

FLINDERS COUNCIL AUDIT PANEL UNCONFIRMED MINUTES

Annexure 14.2.1

DATE: Monday 18 March 2019
VENUE: Rose Garden Room, FAEC, Whitemark
COMMENCING: 11.06am

PRESENT

Mark Scanlon Chair
 Diana Droog Member

IN ATTENDANCE

Bill Boehm General Manager
 Heidi Marshall Accountant
 Vicki Warden Executive Officer (minute taker)

GUESTS

Mayor Annie Revie
 Deputy Mayor David Williams
 Cr Vanessa Grace
 Cr Peter Rhodes

APOLOGIES

John Dick Member

DECLARATION OF INTERESTS

Audit panel members must declare any interests.

| Name | Appointment Date | Rotation Date | Person and/or Organisations with Interest | Nature of Conflict of Interest | Perceived / Potential / Actual | Date of Declaration | Action Taken |
|--------------|-------------------|---------------|---|--|--------------------------------|---------------------|--------------|
| Mark Scanlon | 13 Dec 2017 | 30 June 2019 | Launceston City Council | Independent Chair of Audit Panel | Potential | 18 Dec 2017 | |
| | 13 Dec 2017 | | Public Trustee Tasmania | Chairman | Potential | 18 Dec 2017 | |
| Diana Droog | Annual Membership | Sept | Flinders Island Tourism & Business Inc (FITB) | Treasurer (& member) | Potential | 7 Feb 2018 | |
| | Annual Membership | July | Furneaux Historical Research Association Inc | Member & Membership of Museum's IT Group | Potential | 7 Feb 2018 | |
| | Annual Membership | | Landcare | | Potential | 4 June 2018 | |

No changes declared.

CONFIRMATION OF PREVIOUS MINUTES

That the minutes from the meeting held on the 29 January 2019 are a true record.

CARRIED

CORRESPONDENCE IN:

2019.02.06 Diana Droog – Standing for re-election to Panel
2019.02.08 John Dick – Not standing for re-election to Panel

CORRESPONDENCE OUT:

2019.02.05 Alex Tay – Requested Audit Panel member information
2019.02.05 Diana Droog – Term of Panel membership
2019.02.05 John Dick - Term of Panel membership
2019.02.21 Panel Members – Council resolution to reappoint Panel members
2019.02.26 Diana Droog – Reappointment to Panel
2019.02.26 John Dick – Reappointment to Panel until recruitment of replacement completed
2019.02.28 Examiner Classifieds & Island News – Audit Panel member vacancy

BUSINESS ARISING

1 Investment Review

The Panel recommended that Council reviews the Investment Policy in view of concerns raised regarding BT Investments' management of Council's Investment Portfolio and adjusts investment portfolios in line with the new policy.

During the year a significant amount of work has been undertaken by Heidi to examine Council's investment strategy including our BT Investment Portfolio. An in-depth analysis of the portfolio shows that last quarter Council lost \$25,000 of the value of our shares. Heidi's analysis clearly demonstrates the poor performance of the investment, supporting the Panel's previous concerns. Due to the high risk nature of this investment and current poor performance, it is recommended that this investment be liquidated in the near future and converted to a low-risk fixed-term investment. A report on this basis is going to the 19 March 2019 Council Meeting for consideration as part of the 6-month Budget review.

The Panel supports the proposal to liquidate the investment.

If Council agrees with the recommendation, Diana suggested using Heidi's analysis as a bargaining chip with the company - telling them we want to liquidate the investment due to lack of performance and that we want them to work with us to help us exit at the best point.

Launceston City Council has given Flinders Council permission to use its Investment Policy as a template for review. Mark has provided Bill with a copy of the Investment Policy.

Action: Provide Launceston City Council's Investment Policy to Panel members.

2 Budget Movements

As a standing item on all Panel meeting agendas, variations to the budget and movement of money are presented for the Panel's consideration.

The December 2018 financial review has been completed for presentation to the March Council Meeting. The report includes the Current Year to Date December 2018 as well as proposed Budget Review, enabling a revision of Council's overall financial performance to date as well as an opportunity for budget items to be amended if necessary. This report effectively combines both elements but also includes a more transparent methodology by correlating functional descriptions with Departmental / Project analysis. For the 6-month review, a detailed Budget

Variance commentary has been included and where appropriate, individual comments have been provided to assist in the decision making.

Adjustments to the budget have been identified and explained in the Budget Variance Analysis. A significant amount of work went into preparing the 2018/19 Budget Estimates and in hindsight unrealistic expectations were placed with minimal allowance for unknowns. Many of the variances are due to uncontrollable costs (e.g. insurance premiums, licences for vehicles, legal costs), whilst controllable operational expenditures (e.g. resealing a road, cleaning a toilet) are predicted to be on par with Budget. Heidi informed the Panel that in order to find \$200,000 a year, council can only adjust the controllable costs.

