audit Committee Terms of Reference.

DETAILED REPORT

Purpose

The purpose of this report is for the members of the Audit Committee to make recommendations to Council in relation to the upcoming review of the Committee's Terms of Reference.

Background/History

The Adelaide Plains Council's Audit Committee has been established under Section 41 of the Local Government Act 1999. According to the Section 126 of the Local Government Act 1999, the principal objective of the Audit Committee is to add value to and improve, the Adelaide Plains Council's operations, by assisting the Council to meet its legislative and probity requirements as required by the Local Government Act 1999 and other relevant Legislation, Standards and Codes.

Discussion

A review of the Audit Committee Terms of Reference has been conducted recently by the Council management and accordingly, no changes are proposed except for;

- a) minor formatting changes;
- b) Replaced the words '*Whistle Blowing*' with the words '*Public Interest Disclosure*'

Whistleblowers Protection Act 1993 was repealed 1 July 2019 and accordingly, Whistleblowers Policy was revoked by the Council on 22 August 2019. New Public Interest Disclosure Procedure was adopted by the Council at same meeting.

- c) reference to Council's recently adopted strategic management plan; and
- d) changes to position titles based on current organisational structure.

Independent Audit Committee Members

With regard to the independent Chairman and independent members of the Audit Committee, at the May 2021 Council meeting Elected Members resolved as follows:

14.4 Appointment of Independent Members to Council Audit Committee

*Moved Councillor Boon Seconded Councillor Maiolo **2021/191***

"that Council, having considered Item 14.4 – Appointment of Independent Members to Council Audit Committee, dated 24 May 2021, and in doing so extend the appointment of Mr Alan Rushbrook and Mr Peter Fairlie-Jones as an Independent Member of the Audit Committee until 30 June 2022."

CARRIED

14.4 Moved Councillor Lush Seconded Councillor Strudwicke 2021/192

“that Council, having considered Item 14.4 – Appointment of Independent Members to Council Audit Committee, dated 24 May 2021, appoints Mr Alan Rushbrook as the Independent Chairman of Council Audit Committee until 30 June 2022.”

CARRIED

Conclusion

Council’s Audit Committee Terms of Reference has been reviewed to provide an updated framework for the members of the Audit Committee to work on in discharging their duties and responsibilities.

References

Legislation

Section 126 (Audit committee) of the Local Government Act 1999

Section 128 (Auditor) of the Local Government Act 1999

Section 129 (conduct of audit) of the Local Government Act 1999


Section 130A (Other Investigations) of the Local Government Act 1999

Council Policies/Plans

Internal Financial Controls Policy

Audit Committee Annual Work Program 2020-2021

Current Audit Committee Terms of Reference

| | | |
|---|---|---|
|  | Audit Committee Terms of Reference | |
| | Adoption by Council: | 2018 TBC |
| | Resolution Number: | 2018/149 TBC |
| | Administered by: | General Manager - Finance and Economic Development Business |
| | Last Review Date: | 2018 2021 |
| | Next Review Date: | 2020 2022 |
| CM-TRIM DOC: | D18/12965D21/2423 7 | Strategic Focus Area: 4.5 Strategic and sustainable financial management Accountable & Sustainable Governance |

1. Establishment

- 1.1 Pursuant to Section 41 of the Local Government Act 1999 (the Act) and the Regulations thereunder, for the purposes of Section 126 of the Act, the Council maintains a Committee to be known as the Audit Committee (Committee).
- 1.2 The purpose of the Committee will be to monitor and assist Council in the effective implementation and conduct of its responsibilities for financial reporting, management of risk and maintaining a reliable system of internal controls. The Committee will enquire into and report to Council in respect of those matters conferred upon it, and as set out in these Terms of Reference.

2. Functions

Subject to compliance with all legislation, policies, plans and procedures of the Council, the functions of the Committee are as follows:

2.1 Financial Reporting

- 2.1.1 The primary objective of the Committee is to assist Council in the effective conduct of its responsibilities for financial reporting, management of risk and maintaining a reliable system of internal controls.
- 2.1.2 The Committee shall monitor the integrity of the financial statements of the Council, including its annual report, reviewing significant financial reporting issues and judgments which they contain.
- 2.1.3 The Committee shall review and challenge where necessary:
- 2.1.3.1 the consistency of, and/or any changes to, accounting policies;
 - 2.1.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;

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- 2.1.3.3 whether the Council has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- 2.1.3.4 the clarity of disclosure in the Council's financial reports and the context in which statements are made; and
- 2.1.3.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

2.2 Governance, Internal Controls and Risk Management Systems

The Committee shall:

- 2.2.1 ensure Council's compliance with legislative requirements, as well as use of best practice and Governance principles and guidelines;
- 2.2.2 keep under review the effectiveness of Council's internal controls and risk management framework;
- 2.2.3 review and recommend the approval, where appropriate, of statements to be included in the annual report concerning internal controls and risk management; and
- 2.2.4 understand the business of the Council to appreciate the risks it manages on a daily basis and to ensure that there are appropriate management plans to manage and mitigate identified business risks. This will include insurance matters, financial reporting, legal and regulatory compliance, business continuity, and statutory compliance. This can be facilitated by discussions with the Committee and external auditors and by presentations by management on how business risks are identified and managed.

2.3 Public Interest Disclosures ~~Whistle Blowing~~

- 2.3.1 The Committee shall review Council's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure these arrangements allow independent investigation of such matters and appropriate follow-up action.

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2.54 External Audit

The Committee shall:

- 2.54.1 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;
- 2.54.2 consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor;
- 2.54.3 oversee Council's relationship with the external auditor including, but not limited to:
 - 2.54.3.1 reviewing the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;

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- 2.54.3.2 reviewing the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;
 - 2.54.3.3 assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;
 - 2.54.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);
 - 2.54.3.5 monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
 - 2.54.3.6 assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditor on the audit committee's own internal quality procedures).
- 2.54.4 meet with the external auditor as required. The Committee shall meet the external auditor at least once a year, with or without management being present; to discuss the external auditor's report and any issues arising from the audit;
- 2.54.5 review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement;
- 2.54.6 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following;
- 2.54.6.1 a discussion of any major issues which arose during the external audit;
 - 2.54.6.2 any accounting and audit judgments; and
 - 2.54.6.3 levels of errors identified during the external audit.

