



# Audit Committee

## NOTICE OF MEETING

Notice is hereby given that a meeting of the Audit Committee will be held in the

**Kingston Room, Civic Centre  
24 Jetty Road, Brighton**

**Wednesday 29 August 2018 at 6.30pm**

Justin Lynch  
CHIEF EXECUTIVE OFFICER

Please note: This agenda contains Officers' reports and recommendations that will be considered by the Committee. Any confidential items listed on the agenda will be circulated to Members separately.



## Audit Committee Agenda

### 1. OPENING

The Chairman, Councillor Smedley will declare the meeting open at \_\_\_\_\_ pm.

### 2. APOLOGIES

2.1 Apologies received

2.2 Absent

### 3. DECLARATION OF INTEREST

*If a Member has an interest (within the terms of the Local Government Act 1999) in a matter before the Committee they are asked to disclose the interest to the Committee and provide full and accurate details of the relevant interest. Members are reminded to declare their interest before each item.*

### 4. CONFIRMATION OF MINUTES

#### Motion

**That the minutes of the Audit Committee held on 6 June 2018 be taken as read and confirmed.**

Moved \_\_\_\_\_, Seconded \_\_\_\_\_

**Carried**

### 5. ACTION ITEMS

### 6. REPORTS BY OFFICERS

6.1 Standing Items – August 2018 (Report No: 297/18)

6.2 2017-18 Audit Committee Self Assessment (Report No: 296/18)

6.3 Revaluation of Open Space Assets and Coastal Assets as at 30 June 2018 (Report No: 299/18)

6.4 Brighton Oval Complex – Redevelopment (Report No: 304/18)

### 7. 2018-19 FORWARD PROGRAM

### 8. URGENT BUSINESS – Subject to the Leave of the Meeting

### 9. CONFIDENTIAL ITEMS

9.1 Loan Receivables (Report No: 298/18)

Pursuant to Section 83(5) of the Local Government Act 1999 the Report attached to this agenda and the accompanying documentation is delivered to the Audit Committee Members upon the basis that the Audit Committee consider the Report and the documents in confidence under Part 3 of the Act, specifically on the basis that Audit Committee will receive, discuss or consider:

- d. commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and would, on balance, be contrary to the public interest.

**10. DATE AND TIME OF NEXT MEETING**

The next meeting of the Audit Committee will be held on Wednesday 17 October 2018 in the Kingston Room, Civic Centre, 24 Jetty Road, Brighton.

**11. CLOSURE**

**JUSTIN LYNCH**  
**CHIEF EXECUTIVE OFFICER**



**AUDIT COMMITTEE  
ACTION ITEMS  
As at 06 June 2018**

<b>Meeting</b>	<b>Agenda Item</b>	<b>Action Required</b>	<b>Responsibility</b>	<b>Estimated Completion Date</b>	<b>Current Status</b>
4 April 2018	6.6 2017 Audit Committee Annual Report	The Committee to undertake self-assessment questionnaire prior to the next meeting.	R. Bria	29 August 2018	Self – Assessment questionnaire to be sent out after this meeting and surveys to be sent back prior to next meeting so that a report can be compiled on the results.



Item No: **6.1**  
Subject: **STANDING ITEMS – AUGUST 2018**  
Date: 29 August 2018  
Written By: Manager Finance  
General Manager: Business Services, Mr R Bria

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### **SUMMARY**

The Audit Committee is provided with a report on standing items at each ordinary meeting.

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### **RECOMMENDATION**

**That the Audit Committee advises Council it has received and considered a Standing Items Report addressing:**

- **Monthly financial statements**
  - **Internal control**
  - **Risk management**
  - **Whistleblowing**
  - **Internal audit**
  - **Economy and efficiency audits**
- 

### **COMMUNITY PLAN**

Culture: Enabling high performance  
Culture: Being financially accountable  
Culture: Supporting excellent, efficient operations

### **COUNCIL POLICY**

Not applicable

### **STATUTORY PROVISIONS**

*Local Government Act 1999, Sections 41 and 126*  
*Whistleblowers Protection Act 1993*

## **BACKGROUND**

At its meeting on 23 January 2008, the Audit Committee resolved that a report be included in the agenda of each meeting of the Committee addressing the following standing items:

- Monthly financial statements
- Internal control and risk management
- Whistle blowing
- Internal audit
- Economy and efficiency audits

Also included in this Standing Items report is an item to formally advise the Committee of the outcomes of its recommendations and advice to Council. This is aimed at 'closing the communication loop' between the Committee and Council.

## **REPORT**

### ***Monthly Financial Reports***

Members of the Committee receive copies of the monthly financial reports as soon as practical after they are provided to Council.

Financial reports for Municipal and Alwyndor operations for the month ended 31 May 2018 were considered by Council at its meeting on 26 June 2018. Members of the Committee have received copies of the May report.

The preliminary 30 June 2018 report was presented to Council on 14 August 2018 and members of the Committee received a copy of this report.

### ***Risk Management***

Administration is not aware of any material changes to Council's risk profile not otherwise disclosed since the previous Standing Items Report on 6 June 2018.

### ***Internal Controls***

Administration is not aware of any material changes to Council's internal controls not otherwise disclosed since the previous Standing Items report on 6 June 2018.

Internal controls have been self-assessed and reviewed by managers during March and April 2017 using the ControlTrack software product. Council's internal auditor, Bentleys, facilitated this process, and it is expected that Council's external auditor will review the assessments and outcomes as part of the 2017-18 transaction audit. A summary of the ControlTrack assessment by Bentleys is attached.

*Refer Attachment 1*

**Internal Audit**

As part of the 3 year internal audit plan Council's internal auditor, Bentleys, conducted an internal audit of Human Resource Management during May 2018. A report on the outcome is attached.

*Refer Attachment 2*

Bentley's have also provided their annual report on the progress of internal audit actions which is attached.

*Refer Attachment 3*

**External Audit**

Council's external auditor, BDO, completed their interim 2017-18 transaction audit of Council and Alwyndor activities. They will attend Council offices in September 2018 to complete the 2017/18 audit. An audit completion report will be provided to the Audit Committee in October 2018.

**Whistle-Blowing**

There have been no whistleblower complaints made to Council since the previous standing items report on 6 June 2018.

**Sec 130A Economy and Efficiency Audits**

Council has not initiated any review pursuant to section 130A of the *Local Government Act* since the previous Standing Items Report on 6 June 2018.

**Council Recommendations**

At its meeting on 12 June 2018 Council received the minutes and endorsed the recommendations of the meeting of the Audit Committee held on 6 June 2018.

At its meeting on 14 August 2018 Council resolved the following in regards to the Brighton Oval Sporting Complex Redevelopment:

*"That the background papers supporting the motion, together with all other supporting documentation including the internal/external correspondence, budgets, cash flow forecasts, feasibility statements and memos concerning the recommendation that the Managing Contractor model be adopted as the prudent option, and a copy of the subsequent tender documents be presented to Audit Committee for review and comment."*

A report is included in this Agenda at 6.4 to address this Council resolution.

**BUDGET**

This report does not have any budget implications.

**LIFE CYCLE COSTS**

This report does not have any full life cycle costs implications.

Where you want to be.



**July 2018**

## City of Holdfast Bay

### 2017-18 ControlTrack Assessment Summary Report

David Papa, Partner, Risk & Assurance  
Level 2, 139 Frome St, Adelaide SA 5000  
Telephone +61 8 8372 7900 | Mobile 0412 219 804  
[advice@adel.bentleys.com.au](mailto:advice@adel.bentleys.com.au) | [bentleys.com.au](http://bentleys.com.au)

▶ Advisors

▶ Accountants

▶ Auditors

23 July 2018

Roberto Bria  
General Manager, Business Services  
City of Holdfast Bay  
PO Box 19  
BRIGHTON SA 5048

**Bentleys (SA) Pty Ltd**

Level 2  
139 Frome Street  
Adelaide SA 5000

GPO Box 939  
Adelaide SA 5001

ABN 74 852 475 418

T +61 8 8372 7900

F +61 8 8372 7999

admin@adel.bentleys.com.au  
bentleys.com.au

Dear Roberto

**2017-18 ControlTrack Assessment Summary Report**

Please find attached our summary report on the status of ControlTrack assessment for the City of Holdfast Bay and Alwyndor Aged Care as at 23 July 2018.

We would like to take this opportunity to thank management and staff for the assistance provided to us during the assessment.

If you have any queries, please feel free to contact me on 08 8372 7900 at any time.

Yours sincerely



David Papa  
Partner

Enclosure

## Contents

<b>Executive summary .....</b>	<b>4</b>
<i>Introduction .....</i>	<i>4</i>
<i>Background.....</i>	<i>4</i>
<i>2017-18 Control Effectiveness .....</i>	<i>4</i>
<i>Control Rating and Future Consideration .....</i>	<i>7</i>
<i>Acknowledgement .....</i>	<i>7</i>
<b>Appendix 1 City of Holdfast Bay 2017-18 ControlTrack Assessment Action Plans Status .....</b>	<b>8</b>
<b>Appendix 2 City of Holdfast Bay Controls with Rating Zero for 2017-18.....</b>	<b>12</b>
<b>Appendix 3 Alwyndor Aged Care 2017-18 ControlTrack Assessment Action Plans Status .....</b>	<b>14</b>

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### Inherent Limitations

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to this review operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by City of Holdfast Bay management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed. The findings expressed in this report have been formed on the above basis.

### Third Party Reliance

This report is solely for the purpose set out in the Official Order and for City of Holdfast Bay information, and is not to be used for any other purpose or distributed to any other party without Bentleys (SA) Pty Ltd's prior consent.

This summary report has been prepared at the request of City of Holdfast Bay management or its delegate. Other than our responsibility to the management of City of Holdfast Bay, neither Bentleys (SA) Pty Ltd nor any member or employee of Bentleys (SA) Pty Ltd undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to City of Holdfast Bay external advisors, on this summary report. Any reliance placed is that party's sole responsibility. Liability limited by a scheme approved under Professional Standards Legislation.



## Executive summary

### Introduction

Internal control is one of the foundations of a robust corporate governance framework. Financial internal control, as a part of a Council's broader internal control processes, focuses on Council's financial processes and functions that deal with, but are not limited to, budgeting, financial reporting, transaction processing, financial delegations, treasury management and infrastructure management. ControlTrack sets out a framework and guidelines within which Councils can establish "better practice" financial internal control management.

### Background

Bentleys (SA) Pty Ltd was engaged to facilitate the control self-assessment in ControlTrack for both the City of Holdfast Bay (Council) and Alwyndor Aged Care (Alwyndor) in 2017-18. Council has been Trustee of the Dorothy Cheater Trust since 1973. As trustee, the Council is responsible to ensure the Trust is operated by Alwyndor in such a way to provide the benefits outlined in the Trust.

We facilitated the ControlTrack self-assessment by conducting the following:

- We initiated and reviewed assessment through email notifications and reminders to assessors and/or reviewers;
- We tested the effectiveness of the relevant controls where require a designated auditor to review, such as Other Revenue and Contracting;
- We provided advice to the assessors and/or reviewers regarding the accounting queries and the use of system; and
- We identified the material rating fluctuation of the controls from the last financial year 2016-17 and facilitated the reviewers to complete assessment and correct the errors.

During the ControlTrack assessment, the Council and Alwyndor applied risk management techniques to

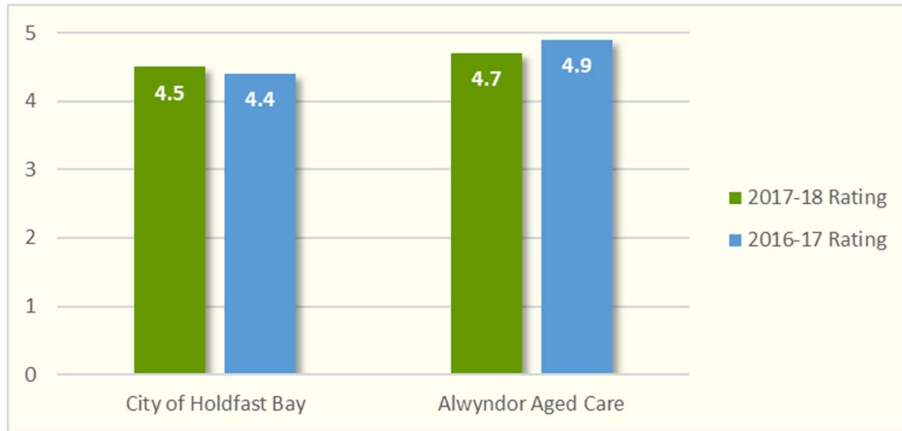
- Identify the financial risks faced by the Council and Alwyndor;
- Assess each of the identified financial risks;
- Assess Council's and Alwyndor's existing financial internal controls;
- Develop and implement effective financial internal controls to address the identified risks; and
- Perform regular review of the effectiveness of Council's and Alwyndor's financial internal controls.

It was management's responsibility to ensure that proper consideration was given to rate controls, from one (1, meaning significantly ineffective) to five (5, meaning effective). Where the control rating was three (3) or below, an Action Plan was developed to address the gaps. Arrangements were put in place to monitor the progress on the implementation of Action Plans by management.