The Panel discussed the report asked questions related to specific items.

Heidi noted that there is a total budget variance of \$136,000 (adverse variance of \$19,000 in capital works was omitted from the table). The largest variances are to do with uncontrollable costs - legal expenses - related to the Gums Quarry and private works. Previously, margins for private works were overstated. Budgeted for a certain profit however the income hasn't been to budget, so the profit has been reduced.

Insurance costs have increased and need to be reviewed in entirety. There has been a substantial claim in one area, so premiums have gone up and few insurers are interested in covering us. There are a limited number of firms that work with local government. Our current broker is Arthur Gallagher. We could consider self-insuring by increasing our excesses in order to reduce our premiums This would bring additional risk. The Broker should work with Council to ensure our insurance cover is adequate for our needs and at the best rate.

The Federal Government has announced funding for the safe harbour and the airport. These capital works will be done next year and beyond. Council must find \$1.8m for the airport project and Bill has asked the State Government if they would consider providing Council with an interest free loan for this work. Bill has also asked the State Government if they are willing to make good on their election promise and provide \$900,000 for the safe harbour project. Bill is waiting for a response from the Minister.

Heidi expressed concern over the long-term operational costs of the safe harbour that have yet to be scoped. Heidi made the observation that, in the past, capital expenditure has not been accurately evaluated, the impact being projects have run over budget e.g. the Whitemark playground. We need to tighten up on this before we embark on these two major capital projects.

Engaging a consultant to undertake the review of the General Manager's performance is common practice. The new council is not yet comfortable with the process and a consultant is recommended.

Annie detailed the following concerns with the budget. She acknowledged that council has a small revenue base and a large asset base and is concerned about taking on more assets without a process to evaluate whether council can afford them. The Long Term Financial Plans and Strategies say there is significant risk if we don't address the decline in our financial position. This is the first year of implementing our long-term financial management plan and at the 6-month point we are \$136,000 overbudget.

Although the Safe Harbour project is listed as a priority project, in the Long Term Financial Plan it is stated that we can't afford it. The funding promise from the State Government for safe harbour now puts us in a difficult position as we have yet to develop the detail around the

operational and maintenance costs. Annie asked if the financial risk council be handed over to TasPorts or similar. Bill responded that there were operational options and council may not be responsible for all the ongoing costs.

Expenditure of \$34,000 on the DA for the project will put Council close to \$180,000 overbudget. Annie asked why Bill had asked the Minister for a loan without putting it before Council first. In future, any thought about application for a loan should be discussed with council first. Council already has a loan of \$2.68m and Annie would prefer to do a downward variation of the budget than borrow more money.

Heidi responded that the Long Term Financial Strategy has principles agreed to by the previous council around loans and debt to do with how we fund projects. Staff work within those principles. It is the job of staff to find out what options are available and then present those options to council for a decision. Bill had to ask the Minister about a loan to find out if that option was available, before bringing it to council. Council still makes the decision, but the option must first be available.

Annie asked why the council was not informed about the \$136,000 overspend until February. Heidi responded that time was needed to interrogate the information and was communicated to council as soon as the result was known.

The Report was noted.

3 Policy Review

The Panel agreed to use Launceston City Council's Investment Policy as a model to review Council's Investment Policy and to develop a framework as a template for reviewing all policies.

Launceston City Council has given Flinders Council permission to use its Investment Policy as a template for review. Mark has provided Bill with a copy of the Investment Policy.

Work has yet to commence.

Noted.

4 Audit Panel Work Plan

The current Work Plan was tabled however needs further population.

Action: Bill to populate the Audit Panel Work Plan.

5 Cyber Security

This item was introduced to the agenda in September 2018. The Panel requested that the item remain on the agenda until staff can provide a report on existing systems and the security measures in place in relation to cyber security breach. Heidi commented that Xero is very flexible, high risk system as its very easy to gain entry and manipulate the data.

At this stage no work has been undertaken.

Noted. Keep on agenda.

6 Risk Management Framework Update

After review of Council's current Risk Management Framework prepared in 2015, the Panel considered the document to be very useful and suggested some additional risks for inclusion along with a statement of Council's risk appetite.

At this stage no work has been undertaken.

7 Financial Systems Update

Heidi provided an update on current issues and progress regarding the finance systems.

Noted.

8 Review of Land Transfers and Delegations

As part of a continuing improvement program, Council has requested that the Audit Panel add the following tasks into its Work Plan:

- A full audit of all land transferred to other parties in the past five years and a report to Council as a one-off task.
- An annual review of a random selection of Council delegated activities to ensure compliance with the *Local Government Act 1993*.

The Panel has agreed on the procedure and scheduling of these reviews and they have been added to the Panel's Workplan. No work has yet been undertaken on the review of land transfers.

Noted.

