

DEVONPORT CITY COUNCIL

AUDIT PANEL

Unconfirmed minutes of meeting held Thursday 13 August 2020
at the paranple centre, 137 Rooke Street Devonport, commencing at 9:00am

1. Attendance/Apologies

Attendees

Members	Robert Atkinson (Chair), Stephen Allen, Cr Leon Perry & Cr Leigh Murphy
Officers	Matthew Atkins, Kym Peebles, Joshua Jackson, Jacqui Surtees
Guests	Cr Annette Rockliff, Mayor

Apologies: Jeffrey Griffith

2. Declarations of Interest

No declarations of interest were declared.

3. Confirmation of Minutes

3.1 Confirmation of Shared Audit Panel Meeting held 30 March 2020

Moved: L Perry, Seconded: S Allen

The panel resolved to accept the minutes as an accurate reflection of the record of the meeting.

3.2 Business Arising

Covered in the Action Register

RA noted that he had received a letter from the GM and Mayor acknowledging the 2019 Annual Evaluation Report and providing comment on the suggested recommendations. He has confidence that Council is aware of the issues raised and they will be resolved over time.

MA noted the review of the shared panel arrangements at the end of this year may impact some of the decisions regarding those recommendations.

Action: Add to the next agenda

SA asked for an update regarding the budget scenarios that were presented at the last audit panel meeting. MA confirmed we presented 3 scenarios based on worst case, most likely and best case, and advised that we went with the second one.

4. Reports for Discussion

4.1 Annual Financial Statements

RA noted the mammoth effort by JJ and KP in preparing the financial statements. He noted that as a stand alone report it can be technically

difficult to understand and that when combined with the Annual Report which expands more on operational, budgeting and strategic matters, it tends to make more sense. He commended KP & JJ for getting the draft completed.

RA noted that he had met with JJ and KP prior to the Audit Panel meeting and gone through some matters and obtained confidence that they were aware of the issues he had noted and that they had given due consideration to those items.

KP agreed that the report can be difficult to read and gave an overview of some items of significance:

- 2020 result is shown as 4 different figures – the operating result, financial statement result, the total comprehensive result, and the underlying surplus/deficit. The underlying deficit is the figure that is reported and will be compared to other councils. The 2020 figure is just under \$1.2M deficit.
- Impact of COVID – The COVID response committee was set up in March; a decision taken by Council to ease the economic impacts on the community. As a result, parking fees were waived from 25 March to 15 June which had an impact of \$300K reduction to revenue. The committee also waived late fee penalties on the April rates instalment (\$28K impact) and waived ground charges for sports clubs (\$24K impact). Rental for community groups was also waived at a cost to Council of \$4K. In addition, Council followed the guidelines from the State Government in relation to commercial tenants and waived/halved rent as required.

The closure of facilities and meeting rooms also had an impact on revenue, but that is difficult to quantify.

Expenditure on Materials & Services also reduced in the 4th quarter as managers restricted discretionary spending and some facilities not being open also had an impact. Materials and services expenditure reduced by \$377K.

- There were some additional expenses throughout the year including:
 - Depreciation on multi-purpose building;
 - Movement in the swaps – the interest rate decreased 3-4 times; and
 - Write off of lease incentive for the Harris Scarfe Lease.

- Overview:
 - Information relating to the impact of COVID will feature in the body of the Annual Report. Information in the Annual Report is more accessible to users and will have a better chance of reaching the target audience than the financial statements.
 - Financial Statements also include additional legislative requirements, for example, significant business activities, and financial ratios. The reporting of financial ratios is a requirement of the Local Government Act.
 - Key financial ratios:
 - Asset sustainability ratio – greater focus this year on renewing existing assets.
 - Net Financial Ratio – has jumped this year due to accounting treatment of leases and reduced cash balance
 - Underlying surplus – target range is between 0-15; this year Council is below target, mostly due to the impact of COVID.
 - Accounting standards applicable for the first time:
 - AASB15 – relates to revenue from contracts with customers including relevant licences with 3rd parties. Council maintains a very small number of licences and the value is not considered material and has not been reported separately.
 - AASB16 Lease Standard – requires Council to bring future leasing arrangements on to the balance sheet. Previously rentals were simply shown as an expense during the year. Local Government is unique in that it has leases with Crown and then sub-leases. Examples are the caravan parks at East Devonport and the Mersey Bluff – Council now has to recognise the right to use the land as an asset, and recognise a liability for the future annual payments. For long-term leases of 30-40 years the impact is almost \$1M.
 - Income for not for profit entities – rates in advance and grants in advance are now being recognised on the balance sheet as contract liabilities and not treated as revenue. For example, the balance of the \$1.8M Levelling the Playing Field grant received during the year but not fully expended, has been reflected on the balance sheet.
- The Chair noted the significance of this to the LIVING CITY project, where \$5M has been put to WIP and is carried as an asset on the balance sheet but the grant to reimburse these costs when agreed milestones are met, cannot be brought to account. He noted it is an anomaly because recurrent grants that are not tied to any project, are accounted for as revenue