### 2017-18 Control Effectiveness

The overall outcome of the 2017-18 ControlTrack self-assessment was satisfactory with the average rating of control effectiveness for the Council and Alwyndor being 4.5 and 4.7 respectively. Details are listed in Figure 1 next page:

Figure 1: Control Effectiveness for Group 2017-18 vs 2016-17



Within the ControlTrack framework, the following six (6) risk categories identified from the Council's and Alwyndor's financial processes and functions were assessed:

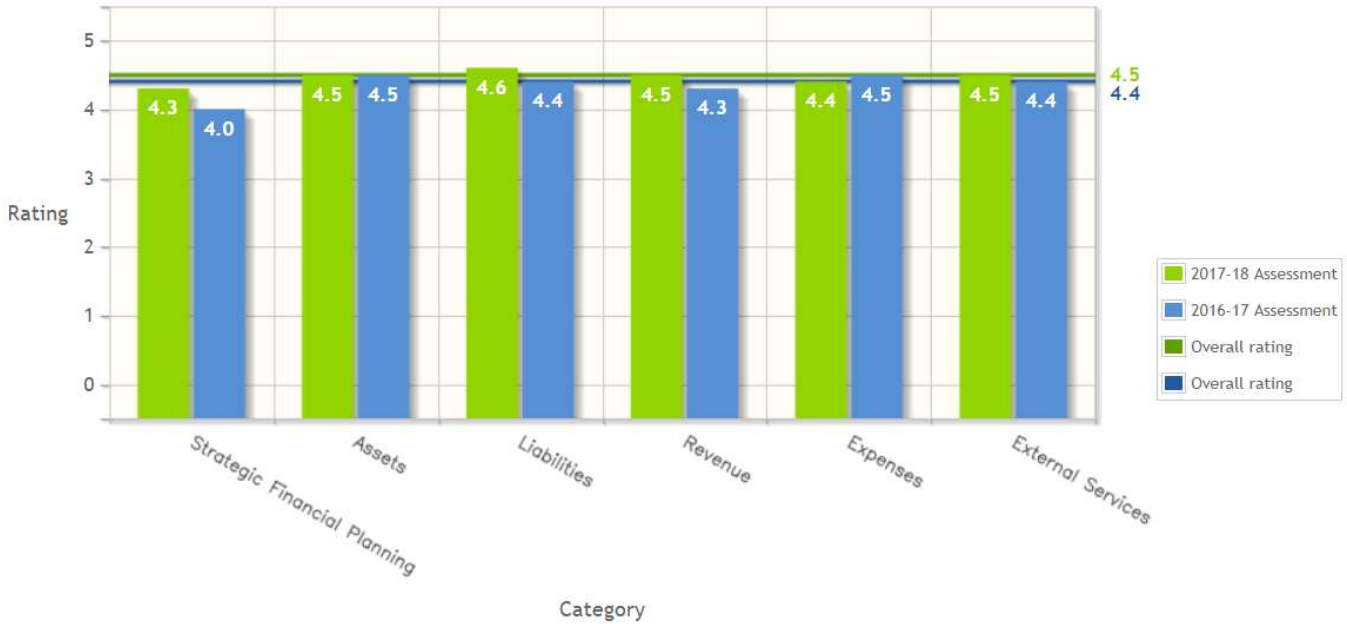
- Strategic Financial Planning;
- Assets;
- Liabilities;
- Revenue;
- Expenses; and
- External Services.

➤ City of Holdfast Bay

Council has maintained a largely effective control environment with further improvement accomplished in 2017-18. The Council has improved controls relating to four (4) risk categories – Strategic Financial Planning, Liabilities, Revenue, and External Services in 2017-18, compared to the control effectiveness for 2016-17. Although the control ratings between 4.3 and 4.6 show room for improvement should management see value in doing so, we believe that current controls are sufficient for the associated risks mitigated (for details refer to Figure 2 next page). Council needs to identify areas they believe require further improvement, however, when Council invests resources into the internal control framework, they need to ensure a cost-effective principle is adopted, assessing the level of benefit obtained versus the costs incurred.



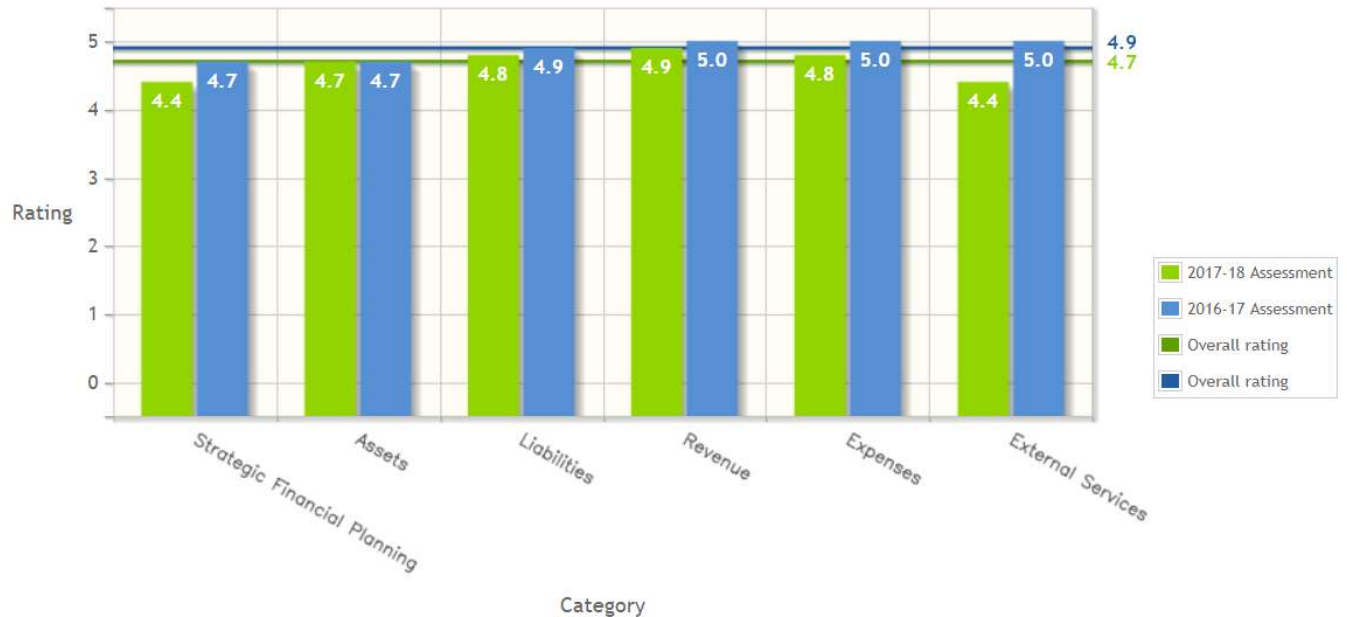
Figure 2: Control Effectiveness for Council 2017-18 vs 2016-17



► Alwyndor

Alwyndor has maintained a largely effective control environment in 2017-18. There was a slight drop of the average rating of control effectiveness from 4.9 in 2016-17 to 4.7 in 2017-18 (for details refer to Figure 3 below). This was mainly due to the change of the key assessor and reviewer. A new Chief Financial Officer appointed in 2017-18 led her team to assess the current control environment. The 2017-18 results reflected that the controls over the risk of Strategic Financial Planning and External Services show room for improvement should management see value in doing so.

Figure 3: Control Effectiveness for Alwyndor 2017-18 vs 2016-17



## Control Rating and Future Consideration

Rating of the controls assessed is summarised below:

### ► City of Holdfast Bay

Of the 302 controls assessed in this program for 2017-18, a total of 13 (4%) (2016-17: 24) were rated between one (1) and three (3) with the corresponding Action Plans developed by management. It should be noted that:

- All of the 13 Action Plans (100%) were Low Priority but were reported by management as Not Started at the time of reporting (20 June 2018). The original target completion date was 25 April 2018. Nine (9) of these controls were previously rated as High or Medium Priority in 2016-17. We recommend that management review priorities and complete all required actions by the scheduled deadline. For details refer to Appendix 1.
- There were two (2) Core and four (4) Additional controls relating to the Inventory, Accounts Payable, and Rates/Rate Rebates processes rated as zero (0) by the assessor and the reviewer as they believe there were no transactions of this type during the year (for details refer to Appendix 2). We were advised that management decided to remove these controls but could not action due to the system setting. The Council will review and remove these controls in the planning stage of the next financial year's review as they are planning to have a new version of ControlTrack.
- Based on our industry experience from most metropolitan Local Government Councils, Councils tend to apply comprehensive financial controls to mitigate risks of fraud and error, improving reliability of financial reporting and compliance with legislation and policies. The SALGFMG "Better Practice Model" also requires a Council to ensure that its resources are allocated in the most appropriate manner. Therefore, we recommend that the Council review and assess the necessity of the controls implemented to achieve the operational and financial objectives as well as compliance with the *Local Government Act*.

### ► Alwyndor Aged Care

Of the 272 controls assessed in this program for 2017-18, a total of 21 (7.7%) were rated between one (1) and three (3) (2016-17: 15) with the corresponding Action Plans developed by management. It should be noted that:

- All of the 21 Action Plans (100%) were Low Priority but were reported by management as Not Started at the time of reporting (20 June 2018). The original target completion date was prior to 15 June 2018. We recommend that management prioritise resources to complete all actions by 30 June 2018 to ensure the quality of end-of-year financial reporting. For details refer to Appendix 3.
- There were no controls rated as zero (0).

We encourage the Audit Committee to review the Audit Plan for its currency and advise of any required change to reflect the control weaknesses identified in this 2017-18 ControlTrack self-assessment program.

## Acknowledgement

We appreciate the assistance and cooperation received from management and staff of the City of Holdfast Bay and Alwyndor Aged Care in completing the ControlTrack assessment.

## Appendix 1 City of Holdfast Bay 2017-18 ControlTrack Assessment Action Plans Status

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
1	Strategic Financial Planning	General Ledger	Formal disaster recovery plan adopted by Council or Senior Executive. BPM Control Type: Core Control code: STR-GEN-0011	3	In Progress Due date: 31/12/2018 Priority: Low	Assessor: Pam Jackson Reviewer: Roberto Bria	Disaster Recovery Plan to be reviewed and endorsed. Including more detail in a procedural sense.	Pam Jackson: DR plan is documented. Tech One Cloud protects key Council data assets. Office365 will protect email systems and file stores. No routine DRP test, including testing how cloud data can be reused. Roberto Bria: DRP reviewed now that we have moved TechnologyOne applications to Cloud, however further procedural review required.
2	Revenue	Grants	Council (including Alwyndor) has a clear policy on Grant funding detailing assessment process, recognition, treatment, claim collection, community expectations and funding period and, disclosure of any conflicts of interest. BPM Control Type: Core Control code: REV-GRA-0001	3	In Progress Due date: 31/10/2018 Priority: Low	Assessor: John Newton Reviewer: Roberto Bria	Implementation of the Grants register	John Newton: The Council is implementing a new Tech One Grants Register which will address all the internal controls relating to grants. It is planned to go live in September. Roberto Bria: Needs to be implemented.
3	Revenue	Grants	Management and/or Council to approve all grants (prior to funds being received by Council (including Alwyndor)) to ensure that Council (including Alwyndor) will be able to meet the terms and obligations of the grant, and that the grant is in line with the Council (including Alwyndor)'s Strategic Objectives. BPM Control Type: Core Control code: REV-GRA-0003	3	In Progress Due date: 31/10/2018 Priority: Low	Assessor: John Newton Reviewer: Roberto Bria	Implementation of the Grants register	John Newton: The Council is implementing a new Tech One Grants Register which will address all the internal controls relating to grants. It is planned to go live in September. Roberto Bria: Some grants appear to be applied for without formal management or Council approval.

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
4	Revenue	Grants	Management performs regular review of all grant income and to monitor compliance with both the terms of grants and Council (including Alwyndor)'s Grant policy (including claiming and collecting funds on a timely basis). BPM Control Type: Core Control code: REV-GRA-0004	3	In Progress Due date: 31/10/2018 Priority: Low	Assessor: John Newton Reviewer: Roberto Bria	Implementation of the Grants register	John Newton: The Council is implementing a new Tech One Grants Register which will address all the internal controls relating to grants. It is planned to go live in September. Roberto Bria: The implementation of the Grants register should be a priority.
5	Revenue	Grants	Grant funding should be identified at the budget formulation stage with funding received compared to budget and funding agreement; management reviews and investigates significant variances. BPM Control Type: Additional Control code: REV-GRA-0005	3	In Progress Due date: 31/10/2018 Priority: Low	Assessor: John Newton Reviewer: Roberto Bria	Implementation of the Grants register	John Newton: Grants are investigated as part of the budget process, especially through the new initiative and business case formulation, and annual operational grants. review is carried out as part of the budget development. The Council is implementing a new Tech One Grants Register which will address all the internal controls relating to grants. It is planned to go live in September. Roberto Bria: Major grants are identified as part of the budget development process and are included in all budget discussions. Grants register to be implemented.
6	Revenue	Grants	Council (including Alwyndor) establishes a grant revenue register which records details such as reporting deadlines, amount and instalments expected and key milestones. BPM Control Type: Additional Control code: REV-GRA-0006	3	In Progress Due date: 31/10/2018 Priority: Low	Assessor: John Newton Reviewer: Roberto Bria	Implementation of the Grants register	John Newton: The Council is implementing a new Tech One Grants Register which will address all the internal controls relating to grants. It is planned to go live in September. Roberto Bria: The implementation of the Grants register should be a priority.
7	Revenue	Grants	Authorised officers and/or Council (including Alwyndor) to approve all grants (prior to funds being received by Council (including Alwyndor)) to ensure that Council (including Alwyndor) will be able to meet the terms and obligations of the	3	In Progress Due date: 31/10/2018 Priority: Low	Assessor: John Newton Reviewer: Roberto Bria	Implementation of the Grants register	John Newton: The Council is implementing a new Tech One Grants Register which will address all the internal controls relating to grants. It is planned to go live in September. Roberto Bria: The implementation of the Grants register should be a priority.

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
			grant, and that the grant is in line with the Council (including Alwyndor)'s Strategic Objectives. BPM Control Type: Core Control code: REV-GRA-0007					
8	Expenses	Purchasing and Procurement	Purchase orders are issued in accordance with the Council (including Alwyndor)'s Purchasing and Procurement Policy. BPM Control Type: Core Control code: EXP-PUR-0003	3	In Progress Due date: 30/03/2019 Priority: Low	Assessor: Melissa Kretschmer Reviewer: Roberto Bria	Refresher training to occur and investigate use of purchase cards for low value purchases.	Melissa Kretschmer: City Assets have commenced a process to formalise a preferred contractor register. The WHS Contractor Management policy and procedure are currently being reviewed and updated by an external consultant, in consultation with Governance and WHS. There will be an allocation of an additional resource to the Governance team in September which will address all the purchasing and procurement action plans. The due dates for this should be later in the financial year – suggest March 2019. Roberto Bria: The system requires all purchases over \$2000 to have a purchase order. A process is in place to monitor compliance with this expectation.
9	Expenses	Purchasing and Procurement	Review purchasing patterns and purchases made from non-preferred suppliers; management regularly reviews this report and investigates significant/unusual items. BPM Control Type: Additional Control code: EXP-PUR-0005	2	In Progress Due date: 30/03/2019 Priority: Low	Assessor: Melissa Kretschmer Reviewer: Roberto Bria	Improve the contract management system	Melissa Kretschmer: As the preferred contractor system is still under development, it has not yet been possible to undertake such a review. A review of high level spending with non-preferred suppliers to identify any areas for improvement has been undertaken in the past, and we are still working through these areas to establish more contracts. Roberto Bria: This system is still being developed.
10	Expenses	Purchasing and Procurement	Robust selection process of preferred suppliers. Criteria for supplier selection is defined and communicated by management to ensure that goods and services are obtained only from properly authorised suppliers. BPM Control Type: Additional Control code: EXP-PUR-0006	3	In Progress Due date: 30/03/2019 Priority: Low	Assessor: Melissa Kretschmer Reviewer: Roberto Bria	Improve the contract management system	Melissa Kretschmer: When panels of preferred suppliers are established, this is done using a tender process to ensure that all aspects of the business are formally evaluated in line with relevant evaluation criteria. Council is also establishing a Preferred Contractor List for smaller and less frequent suppliers, and a requirement of this process is completion of a WHS Contractor Induction Handbook. There are still some purchases that fall outside these processes. Roberto Bria: Selection process for preferred suppliers have been refined and compliance with procurement processes are being monitored. Reviews of procurement show an improvement in compliance with selection processes.