9 Audit Panel Training

Mark Scanlon sent the LGAT Audit Panel Training Workshop presentation to Bill and Panel members. The training was based around the Audit Panel guidelines, which are only guidelines.

Add item to next meeting.

10 Panel Member Information

Vacant Position

As requested by the Director of Local Government, current information about Audit Panel membership has been provided to the Director. In doing so, it was realised that as Audit Panel members are appointed for a period of up to four years, Diana and John's appointments would lapse on 26 March 2019. Diana and John were asked if they would consider re-appointment to the Panel – Diana agreed and John declined.

At the February 2019 Ordinary Meeting of Council, the following resolution was carried:

"That Council:

- 1. Re-appoints its independent members to Council's Audit Panel for the following Terms:
 - a. Diana Droog for a further four years; and*
 - b. John Dick until such time that his position can be filled.**
- 2. Thanks John Dick for his contribution and work undertaken as initially Chair and later as an independent member of Council's Audit Panel.*
- 3. Advertises for a suitable person to replace John Dick as Council's other independent Panel member."*

An advertisement for a Panel member has been published in The Examiner and in Island News with the closing date being 2 April 2019.

Noted.

Standing Invitation to Mayor

At the January Audit Panel meeting, the Panel agreed that they were happy for the Mayor to receive a standing invitation to attend Audit Panel meetings. At the March 2017 Ordinary Meeting of Council, Council passed motion no. 50.03.2017 in relation to the Audit Panel that included the following as part 2:

“That any other Councillor except the Mayor has a standing invitation to attend any meeting as an observer.”

At the February 2019 Ordinary Meeting of Council, Council readdressed this matter and the following resolution no. 38.02.2019 was carried:

“That Council:

- 1. Rescinds part 2 of motion no. 50.03.2017;*
- 2. Resolves that all Councillors, including the Mayor, receive a standing invitation to attend Audit Panel meetings as observers; and*
- 3. Adopts the revised Audit Panel Charter as per Annexure 19.2.1.”*

The revised Audit Panel Charter was tabled.

11 Airport

John Dick asked if council is missing out on landing fees from private aircraft; if it is possible to obtain fees from those undertaking touch and go training; and if council has considered charging parking fees at the airport. At the time the question was taken on notice.

The General Manager now provides the following response:

We don't believe we are missing out of landing fees by private aircraft as the system captures every take-off and landing. We do not know of any "touch and go training" that occurs at Flinders Airport but can look further into it. These would also be captured in the system. The RAAF have training flights to Flinders from time to time, but these only do a training approach and do not actually touch down on the runway.

Council briefly looked at the potential for charging parking fees at the airport when preparing the 2018/19 budget but without any action. A number of airports charge for carparking, and it may be possible to develop a cost-effective system, even just for long term parking through a carparking station. Major cultural change is however required with expected community angst so if implemented a transitional increase would be desirable. At some stage this matter is expected to be revisited by Council.

Heid noted that council's list of rates and charges for the year did not make clear that the airport passenger and fuel fees were exclusive of GST so council has lost revenue.

AGENDA ITEMS**12 General Manager's Update**

Update on the Federal Government's funding of the airport and safe harbour projects were detailed previously.

OTHER BUSINESS

none

NEXT MEETING June TBA**MEETING CLOSED 1.00pm****ACTION LIST**

| Meeting | Action | Progress |
|----------------|--|--|
| 2019.01.29 | Panel recommended that Council reviews the Investment Policy in view of comments provided and adjusts investment portfolios in line with the new policy. | Investment portfolio reviewed; policy yet to be reviewed |
| | Mark Scanlon to ask Launceston City Council if we could use their Investment Policy as a model. | Completed |
| | Bill Boehm to add review of Cyber Security to the Audit Panel Workplan. | |
| | Bill Boehm to ensure Risk Management Framework is included in Induction Program. | Completed |
| | John Dick to meet with Bill Boehm to discuss additional risks for Risk Management Framework. | |
| | Bill Boehm to develop a statement of Council's risk appetite for Council adoption and add it to the Framework. | |
| | The Panel noted the financial systems update and requested that the item remain on the agenda to follow progress. | Remaining on agenda |
| | Check that the Assetic consultant is complying with the current SLA and draw up a new SLA requesting additional reports. | Will address at year end |
| | Staff to commence land transfer audit process. | |
| | Diana Droog to inform staff if she decides to attend the Audit Panel training. | Completed - did not attend training |
| | Staff to provide requested information on Audit Panel membership to the Director of Local Government. | Completed - Provided in February |
| | Staff to investigate including Mayor in standing invitations to future meetings. | Council approved standing invitation to Mayor in February. |
| | Bill Boehm to provide response to the Panel on John Dick's question on airport fees. | Provided at this meeting. |
| 2019.03.18 | Action: Provide Launceston City Council's Investment Policy to Panel members. | |
| | Action: Bill to populate the Audit Panel Work Plan. | |