The Committee shall also:

- 2.54.7 review the effectiveness of the external audit.
- 2.54.87 review any representation letter(s) requested by the external auditor.
- 2.54.98 review the management letter and management's response to the external auditor's findings and recommendations.

3. Membership

- 3.1 Members of the Committee are appointed by the Council. The Committee shall consist of five (5) members. The Committee shall consist of two (2) independent members with three (3) members from the Elected Members of Council – consistent with any Regulations.
- 3.2 Independent member(s) of the Committee shall have recent and relevant financial and / or risk management, internal audit etc experience. The Chairperson of the Council shall be a member of the Committee.
- 3.3 Only members of the Committee are entitled to vote in Committee meetings. Unless otherwise required by the Act not to vote, each member must vote on every matter that is before the Committee for decision. However other individuals such as the Chief Executive Officer, General

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Managers ~~Corporate and Community Services~~ and other staff with relevant responsibilities may attend any meeting as observers or be responsible for preparing reports for the Committee. In accordance with the principles of open, transparent and informed decision making, Committee meetings must be conducted in a place open to the public. The agenda and minutes of the Committee meetings, subject to any items that are discussed in confidence under Section 90 of the Act and subsequently retained as confidential under Section 91 of the Act, are also required to be made available to the public.

- 3.4 Council's external auditors may be invited to attend meetings of the Committee.
- 3.5 Appointment to the Committee shall be for a period of up to four years (4), or until the end of the term of the Council. Appointees may be reappointed by Council.
- 3.6 The Council shall appoint the Chairperson of the Committee.
- 3.7 The evaluation of potential independent members of the Audit Committee will be undertaken by the Mayor and Chief Executive Officer and two (2) Elected Members appointed to the Audit Committee, taking account of the experience and qualifications of candidates and their likely ability to apply appropriate analytical and strategic management skills, and a recommendation for appointment put to Council.
- 3.8 Expressions of Interest from prospective Independent Members shall be sought by the Council by way of a public advertisement.
- 3.9 Remuneration will be paid to each Independent Member of the Committee (based on a set fee per meeting attended).
- 3.10 Membership of the Audit Committee continues for the term of the Committee, unless a Member resigns from the Committee or is removed earlier by resolution of Council.
- 3.11 If the Council proposes to remove a Member of the Committee, it must give written notice to the Member of its intention to do so and provide that Member with the opportunity to be heard at a Council meeting which is open to the public, if that Member so requests.

4. Chairperson

- 4.1 When the Chairperson is absent from a meeting the Committee Members may appoint a person from those present to act as Chairperson for the duration of the meeting

5. Quorum

- 5.1 The quorum necessary for the transaction of business shall be three (3) members of the Committee, including at least one (1) independent member. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee

6. Meetings

6.1 Voting

- 6.1.1 All decisions of the Committee shall be made on the basis of a majority decision of the members present.

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6.1.2 Members present must vote on all resolutions of the Committee. Proxy votes are not permitted.

6.2 Meeting Frequency

6.2.1 The Committee shall meet at least four (4) times annually at appropriate times in the reporting and audit cycle and otherwise as required.

6.2.2 Ordinary meetings of the Committee will be held at times and places determined by Council or, subject to a decision of Council, the Committee. A special meeting of the Committee may be called in accordance with the Act.

6.2.3 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and observers, no later than three (3) clear days before the date of the meeting. Supporting papers shall be sent to Committee members (and to other attendees as appropriate) at the same time.

6.2.4 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance are minuted and that the minutes otherwise comply with the requirements of the *Local Government (Procedure at Meetings) Regulations 2000*.

6.2.5 Minutes of Committee meetings shall be circulated within five (5) days after a meeting to all members of the Committee and to all members of the Council and will (as appropriate) be available to the public.

6.3 Delegations

6.3.1 Pursuant to Section 44 of the Local Government Act 1999, the Audit Committee does not enjoy the delegation of any powers, functions and duties of the Council. All decisions of the Committee will, therefore, constitute only recommendations to the Council.

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6.4 Meeting Procedures

6.4.1 Procedures at meetings will be in accordance with Council's Code of Practice – Meeting Procedures and the requirements of the Local Government (Procedures at Meetings) Regulations 2000.

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6.5 Administrative Resources

6.5.1 The Chief Executive Officer shall provide sufficient administrative resources to the Committee to enable it to adequately carry out its functions. The Committee shall:

6.5.1.1 have access to reasonable resources in order to carry out its duties; subject to any budget allocation approved by Council;

6.5.1.2 be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members;

6.5.1.3 give due consideration to laws and regulations of the Act;

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6.5.1.4 make recommendations on co-ordination of the internal and external auditors;

6.5.1.5 oversee any investigation of activities which are within its Terms of Reference;

6.5.1.6 oversee action to follow up on matters raised by the external auditors; and

6.5.1.7 at least once a year, review its own performance and Terms of Reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

7. Reporting Responsibilities

7.3.1 Pursuant to Section 41(8) of the Act the Committee is responsible to and reports direct to Council.

7.3.2 The Committee shall make whatever recommendations to the Council it deems appropriate on any area within its Terms of Reference where in its view action or improvement is needed.

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8. Review

These terms of reference will be subject to review by the Council on a two (2) year basis, or as determined by Council.