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
11	Expenses	Purchasing and Procurement	Periodic review of all contracts and purchase to ensure that Council (including Alwyndor) achieves value for money from suppliers. BPM Control Type: Additional Control code: EXP-PUR-0007	3	In Progress Due date: 30/03/2019 Priority: Low	Assessor: Melissa Kretschmer Reviewer: Roberto Bria	Improve the contract management system	Melissa Kretschmer: Contracts should be reviewed on a ongoing basis by the contract managers, to ensure that contractors are complying with the requirements of the contract. Contracts are also reviewed prior to be extended or going back to the market. Roberto Bria: Improvements to the contract management system are being implemented and should include contract review.
12	Expenses	Purchasing and Procurement	Staff provided clear guidance and instructions as to the importance of using preferred suppliers for the purchase of goods and services. BPM Control Type: Additional Control code: EXP-PUR-0009	3	In Progress Due date: 30/03/2019 Priority: Low	Assessor: Melissa Kretschmer Reviewer: Roberto Bria	Implement preferred contractor register	Melissa Kretschmer: A Preferred Contractor Register is still being developed. The importance of using preferred suppliers and the benefits of doing so, were outlined in procurement training in December 2017. Roberto Bria: P2P recommendations being implemented.
13	External Services	Contracting	On-going contract management process that identifies and manages deliverables, key contract clauses, responsibilities, milestones and includes dispute resolution procedures. BPM Control Type: Additional Control code: EXT-CON-0009	3	In Progress Due date: 30/03/2019 Priority: Low	Assessor: Melissa Kretschmer Reviewer: Ian Walker	Ensure policy framework supports responsibility of managers to manager contracts. Include training.	Melissa Kretschmer: Contract Managers are required to manage their contract to a level that is suitable for the particular agreement. Roberto Bria: Standard contract documents and templates are used for all major purchases to ensure key clauses, milestones and dispute procedures are included. However, some managers not managing the obligations and expectations under the contracts.

## Appendix 2 City of Holdfast Bay Controls with Rating Zero for 2017-18

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
1	Assets	Inventory	All inventory write-offs and provisions for obsolescence to be approved by management in accordance with delegations of authority. BPM Control Type: Core Control code: ASS-INY-0010	0	Not started Due date: Not set Priority: Not set	Assessor: Lyn Fuller Reviewer: John Newton		Lyn Fuller: Inventory module in Finance 1 is largely unused and needs to be decommissioned. Other methods of controlling inventory are in place and most supplies are purchased on an as needs basis and costed accordingly. John Newton: Inventory system not being used due to nature of JIT purchasing. Annual stocktake done on yearly basis to check remaining items recorded on system.
2	Assets	Inventory	Inventory ageing reports are prepared and analysed regularly. BPM Control Type: Additional Control code: ASS-INY-0013	0	Not started Due date: Not set Priority: Not set	Assessor: Lyn Fuller Reviewer: John Newton		Lyn Fuller: Inventory module in Finance 1 is largely unused and needs to be decommissioned. Other methods of controlling inventory are in pace and most supplies are purchased on an as needs basis and costed accordingly. John Newton: Inventory system not being used due to nature of JIT purchasing. Annual stocktake done on yearly basis to check remaining items recorded on system.
3	Liabilities	Accounts Payable	Goods returned notes are matched to credit notes; differences are investigated promptly. BPM Control Type: Additional Control code: LIA-ACC-0012	0	Not started Due date: Not set Priority: Not set	Assessor: Kate Pillay Reviewer: Lyn Fuller		Kate Pillay: We only get adjustment/credit notes Lyn Fuller: Not applicable
4	Revenue	Rates/Rate Rebates	Authorised officers verify all pensioner concession entitlement information provided annually by government departments. BPM Control Type: Core Control code: REV-RAT-0014	0	Not started Due date: Not set Priority: Not set	Assessor: Megan Woolford Reviewer: John Newton		Megan Woolford: This control is no longer valid as Council does not administer the pensioner concessions due to changes in legislation, the State Government now provides eligible pensioners and self funded retirees with a Cost of Living concession. The State Government send cheques direct to pensioners and self funded retirees John Newton:
5	Revenue	Rates/Rate Rebates	Maintain an audit trail of all weekly updates of pensioner concession information. All updates approved by management and independently matched to	0	Not started Due date: Not set Priority: Not set	Assessor: Megan Woolford Reviewer: John Newton		Megan Woolford: This control is no longer valid as Council does not administer the pensioner concessions due to changes in legislation, the State Government now provides eligible pensioners and self funded retirees with a Cost of Living concession. The State Government send cheques direct to pensioners and self funded retirees

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
			the property master file. BPM Control Type: Additional Control code: REV-RAT-0015					John Newton:
6	Revenue	Rates/Rate Rebates	Reconcile all pensioner concession debtors and balancing accounts on a regular basis; management to review reconciliation and investigate any unusual items. BPM Control Type: Additional Control code: REV-RAT-0016	0	Not started Due date: Not set Priority: Not set	Assessor: Megan Woolford Reviewer: John Newton		Megan Woolford: This control is no longer valid as Council does not administer the pensioner concessions due to changes in legislation, the State Government now provides eligible pensioners and self funded retirees with a Cost of Living concession. The State Government send cheques direct to pensioners and self funded retirees John Newton:



## Appendix 3 Alwyndor Aged Care 2017-18 ControlTrack Assessment Action Plans Status

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
1	Strategic Financial Planning	Budgets	Budget managers are accountable for changes to for their budgets and responsible for completing budget reviews that are aligned with strategic plans. BPM Control Type: Core Control code: STR-BUD-0004	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	See comments	Nadia Andjelkovic: This is something we have implemented for the 18/19 fy. Managers where involved in setting their budgets and will be responsible for outcomes. Rick Kluge: Completed by Manager
2	Strategic Financial Planning	Management Reporting	The long term financial plan is reviewed regularly and the performance of KPI's monitored. BPM Control Type: Core Control code: STR-MAN-0004	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Due for review in FY 18/19	Nadia Andjelkovic: to be reviewed and updated in 18/19 fy Rick Kluge: Reviewed
3	Strategic Financial Planning	Management Reporting	Management to confirm the accuracy of the information contained within their respective report. BPM Control Type: Core Control code: STR-MAN-0013	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	See comments	Nadia Andjelkovic: The new finance system will assist in improving accuracy of monthly numbers. Rick Kluge: Reported monthly
4	Assets	Debtors	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items. BPM Control Type: Core Control code: ASS-DEB-0008	3	In Progress Due date: 04/05/2018 extended to 04/08/2018 Priority: Low	Assessor: Pam Warburton Reviewer: Nadia Andjelkovic	Include as a workpaper in the EOM accounts to be reviewed.	Pam Warburton: reviewed on a regular basis Nadia Andjelkovic: reviewed on a regular basis
5	Assets	Inventory	All inventory write-offs and provisions for obsolescence to be approved by management in accordance	3	In Progress Due date: 13/06/2018 extended to 13/09/2018	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	A review of this process is required however we have very minimal circumstances	Nadia Andjelkovic: A review of this process needs to be undertaken. Rick Kluge: Nothing written off this year

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
			with delegations of authority. BPM Control Type: Core Control code: ASS-INY-0010		Priority: Low		where any material inventory write off is required.	
6	Assets	Inventory	Inventory ageing reports are prepared and analysed regularly. BPM Control Type: Additional Control code: ASS-INY-0013	3	In Progress Due date: 25/05/2018 extended to 25/08/2018 Priority: Low	Assessor: Grant Southwell Reviewer: Nadia Andjelkovic	Review current processes with RSM and provide a recommendation for how this should be managed.	Grant Southwell: Most of our inventory is a consumable and generally do not hold more that 1 months supply. FIFO is used where needed i.e. for nutritional supplements and some wound care products. Some improvements can be made in the management of wound care products and a review is currently in progress. Nadia Andjelkovic: As per assessors comments
7	Assets	Prepayments	Procedures document providing clear and comprehensive guidance as to the recognition, treatment and recording of prepayments. BPM Control Type: Core Control code: ASS-PRE-0002	3	In Progress Due date: 25/05/2018 extended to 25/08/2018 Priority: Low	Assessor: Pam Warburton Reviewer: Nadia Andjelkovic	Develop a procedure for the recognition of prepayments and accruals	Pam Warburton: all payments are allocated and receipts generated. New finance system implemented in April. Nadia Andjelkovic: all payments are recognised, allocated and receipts generated
8	Assets	Fixed Assets	Profit or loss on disposal calculations can be substantiated and verified with supporting documentation. BPM Control Type: Additional Control code: ASS-FIX-0005	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Process need to be reviewed and implemented	Nadia Andjelkovic: Improved communication required on disposal of assets (as disposal generally occurs when asset no longer fit for purpose and is being discarded) Rick Kluge: supporting documents are filed
9	Assets	Fixed Assets	Reconciliation of fixed assets to the General Ledger is performed regularly. BPM Control Type: Core Control code: ASS-FIX-0007	2	Not started Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: Not entered onto the fixed assets register until the end of the year. However, once we roll out the new finance system, which includes an asset register this will occur. Rick Kluge: carried out on a regular basis
10	Assets	Fixed Assets	Asset Management Plans exist for all major asset classes and all changes to the asset management plan must be approved by Council. BPM Control Type: Core Control code: ASS-FIX-0008	2	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Long Term Asset Management Plan to be developed	Nadia Andjelkovic: Asset management plan to be undertaken and worked into the long term financial forecast. This has been added as an action item. Rick Kluge: Only applies to Building

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
11	Assets	Fixed Assets	When calculating depreciation reliable figures are available for condition of each asset, unit of measurement, replacement value, residual life and written down replacement value. BPM Control Type: Additional Control code: ASS-FIX-0010	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: Yes, but currently maintained on excel spreadsheets. From 1 July this will transition to a computerised FAR. Rick Kluge: reviewed annually
12	Assets	Fixed Assets	Fixed asset register (FAR) is periodically reviewed by management for accuracy and ongoing pertinence. BPM Control Type: Additional Control code: ASS-FIX-0012	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: reviewed annually Rick Kluge: reviewed annually
13	Assets	Fixed Assets	Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget. Financial data associated with Infrastructure Assets is maintained and reviewed. BPM Control Type: Additional Control code: ASS-FIX-0013	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Process Improvement action plan begin developed	Nadia Andjelkovic: asset purchases and budget comparisons maintained and reviewed regularly, however currently complicated to understand the variance of specific budget items. Action item has been identified for the finance team to improve this process. Rick Kluge: reviewed annually
14	Assets	Fixed Assets	Regular verification of fixed assets are conducted and reconciled to the FAR. BPM Control Type: Core Control code: ASS-FIX-0014	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: review fixed asset register annually. In new finance system this process will be adjusted Rick Kluge: review fixed asset register annually
15	Assets	Fixed Assets	Where appropriate, pre-numbered identification tags are attached to fixed assets such as IT assets, on acquisition to facilitate accurate identification of assets and recording of	3	In Progress Due date: 25/05/2018 extended to 25/08/2018 Priority: Low	Assessor: Grant Southwell Reviewer: Nadia Andjelkovic	Review asset management plan	Grant Southwell: All fixed assets are within secure and locked compounds. Nadia Andjelkovic: All fixed assets are within secure and locked compounds

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
			details. BPM Control Type: Additional Control code: ASS-FIX-0018					
16	Assets	Fixed Assets	Standard programmed formulae perform depreciation calculations. BPM Control Type: Additional Control code: ASS-FIX-0022	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: currently prepared in excel spreadsheets. From 1 July this will transition to a computerised FAR which will then perform the depreciation calculations monthly. Rick Kluge: standard formulas used for calculations
17	Assets	Fixed Assets	Standard programmed formulae perform the calculation of the profit or loss upon disposal of an asset. BPM Control Type: Additional Control code: ASS-FIX-0024	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: currently prepared in excel spreadsheets. From 1 July this will transition to a computerised FAR which will perform the calculations. Rick Kluge: standard formulas used for calculations
18	Assets	Fixed Assets	Asset Management Plan (including plans to obtain sufficient funding to cover expected capital investment) are prepared. The capital investment required is reviewed regularly for appropriateness. BPM Control Type: Core Control code: ASS-FIX-0025	2	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Long Term Asset Management Plan to be developed	Nadia Andjelkovic: Asset management plan to be undertaken and worked into the long term financial forecast. This has been added as an action item. Rick Kluge: Completed for redevelopment of buildings
19	Assets	Fixed Assets	Council (including Alwyndor) has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence. BPM Control Type: Core Control code: ASS-FIX-0029	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	Risk further mitigated by new finance system implementation	Nadia Andjelkovic: Roll out of new Finance System includes Asset Register. This will enable us to effectively monitor adherence on a regular basis. Rick Kluge: Asset Management system at Council has just been implemented. Awaiting possible implementation for Alwyndor
20	Revenue	User Pay Income - Fee for Service	Formal leases, agreements or contracts are required to cover use of Council (including Alwyndor) facilities, sporting grounds, etc. Regularly review conducted to ensure	3	In Progress Due date: 13/06/2018 extended to 13/09/2018 Priority: Low	Assessor: Nadia Andjelkovic Reviewer: Rick Kluge	A formal procedure to better monitor these arrangements will be developed and implemented in FY 18/19.	Nadia Andjelkovic: A formal procedure to monitor these payments will be implemented in the 18/19 fy Rick Kluge: Reviewed on a regular basis

#	Risk Category	Business Process	Control	Rating	Status	Roles	Action Plan	Assessment Comments and Update
			conditions are being met and payments made on time. BPM Control Type: Core Control code: REV-USE-0001					
21	Expenses	Payroll	Management provides access to adequate training in relation to requirements of statutory and enterprise agreements. BPM Control Type: Additional Control code: EXP-PAY-0036	3	In Progress Due date: 15/06/2018 extended to 15/09/2018 Priority: Low	Assessor: Brett Capes Reviewer: Rick Kluge	Training scheduled	Brett Capes: Leadership Training scheduled for 2018. Rick Kluge: Leadership Training scheduled for 2018.