on receipt, not deferred to the year they are expected to be expended.

- Further impacts of COVID:
 - Asset Valuations – The Valuer General has given advice that the municipality wide valuation has been put back a year. This impacts Council as that valuation is used for some of our properties. A decision will need to be made next year as to how Council values those properties. There would obviously be costs involved if any independent market valuations were required.
 - Movement in TasWater – Council has been required to make a negative adjustment of \$23M to the carrying value of its investment in TasWater, reducing it back to close to what it was when TasWater was first formed. In addition, there will be no final dividend for 19/20, nor will a dividend be paid in 20/21. LM questioned why this was the case? KP advised that TasWater had revalued their assets applying higher capitalisation earning rates. MA advised that management representatives were briefed, but there was nothing definite.
 - Collection of Rates – Council implemented a Hardship policy for residential and commercial ratepayers – to date many have been grateful for Council agreeing to waive the penalty on late payment of rates and have then made the effort to pay by the end of June.
 - LM noted that the impact may be seen more in the second quarter of this year, or June next year.
- Interest Rate Swaps – these are fixed rate instruments, but Council books the movement in current market value at the end of each year, Movement has now expected to have peaked and Council will benefit as swaps mature in the future.

SA mentioned that it was important to ensure the risk was being managed appropriately. KP stated that the majority of swaps will be finalised in the next 2-3 years. RA noted that the risk in cash flow terms is quantifiable based on the fixed rate, but the accounting standard picks up, as an expense, the movement in market value based on the variable rate currently applicable to like financial products. The cashflow doesn't change, you know exactly what the commitment is because it is locked in at a manageable rate.
- LM suggested looking at the multi-level car park to see how revenue from there could be increased. RA noted that until we

see the full emergence of LIVING CITY it will be hard to see what the long-term impact will be, but it needs to be managed as best as possible.

RA noted that he had met with Kym and Josh prior to the meeting and raised a number of items to be reviewed; of note he asked if Councillors were aware of the requirements of Note 44 – do they know what credit risk, market risk, interest rate risk, and liquidity risk policies and mitigation strategies are? He suggested that there should be a broad understanding across Council.

SA noted that his minor suggestions would be emailed directly to Kym.

RA noted that the Financial Report has been reviewed. He is satisfied proper procedures and processes have been followed in the preparation of the report and recommends to Council that subject to the resolution of the issues identified, the report should be adopted.

SA endorsed that the following points in the work plan have been achieved:

- Review whether Council has adopted and complied with appropriate accounting standards (eg Australian Accounting Standards)
- Review any significant financial reporting issues, estimates and judgements which the financial statement may contain, including TAO reviews
- Review the veracity and quality of financial and non-financial information provided by the Council in its financial statements, internal and external reports – for example, actual and potential material audit adjustments, financial report disclosures.
- Review the consistency and adequacy of Council's accounting policies and practices
- Review the method used to account for significant or unusual transactions
- Review significant variances to budget and management commentary relating thereto.

4.2 Openness & Transparency

MA advised that after several motions were raised at last year's AGM around openness and transparency, Council determined to see what steps could be put in place to go above and beyond statutory requirements. The suggestions will be workshopped with Council in September.

Action: Follow up to be included at the next meeting

5. Reports for Information

5.1 Risk Management

5.2 Major Projects

Information relating to 5.1 and 5.2 was noted as included with the agenda.

6. General Business

6.1 Annual Work Plan

Initial discussions have been held with Central Coast Council re the Annual Work Plan.

MA asked for clarification regarding the listed item 'General Manager's risk assurance declaration' – SA advised he would send a template through.

Action: List for next meeting

Meeting closed: 10:31am

Next meeting: 16 November 2020 – venue TBC