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|  Adelaide Plains Council | 6.3 | Update on Audit Committee Annual Work Program 2020-2021 |
| | Department: | Finance and Business |
| | Report Author: | General Manager – Finance and Business |
| Date: 7 June 2021 | Document Ref: | D21/24232 |

EXECUTIVE SUMMARY

- The purpose of this report is to provide the Audit Committee with the progress update on the activities identified in the Audit Committee Works Program for 2020/2021 Financial Year.
- At its meeting held on 17 September 2020, Audit Committee approved its 2020/2021 Works Program. Following activities were completed since then.
 - The final audit for 2019/2020 was completed and draft audited financial statements, audit report on financial statements and internal controls were presented to the 16 November 2020 Audit Committee meeting;
 - Internal Financial Control Policy, Land Under Roads Policy and Procurement Policy were reviewed;
 - An update on the progress of Council’s risk management framework was presented to February 2021 meeting;
 - Draft 2021/2022 budget and draft Long-Term Financial Plan was presented to April 2021 meeting before it was released for public consultation;
 - A report on the financial performance, project progress update and potential carry over projects has been provided to Audit Committee as a regular report.

RECOMMENDATION

“that the Audit Committee, having considered Item 6.3 – *Update on Audit Committee Annual Work Program 2020-2021*, dated 7 June 2021, receives and notes the report and in doing so recommends to the Council that the Council acknowledges the progress made to complete the activities identified for Audit Committee during 2020/2021 Financial Year.”

BUDGET IMPACT

| | |
|---------------------------------|----------------|
| Estimated Cost: | Not Applicable |
| Future ongoing operating costs: | Not Applicable |
| Is this Budgeted? | Not Applicable |

RISK ASSESSMENT

The Audit Committee must ensure that the Annual Work Program addresses the statutory obligations and focuses on the adequacy of the Councils' systems and practices with respect to risk management, financial reporting, the internal control environment and other financial management systems. The ongoing monitoring of the Annual Work Program aids minimisation of exposure to associated risks allowing for adequate resourcing for mitigation strategies by the Council.

Attachments

1. Audit Committee Annual Work Program 2020/2021 – June 2021 Update

DETAILED REPORT

Purpose

The purpose of this report is to provide the Audit Committee with the progress update on the activities identified in the Audit Committee Works Program for 2020/2021 Financial Year.

Background/History

At its meeting on 17 September 2020, the Audit Committee approved the work program for 2020/2021 Financial Year.

Discussion

To ensure that the requirements of the *Local Government Act 1999* and the Terms of Reference of the Audit Committee are fulfilled, the Audit Committee must develop a Work Program each year. A regular update on the 2020/2021 Work Program will assist the members of the committee to monitor their planned activities and accordingly the **Attachment 1** shows progress to date.

- The final audit for 2019/2020 was completed and draft audited financial statements, audit report on financial statements and internal controls were presented to the 16 November 2020 Audit Committee meeting.
- A report on the review of audited financial results of 2019/2020 against the adopted budget was also presented to the 16 November 2020 Audit Committee meeting.
- Report on the review of internal financial control policy, Land Under Roads Policy and an update on the progress of Council's risk management framework is presented to February 2021 meeting.
- Draft 2021/2022 budget and draft Long-Term Financial Plan was presented to April 2021 meeting.
- Procurement policy was reviewed at the April 2021 Audit Committee meeting.
- A report on the financial performance, project progress update and potential carry over projects has been provided to Audit Committee as a regular report.

Outstanding activities

Following activities were not completed and will be incorporated in to the 2021/2022 Annual Work Program.

- Review of Strategic Management Plan 2020-2024 for consistency with Council's long-term financial plan and annual business plan.
- Review of Business Continuity & Emergency Management Plan.
- Review of Credit Card Policy
- Review of Council Vehicle Policy
- Review of Risk Management Policy

Conclusion

During the 2020/2021 Financial Year, Audit Committee have completed majority of the activities identified in its annual work program and outstanding activities will be carry over to 2021/2022 Annual Work Program.

References

Legislation

Section 126 of the Local Government Act 1999

Local Government (Financial Management) Regulations 2011

Council Policies/Plans

Audit Committee Terms of Reference.

Audit Committee Annual Work Program 2020/2021 (June 2021 update)

| Activity | Target Meeting | Current Status/Outcome | Action Taken | Date Completed |
|--|--|---|--------------|-------------------------------|
| 1. Financial Reporting (LGA – Section 126(4)(a)) | | | | |
| 1.1 Ensure that financial information included in following publications for external audiences accurately reflects key accrual based financial information and where appropriate sector-endorsed financial indicators and provide commentary and or recommendation to Council: <ul style="list-style-type: none"> ▪ Annual Business Plan; ▪ Annual Financial Statements; | April & June 2021 November 2020 and June 2021 | Completed | | April 2021 16 Nov 2020 |
| 1.2 Annual Review of financial performance indicators provided to Council as part of Budget Reviews. | November 2020 | Completed | | 16 Nov 2020 |
| 2. Strategic Management and Annual Business Plans (LGA – Section 126(4)(ab)) | | | | |
| 2.1 The Audit Committee should satisfy itself regarding the: <ul style="list-style-type: none"> ▪ Review of Strategic Management Plan 2020-2024 for consistency with Council’s long-term financial plan and annual business plan; ▪ Review of Long Term Financial Plan for consistency with its infrastructure and asset management plan (I&AMP); ▪ soundness of the I&AMP; e.g. Is it supported by engineering and other professional assessments regarding the condition of Council’s infrastructure assets; ▪ likely impact on Council’s ongoing financial sustainability of implementation of its suite of strategic management plans; | To be confirmed | Updated Strategic Management Plan (SMP) was approved by the Council on 27 February. Council Management is planning to develop business/action plan to deliver objectives of the updated SMP and the draft business/action plan will be presented to the Audit Committee once completed. | | |

Audit Committee Annual Work Program 2020/2021 (June 2021 update)