Where you want to be.



July 2018

## City of Holdfast Bay

### Human Resources Management Internal Audit Report

David Papa, Partner, Assurance & Advisory  
Level 2, 139 Frome St, Adelaide SA 5000  
Telephone +61 8 8372 7900 | Mobile 0412 219 804  
[advice@adel.bentleys.com.au](mailto:advice@adel.bentleys.com.au) | [bentleys.com.au](http://bentleys.com.au)

▶ Advisors

▶ Accountants

▶ Auditors

17 July 2018

Roberto Bria  
General Manager Business Services  
City of Holdfast Bay  
PO Box 19  
BRIGHTON SA 5048

**Bentleys (SA) Pty Ltd**

Level 2  
139 Frome Street  
Adelaide SA 5000

GPO Box 939  
Adelaide SA 5001

ABN 74 852 475 418

T +61 8 8372 7900

F +61 8 8372 7999

admin@adel.bentleys.com.au  
bentleys.com.au

Dear Roberto

**Internal Audit Report – Human Resources Management**

Please find attached our report on the Human Resources Management for the City of Holdfast Bay.

We would like to take this opportunity to thank management and staff for the assistance provided to us during the course of our audit.

If you have any queries, please feel free to contact me on 08 8372 7900 at any time.

Yours sincerely



David Papa  
Partner

Enclosure

# Contents

<b>Executive summary .....</b>	<b>4</b>
<i>Background.....</i>	4
<i>Audit objectives.....</i>	4
<i>Audit scope and approach.....</i>	4
<i>Business insight.....</i>	6
<i>Good practices observed.....</i>	6
<i>Key findings and observations.....</i>	7
<i>Controls assessment.....</i>	7
<i>Risk assessment.....</i>	8
<i>Acknowledgement.....</i>	9
<b>Appendix 1.....</b>	<b>10</b>
<i>Detailed findings and agreed action plan.....</i>	10
<b>Appendix 2.....</b>	<b>15</b>
<i>Documents accessed and consultation.....</i>	17
<b>Appendix 3.....</b>	<b>18</b>
<i>Controls assessment.....</i>	18
<b>Appendix 4.....</b>	<b>19</b>
<i>Risk framework.....</i>	19

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 Inherent Limitations

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to this review operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by City of Holdfast Bay management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed. The findings expressed in this report have been formed on the above basis.

#### Third Party Reliance

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## Executive summary

### Background

The Council has engaged Bentleys SA Pty Ltd to conduct an internal audit project – Human Resources (HR) Management in May 2018 in line with the Audit Committees Internal Audit Program.

HR management deals with issues related to compensation, performance management, organisation development, safety, benefits, employee motivation, training and others. HR management plays a strategic role in managing people and the workplace culture and environment.

This report outlines findings and recommendations in respect of HR management.

### Audit objectives

This audit considered whether HR Management is efficient and effective to mitigate the industrial relations risk (#16 of the Council's Risk Workshop Report 2017). The overall objective of the audit was to:

- Gain an understanding of significant business unit processes relating to HR Management;
- Determine risks associated with the systems and processes;
- Identify and evaluate the key controls over these risks;
- Test the key controls over the most significant risks by performance of:
  - walkthrough of the process;
  - sample testing of the HR activities; and
  - review of supporting documentation where appropriate;
- If necessary, agree action plans to improve control effectiveness, and where appropriate, to improve process performance.

Governance objectives, where relevant, were considered. This included an assessment of whether governance processes were in place, including:

- Defined roles and responsibilities;
- Segregation of duties;
- Appropriate levels of delegated authority;
- Monitoring and reporting of abnormal activity; and
- Records management and documented audit trails.

### Audit scope and approach

The audit scope included

#### HR Strategy and policies

- Confirm whether a HR Mission and Strategy is documented and linked to the Council Strategy to achieve the strategic objectives;
- Determine whether the policies and procedures are in place to cover general conditions of employment;
- Determine whether the policies and procedures are compliant with the relevant regulations, enterprise agreements, and awards requirements;
- Determine whether the policies and procedures are implemented consistently; and
- Verify whether regular HR reporting is in place to manage HR information, track key workforce metrics and problem areas.

### **Organisational structure/productivity**

- Determine whether the Council's organisational structure and productivity output on positions are reviewed, analysed and updated on a regular basis to ensure the appropriate skill set available for each business areas;
- Validate whether current position descriptions are in place which document roles and the position relative to organisational strategy; and
- Verify whether a succession plan is in place to ensure the fulfillment of key positions' responsibilities.

### **Recruitment and selection**

- Verify that an integrated workforce planning processes are in place;
- Verify that the processes are in place for internal and external recruitment;
- Verify that processes are in place for pre-screening applicants, scheduling interviews, reference checking; and
- Verify that the process is in place for communicating with applicants, including acknowledging applicants and notifying of outcomes.

### **Performance management**

- Determine whether a regular performance review is in place and a systematic approach is adopted;
- Verify whether the sufficient information is collected to conduct a performance review and retained confidential;
- Verify whether the performance review objectives and results are identified and communicated to employees; and
- Determine whether a support and monitoring mechanism is established to assist employees with feedback.

### **Training and development**

- Verify whether an annual training plan is developed and implemented to ensure that the Council is technically capable to deliver services to the community;
- Determine whether induction and refresher training is provided and registered to employees to ensure their awareness of compliance obligations; and
- Verify whether employee's personal development is supported and ingrained into the culture.

### **Compensation and safety**

- Determine whether a comprehensive WHS program exists and it is in practice; and
- Confirm whether a fair compensation process with systematic components (e.g. position descriptions, pay structures, and market values etc.) is in place.

### **Grievance management**

- Verify whether the consistent treatment process is in place for handling personal grievances in the workplace; and
- Verify whether the grievance is dealt with in a timely manner and a systematic approach is adopted.

Our approach involved reviewing the process, procedures, policies and documentation; interviewing key staff; observation, walkthrough and substantive testing where possible.

Our audit reviewed the key processes and documents which drive the HR management. Refer to Documents Accessed and Consultation (Appendix 3) for detailed information.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

## Business highlight

Council has improved the workplace health and safety (WHS) resulting in reduced incidents and injuries and to ensure that WHS is a priority in the Council's culture. Council has even won a Local Government Association Workers Compensation Scheme (LGAWCS) WHS Best Practice Merit Award.

Council is benefiting not only from a safety workplace but also from a positive workplace in terms of mental health. Mental wellbeing is one of Australia's most burning issues with work-related stress causing a staggering 92% of all work-related mental disorder claims, according to Safe Work Australia<sup>1</sup>. At any given time, approximately one in five Australian workers is likely to be experiencing a mental health condition such as depression or anxiety. This is estimated to cost Australian workplaces \$10.9 billion per year in absenteeism, presenteeism and compensation claims<sup>2</sup>. While most organisations are struggling with managing mental health, the Council is managing it well in terms of:

- Fair Treatment Procedures, Home Based Work Procedure and Reasonable Adjustment Procedure are developed and implemented to build up a quality working culture;
- Employee Assistance Program is in place to provide counselling, coaching and mentoring to the employees with any difficulties at work and/or at home;
- Focus of Wellbeing and Social Committee to ensure high-level management commitment and governance; and
- Relevant training is provided to employees on a regular basis, such as fair treatment.
- Voluntary trained Mental Health First Aid Officers in place across Council.

## Good practices observed

The following good practices were observed during the audit:

- Council HR management is integrated into the Council's Strategic Management Framework (SMF). SMF has the long-term Strategic Plan – Our Place 2030, the mid-term Strategic Pillar Plans, and the short-term Annual Business Plan to ensure the fulfillment of the five strategic objectives including Community, Placemaking, Environment, Economy, and Culture. People & Culture (P&C) strategic objectives primarily fall in the "Culture" Pillar with a few strategies linked to the "Community" Pillar. The key elements of HR management such as the industrial framework, culture branding, reward and recognition, succession planning (e.g. leadership development) etc. are included in the SMF. The actions included in those plans are implemented according to the timeline and the outcomes are assessed.
- P&C emphasizes the development of flexibility and accountability in work practices especially with a position of Business Partner in place to work together with business units rather than only writing and enforcing policies to gain compliance. This builds workplace cultures that can inspire performance and engagement.
- Administration of recruitment, selection and workforce establishments is implemented effectively and consistently. An Employment Contract is signed by the successful applicant as the final confirmation (rates in compliance with the Enterprise Agreement and Awards was out of scope as assessed in the previous Payroll Audit).
- Employee relations are managed effectively including probation and exit processes. Any potential disputes were resolved timely at the line managers' level and never required to be escalated to P&C for a formal investigation.
- Workforce planning and professional development are well managed, including the fair and transparent processes for classification and succession. In order to foster the future leaders, Council provides various programs, such as the Senior Leadership Team mentoring program for managers and the Arising Stars – a ten-month emerging leader plan.
- WHS is managed effectively, including policy review and update, incident management, legislative compliance training, workers compensation and return to work program etc.
- Quality working culture is in place including the equal employment and development opportunity.

<sup>1</sup> Source: <https://iecgroupp.com.au/2018/03/23/mental-health-wellbeing-hot-topic-for-new-workplace-health-safety-show-2018-talks/>.

<sup>2</sup> Source: <https://www.safework.sa.gov.au/health-safety/health-wellbeing/health/psychological-health>.

- HR management reporting of the key areas is in place, including the Staff Turnover Report 2015-17, the Professional Development Annual Statistics 2016-17, the quarterly Workforce Metrics Summary, and the monthly Workforce Establishment Report.

## Key findings and observations

A summary of the risk rated findings are provided below:

Ref #	Description of Findings	Risk Rating
1	Manager's contribution to HR management	Moderate
2	Policies and procedures	Low
3	Induction process	Low
4	Organisational Chart	Low
Ref #	Improvement Opportunities	
1	WHS incident management system	n/a
2	Use of HR forms	n/a

Refer to Detailed Findings and Agreed Action Plan (Appendix 1) and Improvement Opportunities (Appendix 2) for detailed information.

Each key finding is rated based on the impact to the process considered. Refer to Risk Framework (Appendix 5) for detailed information.

## Controls assessment

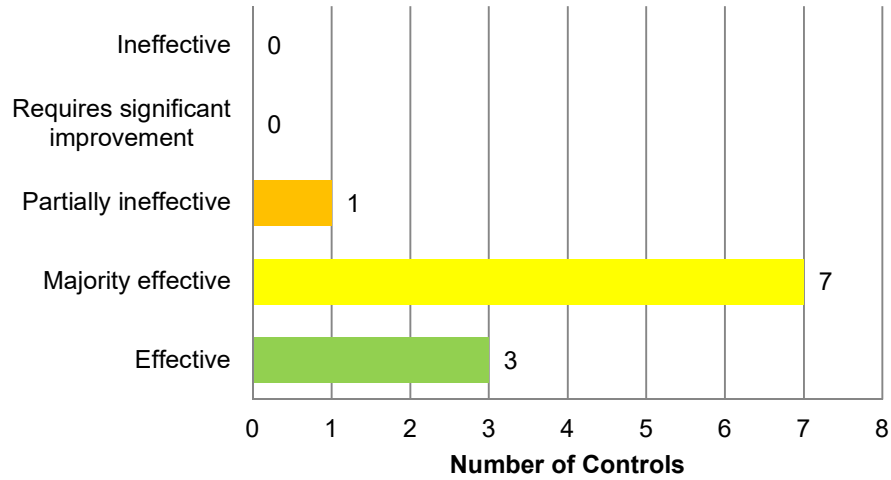
The control effectiveness assessment next page is an indicator of the current state of the control environment within business operations and its ability to mitigate against the risk exposures.

Given the Council does not have its control effective ratings in the risk management policy, we adopted the definitions of control effectiveness ratings from the Better Practice Model – Internal Financial Control developed by the South Australian Local Government Financial Management Group Inc (SALGFMG).

Key controls were identified during the audit. Refer to Controls Assessment (Appendix 4) for detailed information.

Based on the internal audit work completed, documents inspected and interviews with key stakeholders, it is the view of Bentleys SA that the control environment of HR Management is Majority Effective.

**Control Effectiveness Graph**



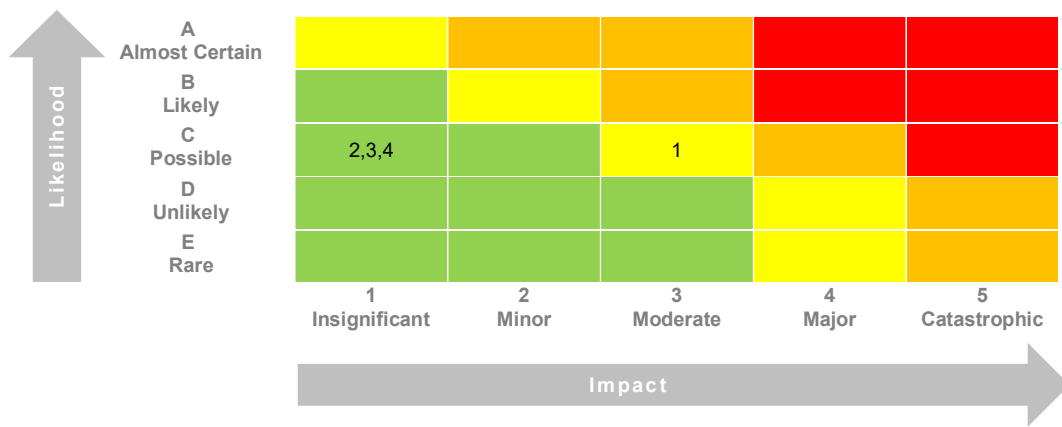
**Overall Controls Assessment <sup>(1)</sup>**



(1) Limited to audit scope and based on test results.

### Risk assessment

Provided below is an audit assessment of the residual risk (based on the Council’s risk framework) in respect of the process reviewed, having regard to the issues identified by the audit.



Key inherent risks (before controls) include:

- Failure of achieving effective HR management outcomes and consequently Council’s strategic objectives;
- Failure to manage HR risks at a strategic level;
- Employee dissatisfaction or poor culture;
- Non-compliance with policies and procedures;
- No effective integration of the employee into the organisation;
- Unsatisfactory performance and output delivery;

- Poor decision making; and
- Reputational damage.

### Acknowledgement

We appreciate the assistance and cooperation received from management and staff of the City of Holdfast Bay in completing this review.

# Appendix 1

## Detailed findings and agreed action plan

Finding 1. <b>Manager’s contribution to HR management</b>	<b>Risk Category</b>	<b>B,E</b>
	<b>Impact:</b>	<b>Moderate</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Moderate</b>
<b>Finding(s)</b>		
<p>The contribution and engagement of Managers’ is a central element of effective HR management within the Council. Managers have the resources to identify and provide the employees with the development opportunities. However, our testing found a possible performance management issue around awareness and engagement of one manager.</p> <p>We interviewed a sample of four managers (out of total 12 in the Leadership Team (LT) across three departments. One of the four managers appeared to not fully understand their responsibility in performance management and employee development; and seemed confused with the difference between the purposes of the Position Description (PD) and the Performance Development Review (PDR). It is noted that all relevant managers’ responsibilities are clearly defined in the Council’s applicable HR procedures, including the Recruitment &amp; Selection Procedures and the Professional Development Procedures.</p> <p>The following management understanding was identified in the interviews:</p> <ul style="list-style-type: none"> <li>• The manager believed that as a manager he is not involved in the recruitment process as the Recruitment Request Form does not require a manager’s signoff. He advised that often the Business Partner from P&amp;C assists with the process including filling in a Recruitment Request Form and the General Manager (GM) approves it, but with the manager missed in between. However, a manager (with P&amp;C’s assistance where relevant) should be responsible for the recruitment process as required in the procedures and the Form should be created/raised by a manager as indicated itself as they are primarily responsible for the management of the positions within their department.</li> <li>• The manager did not see the value of doing PDR for performance management; instead, he believed that the PD can be used to develop and reward employees. This misunderstanding is contradictory to the Council’s requirements in the procedures and the other three managers’ understanding as well. As a result, the business area under his management had four outstanding 2016-17 PDR goal setups in the HR compliance review. It is noted that the broad view within the Council is that PDR links to specific programs/projects to be delivered in ABP, consequently the Council’s strategic objectives; while PD describes general tasks and responsibilities of a position.</li> <li>• The manager did not conduct a training needs analysis at the business unit level as he believed the PDR process was ineffective. It should be acknowledged that the development of Internal Training Calendar 2018 involved the PDR, employees and LT survey/consultation outcomes. The external training application, budget and cost are managed by P&amp;C and reported annually to Senior Leadership Team (SLT). The CEO’s approval is required for interstate or overseas conferences/seminars and cost over \$2,000 and a Professional Development Register is retained by P&amp;C.</li> </ul>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Failure of achieving effective HR management outcomes and consequently Council’s strategic objectives;</li> <li>• Employee dissatisfaction; and</li> <li>• Non-compliance with policies and procedures.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
We recommend management:	P&C will ensure appropriate support is provided through its business partner model to all Managers to ensure	

<ul style="list-style-type: none"> <li>• Address the finding and refer the manager’s possible performance/awareness issue and interpretation of HR procedures and processes appropriately through the relevant General Manager; and</li> <li>• Continue implementing the existing controls (including policies and procedures, induction and refresher training etc.) to maintain a good organisational culture.</li> </ul>	<p>compliance in all areas of HR Management. The issue of the individual Manager’s possible performance issue will be discussed with the relevant General Manager and assistance provided where necessary to ensure the manager is aware of the requirements.</p> <table border="1"> <thead> <tr> <th data-bbox="803 451 1128 493">Responsible Officer</th> <th data-bbox="1128 451 1485 493">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="803 493 1128 577">Manager People &amp; Culture</td> <td data-bbox="1128 493 1485 577">28 September 2018</td> </tr> </tbody> </table>	Responsible Officer	Target Date	Manager People & Culture	28 September 2018
Responsible Officer	Target Date				
Manager People & Culture	28 September 2018				



<b>Finding 2. Policies and procedures</b>	<b>Risk Category</b>	<b>B,E</b>
	<b>Impact:</b>	<b>Insignificant</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>		
<p>The Council's eight HR policies approved by the CEO and 12 procedures approved by the GM Business Services are regularly reviewed every three years. The documentation is retained in TRIM Folder B2631 and published on the intranet (Baywatch). However, the following gaps were identified in the audit:</p> <p><b>Documentation of policies and procedures</b></p> <p>The following processes are not formally documented:</p> <ul style="list-style-type: none"> <li>• The induction requirements to be documented formally (refer to Finding 3); and</li> <li>• The three-year renewal process to be included in the Police Check Procedure.</li> </ul> <p><b>Delegation policy out-of-date</b></p> <p>The P&amp;C Operational Sub-Delegations of Authority (Excludes WHS) was out-of-date with the last review and update completed on 4 October 2016. The policy did not reflect the latest title/position changes, such as the position of Manager Information Services in which no longer exists.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Breach of legislation when policies and procedures do not include relevant requirements;</li> <li>• Failure of achieving effective HR management outcomes and consequently Council's strategic objectives; and</li> <li>• Poor decision making.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Formalise the processes gaps identified in policies and procedures;</li> <li>• Update the P&amp;C Operational Sub-Delegations of Authority (Excludes WHS) to reflect the latest title/position changes;</li> <li>• Ensure the policies and procedures' requirements are implemented consistently within the Council; and</li> <li>• Ensure a system is in place to ensure that the Council's policies and procedures are reviewed and updated regularly and when there are substantial changes to the processes.</li> </ul>	<p>P&amp;C Sub-Delegations of Authority will be updated and the Police Check Procedure amended accordingly. Please refer to Finding 3 for management response on Induction.</p>	
		<b>Responsible Officer</b>
	Manager People & Culture	28 September 2018

Finding 3. Induction process		Risk Category	B,E
		Impact:	Insignificant
		Likelihood:	Possible
		Risk Rating:	Low
Finding(s)			
<p>There was no sufficient evidence retained to reflect the current induction process is consistently implemented. Without a consistent induction process, it is hard to effectively integrate the employee into the Council.</p> <p>In the induction process, an Employee Manual (also known as an Induction Handbook in the Council) is provided to a new starter but was not always signed off. When the induction is completed, the relevant sections of the Manual (“Day One Sign Off” and “Week One Sign Off”) are signed and the Manual is returned to P&amp;C for record keeping. For a more in-depth induction program, such as for a GM position, an additional Induction Checklist is designed to show all the activities undertaken as part of the induction.</p> <p>Without a guidance of procedure (refer to Finding 2), the Manual was not always signed off. Review of the Induction Handbooks and Induction Checklist for GM of five new starters between June 2017 and May 2018 sampled found that:</p> <ul style="list-style-type: none"> <li>• Three out of five sampled (60%) had no employees’ signoff on both sections “Day One Sign Off” and “Week One Sign Off”; and</li> <li>• One out of five sampled (20%) had no P&amp;C’s signoff on both sections “Day One Sign Off” and “Week One Sign Off” although the employee’s signoff was available.</li> </ul> <p>It is noted that P&amp;C is reviewing and streamlining the process by creating a new checklist and taking out the signoff areas and incorporating them into the checklist.</p>			
Risk			
<ul style="list-style-type: none"> <li>• No effective integration of the employee into the organisation;</li> <li>• Non-compliance with policies and procedures, which may result in breach of legislation;</li> <li>• Unsatisfactory performance and output delivery; and</li> <li>• Failure to achieve the Council’s strategic and business objectives.</li> </ul>			
Recommendation		Management Response and Agreed Action Plan	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Formalise the induction process in a procedure and provide assistance to all relevant managers and staff involved in the process;</li> <li>• Finalise and approve the new Induction Handbooks and Induction Checklist;</li> <li>• Consistently use the new Checklist in the induction process; and</li> <li>• Perform regular internal quality review to ensure the consistent practice.</li> </ul>		<p>The induction process has been fully reviewed and a new Induction Handbook and checklists have been developed and consulted with the Leadership Team and will now be implemented. The Induction Procedure will be developed in accordance with the current process. Recording of the receipt of Induction Checklists is now included in the Payroll (Tech 1) system to ensure compliance with the completion of the checklist for all new employees.</p>	
		Responsible Officer	Target Date
		Manager People & Culture	28 September 2018

<b>Finding 4. Organisational Chart</b>	<b>Risk Category</b>	<b>E</b>
	<b>Impact:</b>	<b>Insignificant</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>		
<p>The current version of the Council’s Organisational Chart is not published on intranet (Baywatch) for the employees to access although where required, P&amp;C will provide a copy of the current Organisational Chart. An Organisational Chart reflects the Council’s structure including task allocation, coordination and supervision. Without one available for free access, employees may have no transparent view of their organisational environment and the modes in which their organisation operates and performs.</p> <p>As advised by GM Business Services, the Council’s single platform TechOne application has a position management function, which will be implemented in June 2018 to disclose the current Organisational Chart.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>No effective integration of the employee into the organisation; and</li> <li>Employee dissatisfaction or poor culture.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>Ensure an up-to-date Council’s Organisational Chart is published internally for the employees to access; and</li> <li>Ensure an easier communication and secured flow of information within the Council.</li> </ul>	Copy of Organisation Chart to be made available on the intranet for current staff and for induction purposes (indicated in the new checklist).	
	<b>Responsible Officer</b>	<b>Target Date</b>
	Manager People & Culture	30 August 2018

## Appendix 2

### Improvement opportunities

1. WHS incident management system					
<b>Observation(s)</b>					
<p>The audit highlighted that improvement could be made to the WHS incident management system although it is compliant with the legislative requirements.</p> <p>The current WHS incident reporting and management heavily relies on a manual process, which is not efficient. When an incident, hazard or near miss occurs, an Incident Investigation and Report (incident report) is printed, completed and sent to the WHS email, which goes direct to the WHS Coordinator, or via internal mail. The incident report may be sent back to be reviewed if the form is not completed in the initial stage. After an investigation is completed, the incident report and a corrective actions spreadsheet will be updated. Manual Quarterly Work Health &amp; Safety Report is then created to include the relevant information to the WHS Committee and SLT, including incident investigation status and trends analysis but without root cause analysis.</p> <p>As advised by the WHS Advisor, there are 20 to 30 incidents reported quarterly and a typical reporting process takes about one month. Although the manual quarterly reporting is in place, there is no real-time statistics tracked between two reports. Further, although the report includes associated injuries number and trends, it does not indicate severity of the injuries. Therefore, the current process is not as effective and efficient as it could be and may generate more cost than using system but fulfil less functions.</p> <p>It should be acknowledged that Council has started, but not finalised, the investigation of the two system options: Skytrust and My Safety in TechOne, to obtain a solution to streamline the processes.</p>					
Opportunity(ies)	Management Response				
<p>We recommend management</p> <ul style="list-style-type: none"> <li>Scope the most appropriate system for Council and continue to seek feedback from other Councils on the effective use of Skytrust, and finalise assessment;</li> <li>Once the decision is made, implement the new system and associated processes where relevant; and</li> <li>Provide appropriate training to the Council's employees on the new system to ensure the consistent implementation of a WHS incident management system.</li> </ul>	<p>Council has committed to scope an appropriate recording system for WHS (Skytrust/MySafety) which will be implemented in line with business needs and timelines in accordance with the Business Transformation Team. The WHS system is compliant and is regularly audited by the LGAWCS. Existing systems are therefore effective. Any implementation of a new WHS system will be done in line with other organisational priorities.</p> <table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Target Date</th> </tr> </thead> <tbody> <tr> <td>General Manager, Business Services</td> <td>Update by 30 June 2019</td> </tr> </tbody> </table>	Responsible Officer	Target Date	General Manager, Business Services	Update by 30 June 2019
Responsible Officer	Target Date				
General Manager, Business Services	Update by 30 June 2019				

2. Use of HR forms					
<b>Observation(s)</b>					
<p>The audit also highlighted that improvement could be made to the use of the Recruitment Checklist and the Request for An Employment Contract Form.</p> <p>The Recruitment Checklist in the Recruitment &amp; Selection Procedures is relevant to the current process but is not used. This inconsistency between the procedure and practice had led to the administrative deficiencies of using the Request for An Employment Contract Form. Review of the recruitment documentation of five new starters between June 2017 and May 2018 sampled found that</p> <ul style="list-style-type: none"> <li>• One out of five sampled (20%) did not use a Request for An Employment Contract Form;</li> <li>• Three out of five sampled (60%) had no Manager P&amp;C signoff and date in the P&amp;C “Noted” Section and further one (20%) had no comments provided in the "People &amp; Culture Notes for CEO" Section to indicate whether the new appointment is within or not within approved FTE; and</li> <li>• One out of five sampled (20%) had manager’s signoff but without dating the Form.</li> </ul> <p>It was noted that the contracts of all five sampled (100%) were signed and dated appropriately. It was also noted that the Manager P&amp;C is not a delegated authority and she used the Request for An Employment Contract Form as a communication tool within the P&amp;C team.</p>					
Opportunity(ies)	Management Response				
<p>We recommend management</p> <ul style="list-style-type: none"> <li>• Review the design of the forms mentioned above according to their purposes and make adjustment where relevant; and</li> <li>• Ensure the consistent usage of the forms after any changes made.</li> </ul>	<p>The Recruitment &amp; Selection Procedures will be reviewed and a determination made whether to remove the Recruitment Checklist or or review the title. Request for an Employment Contract Form and Recruitment Request Form to be reviewed to ensure process flow.</p> <table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Target Date</th> </tr> </thead> <tbody> <tr> <td>Manager People &amp; Culture</td> <td>30 August 2018.</td> </tr> </tbody> </table>	Responsible Officer	Target Date	Manager People & Culture	30 August 2018.
Responsible Officer	Target Date				
Manager People & Culture	30 August 2018.				

## Appendix 3

### Documents accessed and consultation

Documents provided by City of Holdfast Bay and accessed include:

- Council Strategic Plan, 2017-18 Annual Business Plan
- Strategic Pillar Plan People and Culture
- New Strategic Management Framework PowerPoint presentation slides
- People & Culture Annual Business Plan 2017-18 and draft Annual Business Plan 2018-19
- Council's Organisational Structure
- Position Descriptions for the People & Culture
- Current Workforce Establishment
- Internal Memos of management approvals on the HR decisions
- Leadership Scorecard Organisational Report
- Recruitment, termination, induction, and probation HR documentation
- WHS documentation, including the Strategic Plan and Programs 2017- 2019, WHS policies and procedures register, WHS Corrective Action Register, Quarterly WHS Report, Incidents Reports, and Return to Work Claims
- HR management reporting, including the Staff Turnover Report 2015-17, the Professional Development Annual Statistics 2016-17, the quarterly Workforce Metrics Summary, and the monthly Workforce Establishment Report
- Internal Training Calendar 2018, the associated survey questions, and the feedback forms
- Professional Development Review documentation
- Professional Development Register 2017-18
- Leadership Team Agenda and reports

We would like to extend our appreciation to the following individuals who participated in, and provided information during this internal audit review.