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| <ul style="list-style-type: none"> ▪ appropriateness of the indicators (financial and other) to measure achievements of the strategic plan and annual business plan. | | | | |
| 3. Exercise of Powers under Section 130A (LGA – Section 126(4)(ac)) | | | | |
| 3.1 Determine whether a recommendation to the Council is required to request its auditor or some other person to examine and report on any matter considered significant relating to financial management or the efficiency and economy of the management of Council’s resources that would not be addressed or included as part of the annual audit. | Ongoing | | | |
| 4. Liaising with External Auditor (LGA – Section 126(4)(b)) | | | | |
| <p>4.1 An in-camera meeting with Council’s external auditors during the 2020/2021 financial year to:</p> <ul style="list-style-type: none"> ▪ discuss any points of concern raised by the External Auditor in their interim audit; ▪ assess the appropriateness of the Council’s response to matters raised in the interim audit; ▪ discuss any qualifications raised in the most recent audit or comments made in the accompanying management letter; ▪ assess the appropriateness of the Council’s response to matters so raised. | <p>September 2020</p> <p>September 2020</p> <p>November 2020</p> <p>November 2020</p> | Completed | | <p>17 Sep 2020</p> <p>17 Sep 2020</p> <p>16 Nov 2020</p> <p>16 Nov 2020</p> |
| 4.2 Ensure compliance with regulation 22 (1) of the Local Government (Financial Management) Regulations 2011 which prevent a Council from engaging its auditor to provide any services to the Council outside the scope of the auditor's functions under the Local Government Act. | Ongoing | | | |

Audit Committee Annual Work Program 2020/2021 (June 2021 update)


| 5. Internal Controls and Risk Management Systems (LGA – Section 126(4)(c)) | | | | |
|--|---------------|--|--|-------------|
| 5.1 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: <ul style="list-style-type: none"> ▪ consider the range of documented internal control policies and procedures; and ▪ whether they are being followed. ▪ regular self-assessment of internal financial controls | November 2020 | Completed | | 16 Nov 2020 |
| | February 2021 | | | |
| 5.2 Review Business Continuity & Emergency Management Plan (BCEMP). | August 2021 | BCEMP has been reviewed and will be separated and replaced with the following documents. <ul style="list-style-type: none"> ✓ The following plans replace the Emergency Mgt. plan component of the BCEMP: <ul style="list-style-type: none"> • Emergency Mgt. Plan. • Incident Operations Arrangements Manual • Recovery Operations Manual ✓ APC Business Continuity Plan replaces the Business continuity component of BCEMP. | | |
| 5.3 Establish whether locally appropriate strategies exist to minimise the likelihood of occurrence and adverse consequence for obvious and major risks. Consider: <ul style="list-style-type: none"> ▪ whether an assessment has been undertaken to identify foreseeable events with potentially catastrophic | February 2021 | An update on the progress of Council’s risk management framework was presented to February 2021 meeting | | |

Audit Committee Annual Work Program 2020/2021 (June 2021 update)

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| <p>consequences and actions established to minimise their likelihood and effect e.g.</p> <ul style="list-style-type: none"> ✓ 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; ✓ adequacy of insurance coverage. | | | | |
| <p>5.4 Review the appropriateness of the range and content of Council's financial policies and practices. Policies due for review are;</p> <ul style="list-style-type: none"> • Credit Card Policy (Last reviewed in April 2018) • Internal Financial Controls Policy (Last reviewed in April 18) • Land Under Roads Policy (Last reviewed in 2008) • Council Vehicle Policy (Last reviewed in July 2018) • Procurement Policy (Last reviewed in March 2019) • Risk Management Policy (Last reviewed in July 2019) | <p>August 2021 February 2021 February 2021 August 2021 April 2021 August 2021</p> | <p>Completed Completed Completed</p> | | <p>2/2/2021 2/2/2021 12/4/21</p> |
| <p>6. Reporting</p> | | | | |
| <p>6.1 Ensure progress of the outstanding Audit Committee resolutions are followed up regularly.</p> | <p>Ongoing</p> | <p>Update report is provided to 7 June meeting</p> | | |
| <p>6.2 Ensure that significant, urgent matters identified through the work program are formally and promptly reported to Council.</p> | <p>Ongoing</p> | | | |
| <p>6.3 Report annually to the Council;</p> <ul style="list-style-type: none"> ▪ outlining outputs relative to the audit committee's work program and the results of a self-assessment of performance for the preceding period including whether | <p>To be confirmed</p> | | | |

Audit Committee Annual Work Program 2020/2021 (June 2021 update)

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| <p>it believes any changes to its Terms of Reference are appropriate;</p> <ul style="list-style-type: none"> ▪ outlining any identified training needs; ▪ Audit Committee Self-Assessment Survey ▪ advise on future work program proposals; and invite comment from the Council on all of the above. | <p>To be confirmed To be confirmed To be confirmed</p> | | | |
|---|--|--|--|--|

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|  Adelaide Plains Council | 7.1 | Committee Resolutions |
| | Department: Report Author: | Finance and Business General Manager – Finance and Business |
| Date: 7 June 2021 | Document No: | D21/24233 |

OVERVIEW

The purpose of this report is to provide an update to the members of the Audit Committee on the outstanding Committee resolutions yet to be actioned by the Council management.

Audit Committee resolutions that require actioning by Council Administration are captured in the Resolution Register and presented to each committee meeting for the information of the members of the Audit Committee.

This report contains a table of all the outstanding resolutions and accordingly one (1) resolution each from February 2020 meeting and November 2020 meeting are still outstanding.

RECOMMENDATION

“that the Audit Committee, having considered Item 7.1 – *Committee Resolutions*, dated 7 June 2021, receives and notes the report.”