- Roberto Bria, General Manager, Business Services
- Sharon Somerville, Manager People & Culture
- Kim Shearing, Business Partner, People & Culture
- Tiz Gavin, Administrative Officer, People & Culture
- Steve Soteriou, WHS Coordinator
- Hannah Zacker, WHS Officer
- Pam Jackson, Manager Commercial & Strategic Services
- Michael Terizakis, Corporate Planning Officer, Commercial & Strategic Services
- Maritta Saris, Team Leader Business Innovation
- Deb Kennedy, Administrative Officer – Procurement & Risk
- Susie Walters, Senior Payroll Officer
- Rajiv Mouveri, Manager Assets & Facilities
- Matt Rechner, Manager Active Communities
- Monica Du Plessis, Manager Community Wellbeing

## Appendix 4

### Controls assessment

#### Key controls

Key controls identified during the audit include:

No.	Control name	Control effectiveness
1	Documented policies and procedures	Majority effective
2	Defined roles and responsibilities	Partially ineffective
3	HR Strategy	Effective
4	Organisational structure/productivity	Majority effective
5	Recruitment and selection	Majority effective
6	Performance management	Majority effective
7	Training and development	Majority effective
8	Compensation and safety	Effective
9	Grievance management	Effective
10	Monitoring and reporting	Majority effective
11	Records management	Majority effective

#### Control Assessment Table

Control / Mitigating Factor	Description
<b>Effective</b>	Controls are properly designed and operating as intended.
<b>Majority effective</b>	Controls are properly designed and operating, with opportunities for improvement identified.
<b>Partially ineffective</b>	Key controls are in place, with significant opportunities for improvement identified.
<b>Requires significant improvement</b>	Limited controls are in place, high level of risk remains.
<b>Ineffective</b>	Controls are non-existent, or have major deficiencies and don't operate as intended.

## Appendix 5

### Risk framework

The following framework for risk ratings was developed by Council to prioritise findings according to their relative significance depending on their impact to the process.

LIKELIHOOD	CONSEQUENCES				
	Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Almost Certain (E)	Moderate	High	High	Extreme	Extreme
Likely (D)	Low	Moderate	High	Extreme	Extreme
Possible (C)	Low	Low	Moderate	High	Extreme
Unlikely (B)	Low	Low	Low	Moderate	High
Rare (A)	Low	Low	Low	Moderate	High

### Measures of corporate risk likelihood

The likelihood of a risk eventuating must be identified in the context of existing controls using the following as a reference:

LIKELIHOOD RATING	DESCRIPTION
Almost Certain (E)	Event is expected to occur in most circumstances – 95% to 100% probability over next 5 years or had occurred in the last 12 months.
Likely (D)	Event could occur in most circumstances – 76% to 94% probability over next 5 years or had occurred in the last 12 -24months.
Possible (C)	Event could occur at some time – 26% to 75% probability over next 5 years or had occurred in the last 2-10years.
Unlikely (B)	Event could occur in circumstances – 6% to 25% probability over next 5 years or had occurred in the last 10-100 years.
Rare (A)	Event may only occur in exceptional circumstances – 0% to 6% probability over next 5 years or had occurred in over 100 years.



### Measures of corporate risk consequence or impact

Where a risk has implications across a number of areas of impact, the highest rating should be used to determine the overall level of risk. However, each identified risk should be assessed from a mitigation/action.

IMPACT SCALE	REPUTATION (A)	BUSINESS IMPACT (B)	PUBLIC SAFETY (C)	ENVIRONMENT (D)	SERVICE DELIVERY (E)
1. Insignificant	<ul style="list-style-type: none"> <li>No adverse effect on public image</li> <li>No media interest</li> <li>Insignificant level of community concern. A slight but manageable increase in the number of adverse resident complaints</li> <li>Negligible adverse impact upon social health and wellbeing of the community which has little or no impact upon established community relationships and links.</li> </ul>	<ul style="list-style-type: none"> <li>Low financial loss – impact of less than \$5k</li> <li>Operational issues manageable within normal activities</li> </ul>	<ul style="list-style-type: none"> <li>No injuries</li> <li>Minor repairs required of an insignificant nature to property / infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>"Nuisance" category under the SA Environment Protection Act (1993) met</li> <li>Short term, immediately reversible effects on ecosystem</li> </ul>	<ul style="list-style-type: none"> <li>Insignificant impact on Council's ability to achieve strategic outcomes</li> </ul>
2. Minor	<ul style="list-style-type: none"> <li>Minor adverse effect on public image</li> <li>Minor media coverage in paper distributed within the local area (small scale single article).</li> <li>Minor level of community concern, an increase in the number of resident complaints requiring direct effort to resolve/attend to.</li> <li>Minor adverse impact upon social health and wellbeing of the community that may have a minor impact upon established community relationships &amp; links.</li> </ul>	<ul style="list-style-type: none"> <li>Medium financial loss – impact of between \$5k and \$20k</li> <li>Minor impact in undertaking routine activities</li> </ul>	<ul style="list-style-type: none"> <li>Only First Aid treatment required</li> <li>Minor loss or infrastructure damage.</li> <li>Normal seasonal illness leading to minor disruption to activities</li> </ul>	<ul style="list-style-type: none"> <li>"Nuisance" category under SA Environment Protection Act (1993)</li> <li>Some minor adverse effects to few species/ ecosystem parts that are short term and immediately reversible.</li> <li>Contamination – on-site release immediately contained</li> </ul>	<ul style="list-style-type: none"> <li>Some delays in delivery of strategic initiatives, but only minor aspects impacted. Overall strategic intent still achievable</li> </ul>
3. Moderate	<ul style="list-style-type: none"> <li>Moderate adverse effect on public image</li> <li>Adverse media campaign in Messenger over two or more issues, supported by uptake of issue in Advertiser and/or local electronic media</li> <li>Moderate level of community concern, large number of complaints and letters to editor in Messenger Paper</li> <li>Minor common law action or ombudsman investigation threatened/ initiated.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate financial loss – impact of between \$20k and \$50k</li> <li>Impaired ability to maintain normal operations. Reprogramming required.</li> <li>Minor legal issues, non-compliances and breaches of regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Medical treatment required which may include short term admission to hospital</li> <li>Moderate loss/or infrastructure damage</li> <li>Local epidemic leading to noticeable disruption of activities</li> </ul>	<ul style="list-style-type: none"> <li>"Material" category under the SA Environment Protection Act (1993)</li> <li>Contamination – on-site release contained with outside assistance</li> <li>Ecosystems- temporary, reversible damage, loss of habitat and migration of animal populations, some reduction in numbers and die back of plants. Pollution requires physical removal, air quality constitutes potential long term health problems.</li> <li>Manageable restrictions in resource usage</li> </ul>	<ul style="list-style-type: none"> <li>Some key components of the Strategic Plan cannot be achieved within expected timeframes.</li> <li>Additional funding/resources or some strategies reprioritisation is required</li> </ul>
4. Major	<ul style="list-style-type: none"> <li>Significant adverse effect on public image</li> <li>Widespread adverse media campaign including electronic local and national media.</li> <li>Social media going viral requiring management intervention. Pressure on State Government and Agencies to intervene</li> <li>Significant level of community concern</li> <li>Social health and wellbeing of the community seriously affected by major community unrest and/or significant breakdown of established community relationships and links.</li> <li>Significant Common Law Action threatened, major ombudsman investigation initiated</li> </ul>	<ul style="list-style-type: none"> <li>Major financial loss - impact of between \$50k and \$100k</li> <li>Significant effects loss of ability to complete programs, major restrictions to services and project delivery</li> <li>Serious breach of regulation with investigation or report to authority with prosecution and/or moderate fine possible.</li> </ul>	<ul style="list-style-type: none"> <li>Serious &amp; extensive injuries</li> <li>Serious structural damage to infrastructure or serious loss of assets.</li> <li>Widespread epidemic that causes significant disruption to activities</li> </ul>	<ul style="list-style-type: none"> <li>"Serious" category under the SA Environment Protection Act (1993)</li> <li>Contamination – off-site release with no detrimental effects</li> <li>Ecosystems – recoverable damage, death of animals in large numbers, widespread habitation destruction, significant air quality issues. Pollution issues requiring long term management, serious introduction of invasive species</li> <li>Restrictions on resource usage threatening viability of accepted lifestyle</li> </ul>	<ul style="list-style-type: none"> <li>Key Strategic Objectives unable to be achieved; review of Strategic Plan is required</li> </ul>
5. Catastrophic	<ul style="list-style-type: none"> <li>Major effect on public image</li> <li>Widespread adverse media campaign including electronic local, national and international media.</li> <li>Widespread community outrage</li> <li>Social media going viral, unable to be contained. State Government and Agencies to intervene.</li> <li>Social health &amp; wellbeing of the community severely affected resulting in fracturing of established community relationships &amp; links.</li> <li>Class Actions, Judicial Inquiries Initiated</li> </ul>	<ul style="list-style-type: none"> <li>Critical financial loss/exposure – impact greater than \$100k</li> <li>Projects &amp; programs failure, inability to meet minimum acceptable standards,</li> <li>Major breaches of regulation, sanctions imposed</li> </ul>	<ul style="list-style-type: none"> <li>Fatalities</li> <li>Critical loss, irreversible damage property / infrastructure with a replacement cost that overwhelms the capital budget (&gt;25%)</li> <li>Community movements restricted under State Emergency Plan</li> </ul>	<ul style="list-style-type: none"> <li>"Serious Material harm" category under the SA Environment Protection Act (1993) and EPA actions initiated</li> <li>Off-site contamination requiring immediate and significant remediation actions</li> <li>Ecosystems – irreversible damage, widespread loss of animals, and key stone species extinctions, destruction of flora species, widespread domination of invasive species. Pollution unable to be effectively remediated.</li> <li>Restriction on resource usage resulting in permanent disruption of accepted life-style</li> </ul>	<ul style="list-style-type: none"> <li>Goals of Strategic Plan not achievable; total and immediate re-work of Plan is required</li> </ul>

Where you want to be.



**August 2018**

## City of Holdfast Bay

### Internal Audit Recommendations Implementation Annual Report

David Papa, Partner, Assurance & Advisory  
Level 2, 139 Frome St, Adelaide SA 5000  
Telephone +61 8 8372 7900 | Mobile 0412 219 804  
[advice@adel.bentleys.com.au](mailto:advice@adel.bentleys.com.au) | [bentleys.com.au](http://bentleys.com.au)

▶ Advisors

▶ Accountants

▶ Auditors



22 August 2018

Roberto Bria  
General Manager Business Services  
City of Holdfast Bay  
PO Box 19  
BRIGHTON SA 5048

**Bentleys (SA) Pty Ltd**

Level 2  
139 Frome Street  
Adelaide SA 5000

GPO Box 939  
Adelaide SA 5001

ABN 74 852 475 418

T +61 8 8372 7900

F +61 8 8372 7999

admin@adel.bentleys.com.au  
bentleys.com.au

Dear Roberto,

**Internal Audit Annual Report**

Please find attached our report on the status of internal audit recommendations implementation for the City of Holdfast Bay as at 22 August 2018.

We would like to take this opportunity to thank management and staff for the assistance provided to us during the course of our audits.

If you have any queries, please feel free to contact me on 08 8372 7900 at any time.

Yours sincerely



David Papa  
Partner

Enclosure

# Contents

<b>Executive summary</b> .....	<b>4</b>
<i>Introduction</i> .....	4
<i>Background</i> .....	4
<i>Implementation status</i> .....	5
<i>Internal audit plan coverage and future consideration</i> .....	8
<i>Acknowledgement</i> .....	8
<b>Appendix 1 Internal audit agreed action plan and follow-up</b> .....	<b>9</b>
<b>Appendix 2 Business process improvement opportunities</b> .....	<b>15</b>
<b>Appendix 3 Strategic internal audit plan</b> .....	<b>20</b>

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## **Inherent Limitations**

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to this review operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by City of Holdfast Bay management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed. The findings expressed in this report have been formed on the above basis.

## **Third Party Reliance**

This report is solely for the purpose set out in the Official Order and for City of Holdfast Bay information, and is not to be used for any other purpose or distributed to any other party without Bentleys (SA) Pty Ltd's prior consent.

This summary report has been prepared at the request of City of Holdfast Bay management or its delegate. Other than our responsibility to the management of the City of Holdfast Bay, neither Bentleys (SA) Pty Ltd nor any member or employee of Bentleys (SA) Pty Ltd undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to City of Holdfast Bay external advisors, on this summary report. Any reliance placed is that party's sole responsibility. Liability limited by a scheme approved under Professional Standards Legislation.

## Executive summary

### Introduction

Internal Audit assists management in delivering the objectives of the City of Holdfast Bay (the Council) including Alwyndor Aged Care (Alwyndor) by assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment.

It is best practice for Internal Audit to assess the extent to which management have implemented agreed audit recommendations. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports. The Internal Audit should ensure that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations, or that management has understood and assumed the risk of not taking action.





Arrangements should be put in place to monitor the progress on the implementation of recommendations by management. Internal Audit should follow up on management action arising from its assignments. Follow-up action should include a review of the timeliness and effectiveness of the implementation of its recommendations.

### Background

On completion of each Internal Audit project, a formal report is prepared for discussion with senior management and presentation to the Audit Committee. Such audit reports include details of the audit work performed, audit findings, implications of these findings, and recommendations for action.

In order to assist management in using our reports:

- We categorise our audit opinion according to our assessment of the controls in place and the level of compliance with these controls:

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
	Substantial Assurance	While there is a basically sound system, there are weaknesses that put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
	Nil Assurance	Control is generally weak, leaving the system open to significant risks.

- All Internal Audit recommendations have been prioritised in accordance with the following key categories:

H	High Priority	An <b>Extreme</b> or <b>High</b> risk which, if not effectively managed, may be detrimental to the Council's interests, significantly erode internal control, or jeopardise achievement of aims and objectives.
M	Medium Priority	A <b>Substantial</b> or <b>Medium</b> risk which, if not effectively managed, could adversely affect the Council's interests, weaken internal control, or undermine achievement of aims and objectives.
L	Low Priority	A <b>Low</b> risk, where adoption of best practice would improve or enhance systems, procedures and risk management for the Council's benefit.