Attachments

1. Resolution Register updated June 2021.

References

Legislation

N/A


Other

Audit Committee Annual Work Program 2020-2021

2020 Audit Committee Resolution Register

D20/6624

| Meeting Date | Items No. | Title | Resolution Description | Resolution Number | Responsible Department | Status | Comment | Date Completed |
|--------------|-----------|--|---|-------------------|------------------------|---------|--|----------------|
| 10-Feb-20 | 9.1 | Committee Resolution | "that the Audit Committee, recommend to Council that a report be prepared reviewing the adequacy of current Council policies in light of the recent Ombudsman reports on credit card and travel expenditure." | 2020/016 | Finance and Business | Ongoing | To be addressed as part of the review of Council's <i>Credit Card Policy</i> . This review is due to take place in 2021 in accordance with Council's <i>Policy Review Schedule</i> . | |
| 17-Sep-20 | 7.2 | Interim Audit 2019/2020 – Management Report | "that the Audit Committee, having considered Item 7.2 – Interim Audit 2019/2020 – Management Report, dated 17 September 2020, receives and notes the report and in doing so requests that updates be brought back to the Audit Committee in relation to: 1. Segregation of Duties and 2. GRFMA Investment." | 2020/033 | Finance and Business | Agenda | Please refer to the agenda of 7 June 2021 Audit Committee meeting | |
| 16-Nov-20 | 6.2 | Draft Audited Annual Financial Statement 2019/2020 | "that the Audit Committee requests the Chief Executive Officer to bring back a report to the next Audit Committee meeting in regards to internal auditing and in particular the issue of assurance in relation to asset valuations." | 2020/052 | Finance and Business | Ongoing | | |

| | | | |
|--|-----------------------|---|------------------|
|  Adelaide Plains Council | 7.2 | Mallala Community Wastewater Management Scheme – Review of Charges | |
| | Department: | Finance and Business | |
| | Report Author: | General Manager - Finance and Business | |
| Date: | 7 June 2021 | Document No: | D21/24231 |

OVERVIEW

As part of 2021/2022 budget estimates, Council recently engaged the service of Mr John Comrie of JAC Comrie Pty Ltd to review Mallala CWMS Charges.

The review found that based on the Essential Services Commission of South Australia (ESCOSA) CWMS pricing criteria, the average operating cost per unit (including cost of capital and risk premium of 2.90% and based on budgeted costs for 2021/2022) is \$1,182 per connection which is approximately 85% higher than current (2020/2021) Mallala CWMS charge of \$640 per connection.

Therefore, the report concludes that *“Council faces significant financial and operating capacity risks in the longer-term if it doesn’t ensure it generates sufficient long-run revenue from CWMS charges to offset long-run costs.”*

The report also notes that *“Before settling an appropriate charge though it is important to be confident regarding long-run costs. APC needs to understand why reported costs have increased in recent years and whether the scheme is being operated as efficiently as possible and therefore whether costs are likely to remain at this level on average in future”*

With regard to increasing Mallala CWMS charge over time in order to comply with ESCOSA CWMS pricing criteria, the report concludes that *“On current available evidence it therefore appears that current charging levels are well below likely long-run annual costs. It therefore seems reasonable for charges to be increased materially now with a view to ensuring that charges fully offset costs say within 7 years. That period of time will allow Council to determine with more confidence it’s likely long-run annual costs of the scheme’*

RECOMMENDATION

“that the Audit Committee, having considered Item 7.2 – *Mallala Community Wastewater Management Scheme – Review of Charges*, dated 7 June 2021, receives and notes the report in doing so recommends to the Council that it incorporates findings of the review as contained in Attachment 1 into future budgetary and long term financial plan considerations.”

Attachments

1. Mallala Community Wastewater Management Scheme - Review of Charges by Mr John Comrie of JAC Comrie Pty Ltd

References

Legislation

Section 155(1) of the Local Government 1999

Council Policies/Plans

Budget Management Policy

Other

CWMS Accounting Principles - The Costing and Pricing of CWMS by LGA

Mallala Community Wastewater Management Scheme - Review of Charges

3 May 2021

John Comrie

JAC Comrie Pty Ltd

1. Introduction

In April 2019, Mr John Comrie (JAC Comrie Pty Ltd) prepared a report for Adelaide Plains Council (APC) to assist it in determining community waste water management scheme (SWMS) service charges that may have been appropriate to levy Mallala CWMS service recipients to offset costs of the scheme.¹

It is generally accepted that service recipients specifically rather than a council's ratepayers generally should meet the full costs of a CWMS scheme. Nevertheless, there is often conjecture in local government regarding exactly what to charge recipients for CWMS services. That has been true in the case of the Mallala CWMS since the scheme was initially planned. There are at least 3 key reasons for this:

- a) The scheme is relatively new and there is still some uncertainty re expected average long-term costs;
- b) From an intergenerational equity perspective, it is desirable to base annual charges on expected long-run costs. Depreciation is a large share of total costs. Annual depreciation depends on of how long assets can be expected to last before replacement (and their expected replacement cost). These estimates can vary over time.
- c) There are requirements in place to determine cost of capital allowances to factor into such costs in determining charges (rather than recognising interest costs associated with any directly associated loans). This is a relatively new concept (at least in its application to CWMS charging) and hasn't been well understood widely across local government to date. Latest guidance suggests that this cost allowance should be less than what was previously recommended.

This report has also been prepared by JAC Comrie Pty Ltd. It considers both updated Council data and updated general guideline information to assist Council in its determination of 2021/22 and future charges for the Mallala CWMS service.

It has been kept relatively brief and doesn't delve into Mallala scheme background information or pricing theory/cost determination considerations to the same extent as the 2019 report. As such readers of this report may find it useful to also be familiar with the content of the 2019 one.

2. LGA Charging Guidelines

Local Government Association guidance (both general financial sustainability and specific CWMS charging guidance) exists to support councils in determining CWMS charging decisions.² It highlights the importance of focussing on the longer-term and the risks and consequences of inadequate charging (e.g. potential inadequate funds for long-run asset renewal and intergenerational charging inequity).

¹ Mr John Comrie operates a consultancy practice specialising in providing financial and governance advice to local governments. He is a former chairperson of APC's Audit Committee and he has prepared much of the guidance material produced by the LGA to assist councils to improve their financial sustainability and performance.

² See for example the Local Government Association's 'CWMS Accounting Principles - The Costing and Pricing of CWMS', Dec 2016 and the suite of 'Financial Sustainability Information Papers' it has produced.

In my 2019 report I highlighted that *'Total costs (of CWMS) can vary materially from year to year (and will certainly do so over time even net of the effects of general inflation)'*. That has been the experience of the Mallala CWMS to date and this is highlighted further below.

Councils apply CWMS charges under S.155(1) of the Local Government (LG) Act.³ Effectively the Act does not allow councils to charge more than estimated long-run costs for such a service (S.155(5) & (5a)). If it becomes apparent over time that accumulated annual charging levels have been materially greater or less than accumulated costs then charges should be adjusted to bring charges and costs back into reasonable alignment (adjusted for the previous estimated surplus or deficit) over subsequent years.

The Essential Services Commission of South Australia (ESCOSA) has determined that council provided common effluent drainage schemes (i.e. CWMS) are a regulated service and as such charges applied by councils are effectively oversighted by ESCOSA. ESCOSA's job is to ensure that councils charge a fair price (that complies with sound economic and equity principles) on an ongoing basis.

ESCOSA can provide directions and seeks to be satisfied that prices determined by councils are reasonable and appropriate. ESCOSA requires that council pricing methodology is not in conflict with the National Water Initiative (NWI) principles/objectives.⁴ To date ESCOSA has generally applied relatively light oversight of councils' CWMS charging arrangements but is expected to become more active in future.

The LGA's, 'CWMS Accounting Principles – The Costing and Pricing of CWMS' (referred to in a footnote above) was published in December 2016 following consultation with councils and ESCOSA in its development.⁵

3. Mallala CWMS Costs and Charges

Table 1 in my 2019 report set out the Estimate of APC Mallala CWMS revenue & expenses 2017/18 applying ESCOSA criteria. That table is reproduced below (also as Table 1). It shows operating revenue of \$190,500 and operating expenses of \$129,300 and therefore an operating surplus of \$61,200 (ignoring cost of capital which is discussed further later).

³ The Act (S.155(2)) allows councils to apply a charge (a specific dollar quantum) or a rate (amount payable varies with property value). SA Water for example applies a rate in recovering the cost of provision of sewerage services (with a minimum threshold amount). To the best of my knowledge no councils in SA apply a rate, all set a specific charge.

⁴ The National Water Initiative includes a set of pricing principles agreed by the Federal and all state governments (COAG). It includes, 'give effect to the principle of user-pays and achieve pricing transparency ... and cost recovery'. See p.2 of document at <http://www.agriculture.gov.au/water/policy/nwi/pricing-principles>

⁵ (The author of this paper Mr John Comrie, contributed as a reviewer in the development of the LGA publication).

Table 1: Estimate of APC Mallala CWMS revenue & expenses 2017/18 applying ESCOSA criteria (as published in JAC Comrie 2019 report)

| | |
|---|-----------------------|
| Operating Revenue | \$'000 |
| CWMS service charges (net of rebates) | 189.7 |
| Other income | 0.8 |
| | |
| Total Operating Revenue | 190.5 |
| | |
| Operating Expenses | |
| Contractors & salaries & o'heads | 14.0 |
| Plant, materials and maintenance (incl wages) | 24.8 |
| Insurance | 1.9 |
| Depreciation | 87 |
| Other expenditure | 1.6 |
| | |
| Total Operating Expenses⁶ | 129.3 |
| | |
| Operating Surplus/(Deficit) | 61.2 |
| | |
| Cost of Capital | |
| Cost of capital - 4% real interest ⁷ | 45 |
| Cost of capital - 2% for risk ⁸ | 96 |
| | |
| Total Cost of Capital | 141 |
| | |
| No. of units serviced | 344 properties |
| Ave operating cost per unit (excl cost of capital) | \$376 |
| Ave op cost per unit (incl cost of capital) | \$785 |

Actual financial performance for the Mallala CWMS in 2017/18 was close to the forecast estimate shown in Table 1. Since then though costs have been significantly higher and financial performance consequentially less favourable. This is shown in Table 2 below (for simplicity no attempt has been made to estimate an annual cost of capital in this table).⁹

⁶ The LGA Guidelines (see e.g. Sections 2.4 & 2.5) make clear that a council should include all relevant direct and indirect costs in determining CWMS annual operating expenses. This includes e.g. an appropriate share of a council's related general admin costs (such as for general management, associated accounting, reporting and service charge issuing and collection). No attempt has been made in this report to assess the veracity of Adelaide Plains Council's reported costs for the Mallala CWMS.

⁷ 4% real interest X \$1.124M = \$44,960. (Total capital cost of the scheme was \$6.402M (incl rectification works). Subsidy (incl rectification works) was \$4.492M, i.e. net capital cost to council of \$1.91M. Written down value of total assets is \$4.798M. WDV of asset base net of subsidy is \$4.798M less \$4.492M, i.e. \$306,000. But above figures include a grant of \$0.217M received in 2018/19 for capital works not yet capitalised in above. Therefore, that grant needs to be deducted. Also above includes grant of \$0.601 for works that have been written off above (associated with rectification works). Grant should therefore also be written off for this exercise. WDV of assets net of subsidy therefore = \$0.306M + \$0.217M + \$0.601M = \$1.124M.)

⁸ 2% real interest X \$4.798M. = \$95,960. Includes unspecified and residual risk relating to written down value of all assets (including assets that were grant funded).

⁹ All figures in Table 2 are as advised by APC.