Applying this weighting system to Internal Audit recommendations is designed to assist management in assessing the severity of each recommendation and the associated priority of each action.

Each audit report is discussed with relevant line management, and management responses for each audit recommendation are obtained and recorded on a schedule of recommendations. In addition to recording management's agreed course of action for each recommendation, the schedule also records:

- the officer nominated by management to perform each agreed action;
- the target date for implementation agreed by management.

This schedule is issued to management along with the final audit report, and acts as an action plan/checklist.

Data on implementation of Internal Audit recommendations is presented to the Audit Committee on an annual basis. This allows the Audit Committee to monitor the Internal Audit recommendations to be implemented by management.

This report documents the outcomes of the review of management action taken in respect of Internal Audit recommendations made as at 22 August 2018.

### Implementation status

The current status of the audit activities conducted as at 22 August 2018, including the assurance level and the number of recommendations and improvement opportunities raised is detailed in the table below:

No.	Audit Activity	Timing	Assurance	Recommendations			Improvement Opportunities
				H	M	L	
1	Asset Management	Q1 2017		2	4	1	3
2	Procure to Pay Implementation	Q2 2017		1	4	-	6
3	Payroll Process – CHB	Q4 2017		-	-	3	2
4	Payroll Process – Alwyndor	Q4 2017		1	-	5	2
5	Human Resources Management	Q2 2018		-	1	3	2
	<b>Total</b>			<b>4</b>	<b>9</b>	<b>12</b>	<b>15</b>

The four (4) management actions in relation to the Human Resources Management Internal Audit are excluded from this report as the Council’s Administration will report them separately.

Of the 21 Internal Audit recommendations made across Council business areas, a total of 12 (57%) were reported by management to have been implemented at the time of this annual report.<sup>1</sup> The responses made by each Division are detailed in **Appendix 1**.

Business process improvement opportunities are detailed in **Appendix 2**. These improvement opportunities were identified in the audits with progress on implementation not asked for or assessed.

Status on Implementation of Agreed Audit Recommendations made is summarised below:

Implementation Status	High Priority		Medium Priority		Low Priority	
	No.	%	No.	%	No.	%
Complete	2	50%	4	50%	6	67%
In Progress	2	50%	4	50%	3	33%
<b>Total</b>	<b>4</b>	<b>100%</b>	<b>8</b>	<b>100%</b>	<b>9</b>	<b>100%</b>

The percentage of completion is summarised on the next page.

<sup>1</sup> **Limitation:** We have not validated if management’s implementation of recommendations has addressed the risks identified sufficiently as this is outside the scope of each project.

Figure 1: Percentage of Completion as at 22 August 2018 by Priority

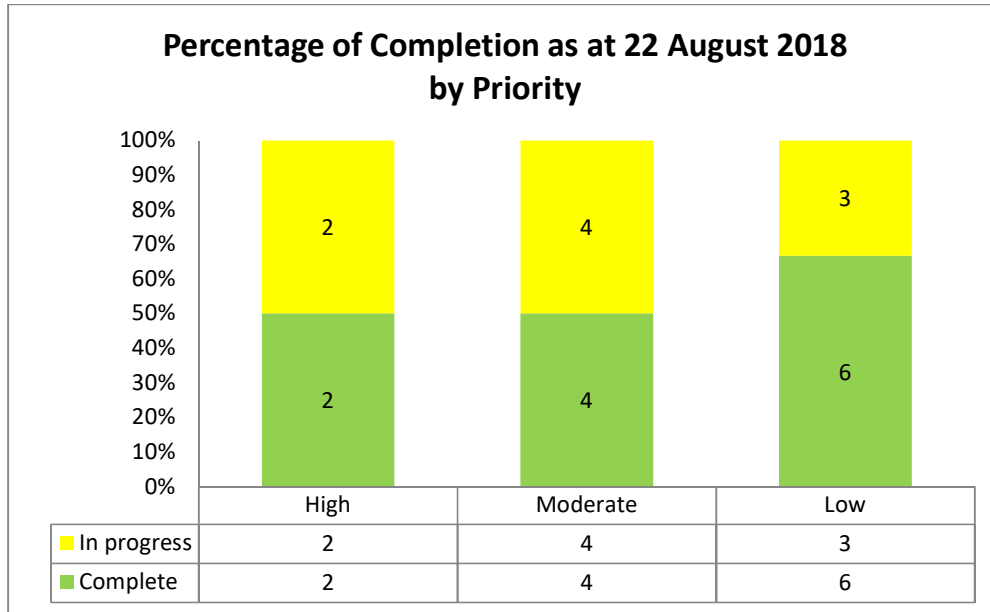
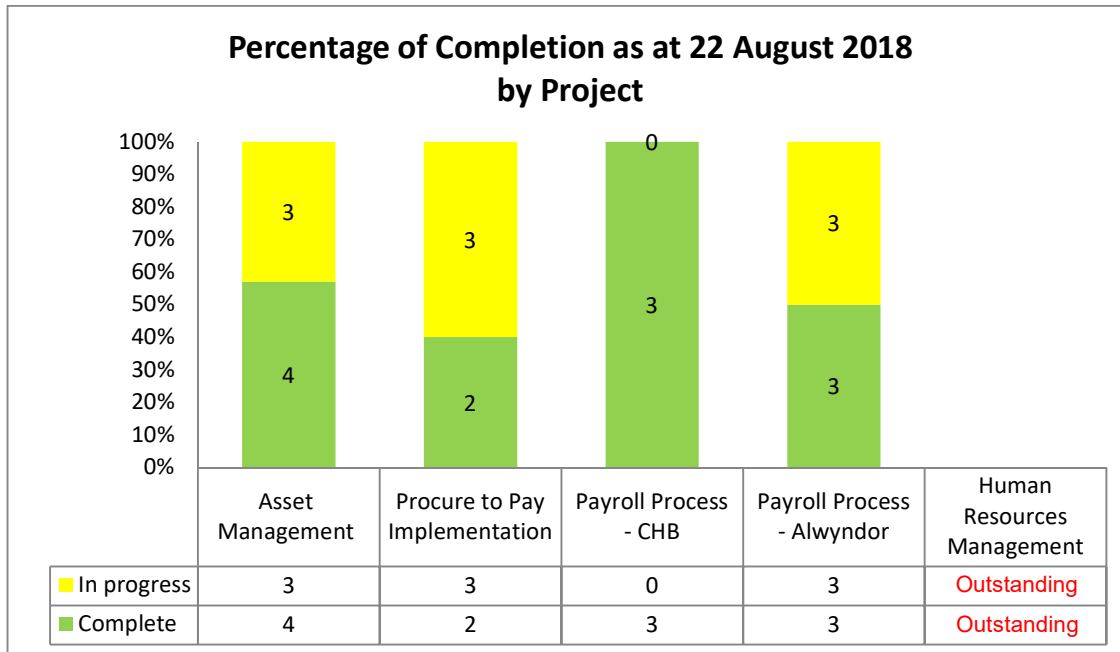


Figure 2: Percentage of Completion as at 22 August 2018 by Project



The outstanding recommendations are being implemented by the appropriate manager of the business areas. However, out of nine (9) outstanding recommendations, four (4) (44%) have been extended twice. Details are as follows:

**Asset Management**

• **Overdue and outdated policies and procedures**

Significant work has been done to revise and update the key policies. The next review of the asset management plans has been scheduled for September 2019. All of the policies will be reviewed and updated by then and they will be reflected in the updated asset management plans.

Estimated completion date is revised twice to 30 June 2019 (was originally 30 April 2017 and extended to 31 December 2017 previously).

- **Lack of service standards and KPIs' monitoring**

The assets have been organised into smaller groups in order to establish KPIs and set clear service standards. Condition asset team is now in place to monitor the performance of asset groups. Estimated completion date is revised from 31 December 2017 to 30 June 2019.

- **Maintenance plans not developed for all asset classes**

Asset maintenance plans are at varying stages of development. The basic steps of development are: document maintenance standards, document maintenance schedules, then incorporate the schedules and standards into the asset system. The key plans being developed and their status are shown below. Estimated completion date is revised from 31 December 2017 to 30 June 2019.

- Street maintenance plan (standards and schedules are being documented)
- Buildings & facilities maintenance plan (maintenance schedules are being documented)
- Park maintenance plan (maintenance schedules are being documented)
- Beach maintenance plan (schedules documented)
- Ecological asset maintenance plan (schedules being documented)
- Coastal asset maintenance plan (standards being documented)
- Fleet maintenance plan (schedules documented place)
- Waste asset maintenance plan (schedules being documented)
- Storm water Infrastructure maintenance plan (schedule documented).

#### **Procure to Pay Implementation**

- **Lack of customer charter and service levels**

Recommendations 5 and 6 are complete. Recommendation 7, 8 and 9 are in progress. There has been a structural review and more resourcing has been applied to this area with increased focus on supplier management effective from September 2018.

Estimated completion date is revised twice to 31 October 2018 (was originally 14 April 2017 and extended to 31 December 2017 previously).

- **Disconnection between budget owner and delegation**

New procure to pay system went live in October 2017. The system is configured with strict workflows including financial delegations and authorisation permissions. All requisitions over \$2,000 must have a purchase order. Blanket (standing) orders have been implemented to improve accountability and efficiencies. Additional resources have been allocated to this project to enable ongoing improvements and to meet the remaining recommendations.

Estimated completion date is revised twice to 31 December 2018 (was originally 14 June 2017 and extended to 31 December 2017 previously).

- **Lack of KPI's monitoring and reporting**

Internal service levels have been established in the draft internal policies. These service levels and reporting are being built within the system to measure the efficiency and effectiveness of the end-to-end process. Reporting be addressed during 2018/19 as part of Phase 2 implementation.

Estimated completion date is revised twice to 31 December 2018 (was originally 31 August 2017 and extended to 31 December 2017 previously).

#### **Payroll Process – Alwyndor**

- **Termination process**

Policy is currently being reviewed and estimate that the policy will be updated and completed by the end of August. Estimated completion date is revised from 30 June 2018 to 31 August 2018.

- **Monitoring of annual leave balance**

Process has been agreed and will be implemented in August. Estimated completion date is revised from 1 July 2018 to 31 August 2018.



• **Pay run record management**

New payroll system implemented. Currently in the process of determining the most effective reports to run each payrun. All pays reports are being reviewed and signed off. Estimated completion date is revised from 1 July 2018 to 30 September 2018.

**Internal audit plan coverage and future consideration**

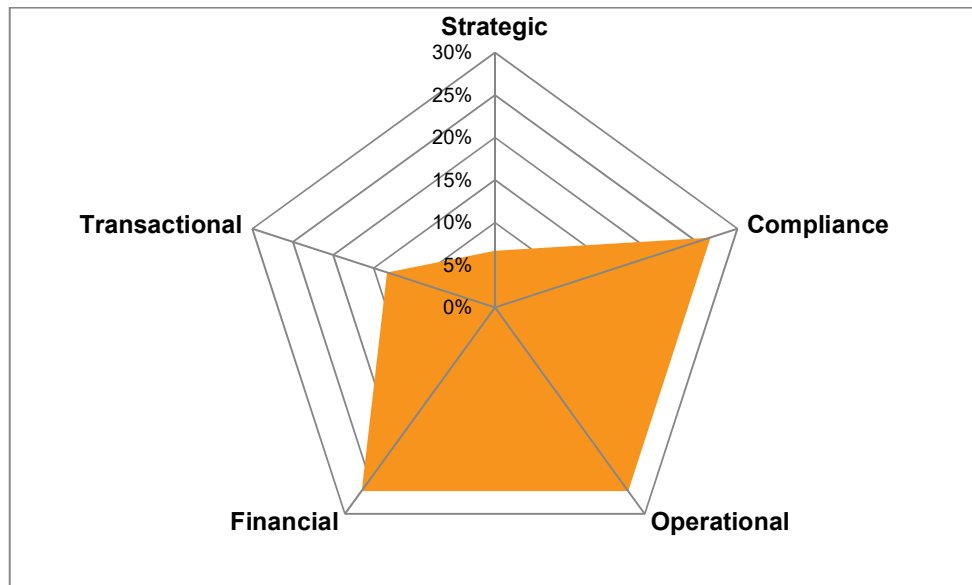
The areas of coverage for the Council's internal audit activity were set out in the Three (3) Year Audit Plan (detailed in **Appendix 3**). The plan was designed to support an opinion on the effectiveness of the systems of governance, risk management and internal control across the Council and is informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

As at 22 August 2018, progress against the Internal Audit Plan is as follows:

	Number	Percentage of Plan
Number of audits in plan	5	<b>100%</b>
Number of audits finalised	5 <sup>2</sup>	

The assurance radar below depicts the weight of assurance by functional area of the business, ranked across the risk management spectrum – strategic, compliance, operational, financial and transactional. The percentage associated with each function indicates where our attention has been focused and where there is potentially a gap in audit activities.

Figure 3: Assurance radar



The existing Internal Audit Plan was developed based only on the Council's risks but did not include Alwyndor's. However, Alwyndor is an aged care organisation, which has completely different risks to manage, including clinical and work health and safety risks. Therefore, we encourage to perform risk assessment of Alwyndor's strategic and operational risks and consequently update the Internal Audit Plan to address the key risks. We also encourage Audit Committee to review the Internal Audit Plan for its currency and advise of any required change to reflect known or emerging risks related to the function.

**Acknowledgement**

We appreciate the assistance and cooperation received from management and staff of the City of Holdfast Bay including Alwyndor Aged Care in completing the internal audit assignments.

<sup>2</sup> The Compliance Mapping Audit was postponed, while the Payroll Process Audits were conducted at both Council and Alwyndor respectively.