Table 2: APC Mallala CWMS revenue & expenses 2015/16 to 2020/21 (excluding cost of capital)

| | Actual | Actual | Actual | Actual | Actual | Budget |
|------------------------------------|----------------|----------------|----------------|-----------------|-----------------|----------------------|
| Income | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| CWMS Charge | 170,526 | 190,450 | 195,416 | 207,776 | 213,968 | 220,160 |
| Fines on Rates | 346 | 491 | 526 | 771 | 1,119 | |
| CWMS Connection Fee | - | - | 8,182 | - | 8,182 | |
| Interest on Investments | 4,018 | 3,416 | 305 | 243 | - | |
| TOTAL INCOME \$ | 174,890 | 194,357 | 204,430 | 208,790 | 223,269 | 220,160 |
| | | | | | | |
| Expenses | | | | | | |
| Employee Costs | 37,840 | 34,251 | 4,068 | 5,600 | 6,039 | 15,650 |
| Material Contract & Other | 17,605 | 18,376 | 43,936 | 123,625 | 136,766 | 147,211 |
| Depreciation | 83,085 | 87,152 | 87,000 | 105,044 | 124,104 | 91,733 ¹⁰ |
| TOTAL EXPENSES \$ | 138,530 | 139,779 | 135,004 | 234,268 | 266,909 | 254,594 |
| | | | | | | |
| Net Mallala CWMS Results \$ | 36,360 | 54,578 | 69,425 | (25,478) | (43,640) | (34,434) |

Staff have advised that the main reasons for the deterioration in the annual financial performance of the Mallala CWMS in recent years are that:

- Various costs have increased significantly, such as;
 - Depreciation is about \$40,000pa higher than it was in the early years,
 - Higher annual service/maintenance agreement charges
 - Higher electricity charges, and that;
- CWMS charges applied have not kept up with these increases in costs.

In addition, assets have been revalued during 2020/21 in accord with requirements and this is likely to increase depreciation charges in 2020/21 and 2021/22 compared with data shown above.

Table 3 below sets out current APC staff estimates of Mallala CWMS revenue & expenses for 2021/22. It includes an allowance for cost of capital.

¹⁰ Depreciation was underestimated in the 2020/21 budget. Staff suggest it should have been consistent with 2019/20 and a more accurate estimate would have been \$125,000. Council has very recently had a consultant (Tonkin Apr '21) complete a revaluation of Mallala CWMS assets. The impact of this revaluation is that depreciation may rise to \$138,007 in 2020/21.

Table 3: Budget Estimate of APC Mallala CWMS revenue & expenses 2021/22 applying ESCOSA criteria

| | |
|--|---------------------|
| Operating Revenue | \$'000 |
| CWMS service charges (net of rebates) | 227.4 ¹¹ |
| Other income | 0 |
| | |
| Total Operating Revenue | 227.4 |
| | |
| Operating Expenses | |
| Employee costs | 15.9 |
| Materials, contracts & other | 161.0 |
| | |
| Depreciation | 125.5 ¹² |
| | |
| Total Operating Expenses | 302.4 |
| | |
| Operating Surplus/(Deficit) | (75.0) |
| | |
| Cost of Capital | |
| Cost of capital – 1.3% real interest ¹³ | 15.2 |
| Cost of capital – 1.6% for risk ¹⁴ | 90.2 |
| | |
| Total Cost of Capital | 105.4 |
| | |
| No. of units serviced | 345 properties |
| Ave operating cost per unit (excl cost of capital & risk) | \$876 |
| Ave op cost per unit (incl cost of capital & risk) | \$1,182 |

¹¹ This assumes a charge of \$659/connection.

¹² Depreciation may be higher in 2021/22 following the recent revaluation of CWMS assets. See also footnote to depreciation in Table 2. Tonkin in its Apr '21 revaluation report suggests \$138,000. Applying this figure would increase calculated charges shown above by \$36/connection.

¹³ Cost of capital calculated as per DTF Guidelines (see section 4). That is, based on long-term bond rate of 1.75% as at 3 May '21, plus low risk factor (3%) giving a nominal discount rate of 4.75%, plus 0.7% for higher local government borrowing rates, i.e., 5.45%, or 2.9% real (= 1.0545/1.025, assuming average long-term inflation of 2.5%). Apportioning this 2.9% gives 1.3% for real interest and 1.6% for risk.

Cost of capital (real interest) is calculated based on the estimated written down value of assets not grant funded. (Unlike the basis of the calculation shown in Table 1, a pro-rata calculation arguably is more appropriate.) Total capital cost of the scheme net of rectification works was \$5.162M. Subsidy (excl rectification works) was \$4.091M, i.e., 20.7% was a capital cost to Council. Current (gross) replacement cost of scheme (following Tonkin Apr '21 revaluation) now \$6.165M, written down value (carrying amount) now \$5.637M. Reasonable to assume 20.7% of this latter amount is the outstanding amount Council has needed to finance. That is \$1.166M ($\$5.637M \times 20.7\%$) $\times 1.3\% = \$15,200$.

¹⁴The risk factor of 1.3% (calculated as per footnote above) refers to unspecified and residual risk relating to written down value of all assets (including assets that were grant funded). WDV of assets is \$5.637M (based on Tonkin's revaluation of 15 Apr '21). $\$5.637M \times 1.6\% = \$90,200$.

Table 3 estimates suggest that the actual 'break-even' service charge would need to be \$876/connection based on current annual forecast cost estimates excluding cost of capital and \$1,182/connection including cost of capital.

4. Cost of Capital

The original 2019 report (and the figures in Table 1 above) assumed a cost of capital of 4% (levied on the estimated value of capital (net of grants) that APC had currently committed in the works (ie asset value less grants and depreciation). It also assumed a further 2% levied to offset risk on the net capital value (ie asset value less depreciation but not grants). Both figures were consistent with then LGA guidance (which has not yet subsequently changed).

Recently (January 2021) the author of this report prepared a separate report for the LGA reviewing the basis of the calculation of the methodology that is applied in determining whether a council is eligible for a subsidy to construct a new CWMS scheme. The methodology essentially evaluates the likely capital and operating costs of a scheme and the revenue it could expect to generate if it charged fees comparable to the revenue SA Water would generate if an SA Water sewerage scheme existed instead. The methodology has for many years applied a real (net of inflation) discount rate of 4% in order to determine the present value of revenue and costs.

In undertaking my review for the LGA, I became aware of a SA Government Department of Treasury and Finance (DTF) publication that discussed the selection of a suitable discount rate for SA Government project analysis purposes.¹⁵

DTF guidance stipulates the use of a discount rate based on the current long-term bond-rate. This rate is nominal (i.e., takes into account expected future inflation rates), and needs to be adjusted for the expected inflation rate if analyses are undertaken in real values). DTF also suggest the rate be adjusted to allow for risk. CWMS projects are not risk-free. There are invariably uncertainties associated with long-term projects (future costs and possible changes in needs, ability-to-pay, technology and regulatory requirements etc).

Current nominal long-term bond rates are 1.75%. State agencies can generally borrow (directly or indirectly) through the South Australian Government Financing Authority (SAFA). SAFA rates are slightly more favourable to borrowers than rates that councils can access. The best rate available to councils is generally through the Local Government Finance Authority. This rate is currently about say 0.7% above SAFA's comparable rate. ¹⁶ Assuming a low risk factor would give a 3% (nominal) risk factor. A 2.5% long term inflation rate (the Reserve Bank of Australia aims to keep inflation within a band of 2-3% over the medium/longer-term), would suggest an appropriate real discount rate (inclusive of cost of capital and risk) of 2.9%.

It is reasonable that the cost of capital applied in determining CWMS charges be based on the above DTF guidance. This would result (currently) in a real cost of capital (for real interest) of 1.3% and a cost for risk of 1.6% (as have been applied in Table 3).

¹⁵ See Step 3.2 (p.20 onwards) of 'Guidelines for the evaluation of public sector initiatives Part B: Investment Evaluation Process', 2014, (available at https://www.treasury.sa.gov.au/data/assets/pdf_file/0019/36316/ti17-guidelines-part-b.pdf).

¹⁶ As advised by LGFA CEO 27 Jan 2021.

The LGA will review its CWMS subsidy program project discount rate in light of the above information. It may also update its 'CWMS Accounting Principles - The Costing and Pricing of CWMS' document.

5. An appropriate Mallala CWMS charge

Comparing Table 1 with Table 3 shows the material impact of a reduction in the suggested rates for the cost of capital and risk (\$141,000 in Table 1 compared with \$105,400 in Table 3). This reduction has though been more than offset by higher operating costs (\$129,300 in Table 1 compared with \$302,400 in Table 3).

The APC Mallala CWMS charge was \$640/connection in 2020/21. This is well below current estimated operating and cost of capital and risk costs. Council faces significant financial and operating capacity risks in the longer-term if it doesn't ensure it generates sufficient long-run revenue from CWMS charges to offset long-run costs.

Before settling an appropriate charge though it is important to be confident regarding long-run costs. APC needs to understand why reported costs have increased in recent years and whether the scheme is being operated as efficiently as possible and therefore whether costs are likely to remain at this level on average in future.

Assuming that average costs in future will be similar to those indicated in Table 3 would mean that Council should be applying a charge (or average service rate equivalent) of the order of \$1,218 per connection (the \$1182 as shown in Table 3 plus \$36 for higher depreciation). Clearly an increase of this order is significant and its impact would likely warrant it being phased-in over several years (but perhaps say no more than 7 years).

If operating costs in future were on average more like the lower figures in Table 1, and using the lower cost of capital and risk in Table 3 that would equate to costs per connection in the order of \$680pa. This is still slightly more than current actual charging levels. There seems little doubt therefore that charges are less than appropriate particularly given that depreciation is now appropriately likely to be considerably above that shown in Table 1. It is important though that Council is reasonably confident re long-run average cost predictions in determining long-run charging arrangements.

The Mallala CWMS has only been operating for about 6 years. There have been various one-off factors affecting annual operating costs in the early years. It is likely that annual average long-run costs will be able to be estimated with more confidence over the next few years.

6. Conclusions

There are many uncertainties in determining long-run annual costs of CWMS schemes. In order to strike intergenerationally fair charges and ensure ongoing capacity to maintain services and undertake asset renewal as required it is important that councils endeavour as best they can to make reliable estimates of such costs.

Annual operating costs appear to have increased significantly in recent years. These increases more than offset the lower cost of capital and allowance for risk now suggested. Every effort needs to be made to ensure the scheme operates as efficiently as possible and that costs are kept to a minimum.

Staff believe that current operating costs are the current best available indication of long-run operating costs (in total these together with forecast higher depreciation and cost of capital and risk currently equate to perhaps \$1,218/connection). Costs will increase over time with inflation and potentially by more than inflation. Periodic asset revaluation will increase depreciation expenses and also the charge for cost of capital (effectively based on current net asset values). An increase in interest rates in future would also increase the cost of capital charge.

On current available evidence it therefore appears that current charging levels are well below likely long-run annual costs. It therefore seems reasonable for charges to be increased materially now with a view to ensuring that charges fully offset costs say within 7 years. That period of time will allow Council to determine with more confidence it's likely long-run annual costs of the scheme.

Impairment of Council's investment in GRFMA

With regard to impairment of Council investment in GRFMA, Council's current auditor Galpins have concluded that *AASB 136 Impairment of Assets* does not apply to assets with the following characteristics.

- a) Assets of not-for-profit entities that are not held primarily for their ability to generate net cash inflows and that are typically specialised assets held for continuing use of their service capacity.
- b) Assets that are regularly revalued to fair value under the revaluation model in *AASB 116 Property, Plant and Equipment*.

GRFMA's only asset is Bruce Eastick North Para Flood Mitigation Dam which is a specialised asset held for its service to the community. The dam was independently revalued based on *AASB 13 – Fair Value Measurement* as of 30 June 2019.

Therefore, Galpins have concluded that subject to satisfying a) and b) above *AASB 136 Impairment of Assets* does not apply to Council's investment in GRFMA.

RECOMMENDATION

“that the Audit Committee, having considered Item 7.3 – Interim Audit 2019/2020 – Update on Issues identified in the Management Report, dated 7 June 2021, receives and notes the report.”

Attachments

Nil

References

Legislation

Not applicable

Council Policies/Plans

Fixed Assets Accounting Policy

Internal Financial Controls Policy

Other

Australian Accounting Standards – AASB 13, AASB 116, AASB 136