## Appendix 1

### Internal audit agreed action plan and follow-up

Project	Ref	Findings	Risk	Risk Rating	Recommendation	Management Response	Due Date	Person Responsible	Status
Asset Management	1	<p><b>Absence of Council-wide strategic asset management policy framework</b></p> <p>Council Members should determine a strategic asset management policy framework within which existing assets are managed, new assets are acquired and the overall program for maintenance and disposal of assets is defined. This policy framework should typically have regard to the link among the purchase, upgrade and disposal of assets, the delivery of services to communities and consultation processes required to ensure communities are well informed and able to influence the decisions of their Councils. (Refer to Local Government Association of South Australia - Financial Sustainability Information Paper 6 Infrastructure and Asset Management.)</p> <p>Our audit found that the Council does not currently maintain a strategic asset management policy framework. Council has a current asset management policy developed in 2009. However, this policy does not clearly define the asset management governance arrangements, principles, objectives, roles and responsibilities required for effective asset management. This policy was due for review in October 2014.</p>	<ul style="list-style-type: none"> <li>➤ Absence of council-wide strategic asset management policy framework could result in noncompliance with the Local Government Act 1999 and its regulations</li> <li>➤ Strategic planning objective may not be met</li> <li>➤ Poor decision making</li> <li>➤ The asset life cycle may not be optimised</li> </ul>	Moderate	<p>We recommend that management establish an asset management policy framework, which should include appropriate governance arrangements and asset management policies, strategies and plans that are well defined, developed and integrated. Key components of a sound asset management policy framework should include:</p> <ul style="list-style-type: none"> <li>➤ governance arrangements incorporating an accountability structure that identifies roles and responsibilities;</li> <li>➤ an agreed policy that establishes the principles and requirements for asset management;</li> <li>➤ a strategy that sets out the actions needed to implement the policy and links the asset portfolio to service delivery needs;</li> <li>➤ asset management plans that link to the policy, strategy, long-term financial plans and intended levels of service; and</li> </ul> <p>current and planned levels of service established in asset management plans, prepared in consultation with the community.</p>	<p>Asset management policy framework, which includes an appropriate governance arrangements and asset management policies, strategies and plans have been established. Key components of the asset management policy framework are:</p> <ul style="list-style-type: none"> <li>➤ a governance arrangement (terms of reference for the Asset Management Steering Group);</li> <li>➤ an accountability structure (roles and responsibilities);</li> <li>➤ a policy (that establishes the guiding principles for asset management);</li> <li>➤ a set of six asset management plans (links the intended levels of services with policy, strategy, long-term financial plans);</li> </ul> <p>A strategy that sets out the actions needed to implement the policy and links the asset portfolio to service delivery needs are being reviewed (it is an on-going process).</p>	30/4/2017	Rajiv Mouveri, Manager Assets & Facilities	Complete
	2	<p><b>Overdue and outdated policies and procedures</b></p> <p>The Local Government Act 1999 and its regulations require each Council to:</p> <ul style="list-style-type: none"> <li>➤ maintain prudential management policies, practices and procedures for the assessment of all projects. Section 48 (aa1)</li> <li>➤ have a policy on the sale and disposal of assets. Section 49 (1)(d)</li> <li>➤ adopt an internal control policy which safeguards assets. Section 125</li> </ul> <p>Asset management policies are to guide the managers to make appropriate and consistent asset management decisions. The Council has a number of asset management policies. However, our audit found that the current policies are outdated and some still in draft and lack of version control.</p> <p>These policies are:</p> <ul style="list-style-type: none"> <li>➤ Asset management policy;</li> <li>➤ Asset capitalisation policy;</li> <li>➤ Disposal of assets policy;</li> <li>➤ Beach Wrack (Seagrass) policy;</li> <li>➤ Climate change policy;</li> <li>➤ Directional signs policy;</li> <li>➤ Graffiti policy;</li> <li>➤ Hording permit and builder damage policy;</li> <li>➤ Memorial seats policy (and memorial seat procedure);</li> <li>➤ Storm water drainage policy;</li> <li>➤ Street tree management policy;</li> <li>➤ Waste management policy; and</li> <li>➤ Property leasing and licensing policy.</li> </ul> <p>We also noted that the owner for the Asset management policy was assigned to CEO, which should be assigned to general manager level.</p>	<ul style="list-style-type: none"> <li>➤ Overdue and outdated policies and procedures could result in noncompliance with internal policies and procedures</li> <li>➤ Decision making process may be obsolete or not appropriate</li> <li>➤ Lack of formalised and reviewed procedures could result in errors when someone unfamiliar with the process is required to undertake the function. That will increase the risk of error or inconsistency where there is a change of staff.</li> </ul>	Moderate	<p>We recommend management review the existing policies and procedures. Also, some of the asset management plans articulate the asset management policies. We recommend management review these policies prior to reviewing the asset management plans. We also recommend management review the ownership of the Asset Management Policy, which should be assigned to general manager level.</p>	<p>The existing policies and procedures are being reviewed. Responsibilities for the asset management policy have been reviewed and included in the Roles and Responsibilities document. Most of the noted policies have been reviewed.</p> <ul style="list-style-type: none"> <li>➤ Asset management policy (reviewed and updated);</li> <li>➤ Asset capitalisation policy; (being reviewed)</li> <li>➤ Asset leasing policy (being reviewed)</li> <li>➤ Disposal of assets policy; (reviewed and updated)</li> <li>➤ Beach Wrack (Seagrass) policy; (not required)</li> <li>➤ Climate change policy; (being reviewed)</li> <li>➤ Directional signs policy; (being reviewed and updated)</li> <li>➤ Graffiti policy; (reviewed and updated)</li> <li>➤ Hording permit and builder damage policy; (reviewed and updated)</li> <li>➤ Memorial seats policy (and memorial seat procedure); (being reviewed)</li> <li>➤ Storm water drainage policy; (reviewed and updated)</li> <li>➤ Street tree management policy; (reviewed)</li> </ul> <p>The expected completion date for the review of all policies related to asset management (including council endorsement) is December 2017.</p> <p><b>Update on 22 August 2018</b></p> <p>Significant work has been done to revise and update the key policies. The next review of the asset management plans has been scheduled for Sep 2019. All of the policies will be reviewed and updated by then and they will be reflected in the updated asset management plans. Revised date for completion is 30/6/2019.</p>	30/4/2017 Revised to 31/12/2017 Revised to 30/6/2019	Rajiv Mouveri, Manager Assets & Facilities	In Progress
	3	<p><b>Inadequate and outdated Asset Management Plan</b></p> <p>The Council has a number of established asset management plans. Currently there are six existing asset management plans:</p> <ul style="list-style-type: none"> <li>➤ Buildings asset management plan</li> <li>➤ Coastal asset management plan</li> <li>➤ Open Space asset management plan</li> </ul>	<ul style="list-style-type: none"> <li>➤ Inadequate and outdated Asset Management Plan could result in noncompliance with the Local Government Act 1999 and its regulations</li> <li>➤ Lack of data integrity of IAMP</li> <li>➤ The asset life cycle may not be optimised.</li> </ul>	High	<p>We recommend management:</p> <ul style="list-style-type: none"> <li>➤ update the IAMP according to the Better Practice Elements identified above.</li> </ul> <p>monitor, evaluate and report the progress of implementing the plan to the relevant governance body.</p>	<p>IAMP has been updated in accordance with the better practice elements. a quarterly reporting arrangement on the implementation of the plan is in place (first reporting starts in September 2017)</p>	31/3/2017	Rajiv Mouveri, Manager Assets & Facilities	Complete

	<ul style="list-style-type: none"> <li>➤ Plant and equipment asset management plan</li> <li>➤ Storm water asset management plan</li> <li>➤ Transport asset management plan</li> </ul> <p>These plans are dated in November 2011. However, there is no evidence that the plans have been reviewed, updated, approved, implemented and progress against the plan monitored. We have assessed the current IAMP against better practice - the latest LGA Guidelines for Infrastructure and Asset Management Plan. Followed by the asset management system implementation and the recent condition assessment, the city asset team is currently reviewing the IAMP.</p>							
4	<p><b>Lack of service standards and KPIs' monitoring</b></p> <p>Our audit found that currently there is no service standards determined for City Asset Team. The review and discussion of KPIs' are not monitored and minuted in the team performance meeting. We also noted that there is no asset management KPI reporting arrangements.</p> <p>As advised by the City Asset Team, the asset management system implementation was planned to introduce measures and service levels in a staged approach. The first stage concentrated on understanding the metrics to be measured, the purpose of the measures. It was expected that during the implementation of Stage 2 enough demand data would have been created to allow the development and structuring of relevant reports. Due to processes not being implemented and followed as envisaged, there is also a question over the quality of the data for monitoring purposes. There is some work required in analysing the reports to ascertain whether the deviation from the processes has or will impact on the setting of service standards e.g. customer enquiries being entered into the system as proactive work orders rather than a Customer Request.</p>	<ul style="list-style-type: none"> <li>➤ Lack of service standards and KPIs' monitoring could result in noncompliance with internal policies and procedures</li> <li>➤ Strategic planning objective may not be met</li> <li>➤ KPIs not be sufficiently monitored to improve performance of Council's City Asset Team.</li> </ul>	Moderate	<p>We recommend that management develop Service Standards at all levels of assets.</p> <p>We also recommend management add KPI data to the team performance meeting, and monitor any action items that are raised from the meeting. This will evidence all KPI's are being reviewed and constantly monitored, and that the Council's City Asset Team is operating at optimal effectiveness.</p> <p>For a KPI to be meaningful, it should contain, at a minimum, these four components: objective, source, performance criteria, and action plan.</p> <p>We recommend that a regular monthly report, along with appropriate commentary, be sent to management to enable them to more effectively monitor asset management and ensure activities are aligned with legislation and Council strategies.</p>	<p>Service Standards at all levels of assets are being developed.</p> <p>KPI are being developed and team meetings will monitor the actions raised.</p> <p><b>Update on 22 August 2018</b></p> <p>The assets have been organised into smaller groups in order to establish KPIs and set clear service standards. Condition asset team is now in place to monitor the performance of asset groups.</p>	31/12/2017 Revised to June 2019	Rajiv Mouveri, Manager Assets & Facilities	In Progress
5	<p><b>Maintenance plans not developed for all asset classes</b></p> <p>Our audit found that there is no evidence of a formal maintenance plan developed and implemented for all assets. For example, the stormwater maintenance officers out on the ground know exactly what to do and where to go, but nothing is documented through a maintenance plan. As maintenance is not recorded, it is hard to know the current up-keep of the drains, pipes, etc.</p> <p>Currently only ad hoc and unplanned maintenance is performed. We also noted that maintenance is not being considered, planned and communicated at construction stage of new assets. It is up to project manager to define what maintenance may require, however, those plans and costs are not being considered and recorded.</p>	<ul style="list-style-type: none"> <li>➤ Lack of maintenance plans could result in noncompliance with internal policies and procedures</li> <li>➤ Strategic planning objective may not be met</li> <li>➤ Improper operation within the ranges to optimise the asset life cycle</li> <li>➤ Infrastructure not maintained timely and effectively, thereby posing a high/extreme safety risk to staff and the general public</li> </ul>	High	<p>We recommend management develop and implement appropriate maintenance plan for all asset classes.</p> <p>These plans could include:</p> <ul style="list-style-type: none"> <li>➤ Street maintenance maintenance plan</li> <li>➤ Buildings &amp; facilities maintenance plan</li> <li>➤ Park maintenance plan</li> <li>➤ Beach maintenance plan</li> <li>➤ Ecological asset maintenance plan</li> <li>➤ Coastal asset maintenance plan</li> <li>➤ Transport asset maintenance plan</li> <li>➤ Fleet maintenance plan</li> <li>➤ Waste asset maintenance plan</li> <li>➤ Infrastructure maintenance plan</li> </ul> <p>We also recommend management to carry out maintenance work in accordance with the Standards and Specifications.</p>	<p>Processes are now in place to develop appropriate maintenance plans.</p> <p>The plans identified include:</p> <ul style="list-style-type: none"> <li>➤ Street maintenance plan</li> <li>➤ Buildings &amp; facilities maintenance plan</li> <li>➤ Park maintenance plan</li> <li>➤ Beach maintenance plan</li> <li>➤ Ecological asset maintenance plan</li> <li>➤ Coastal asset maintenance plan</li> <li>➤ Fleet maintenance plan</li> <li>➤ Waste asset maintenance plan</li> <li>➤ Storm water Infrastructure maintenance plan</li> </ul> <p><b>Update on 22 August 2018</b></p> <p>Asset maintenance plans are at varying stages of development. The basic steps of development are: document maintenance standards, document maintenance schedules, then incorporate the schedules and standards into the asset system.</p>	31/12/2017 Revised to June 2019	Rajiv Mouveri, Manager Assets & Facilities	In Progress
6	<p><b>No formal condition and risk assessments undertaken on assets in operation beyond their useful life</b></p> <p>A review of the Fixed Asset Register (FAR) as at 5 December 2016 revealed a number of assets are in operation beyond their useful life. There is no formal risk assessment undertaken and appropriate mitigation plans developed for those assets in operation beyond their useful life.</p>	<ul style="list-style-type: none"> <li>➤ Noncompliance with internal policies and procedures</li> <li>➤ Improper operation outside ranges of optimised asset life cycle</li> </ul> <p>Risks to staff and public community if Council continues to operate assets, such as defibrillators, beyond their useful life without being adequately maintained.</p>	Low	<p>We recommend management undertake condition and risk assessments and implement mitigation plan for assets in operation beyond its useful life, that may impact the safety of staff and public community. This should include emerging asset management risks across the Council.</p>	<p>These assets are still being identified. The expected completion date is September 2017.</p>	30/6/2017 Revised to 30/9/2017	Rajiv Mouveri, Manager Assets & Facilities	Complete
7	<p><b>Acquisition plan not properly recorded</b></p> <p>According to the South Australian Local Government Financial Management Group Inc. (SALGFMG) Better Practice Model (BPM), asset acquisition should be consistent with an acquisition plan, with any variances monitored and appropriately escalated.</p> <p>Our review of documentation for 10 new assets in the 2015-16 financial year identified that 4 asset additions have no acquisition plan recorded.</p>	<ul style="list-style-type: none"> <li>➤ Noncompliance with internal policies and procedures</li> <li>➤ Strategic planning objective may not be met</li> <li>➤ Lack of effective execution</li> <li>➤ Insufficient funds</li> </ul>	Moderate	<p>We recommend management provide refresher training on the relevant Council policies to the staff responsible for asset management to made aware of the procurement and record management requirements, and ensure that all supporting documentation relating to the acquisition of assets are appropriately maintained.</p>	<p>A number of training courses relating to procurement and contract management have been provided to asset managers during this time.</p>	31/5/2017	Rajiv Mouveri, Manager Assets & Facilities	Complete
Procure to Pay Implementation	<p><b>Lack of business ownership for procurement process</b></p> <p>The current process operates in a climate of assumed responsibility. There is no clear business owner responsible for the overall governance, management, and review of the procurement processes. As a result the P2P process is often seen as purely a finance function</p>	<ul style="list-style-type: none"> <li>➤ Non compliance with internal policies and procedures</li> <li>➤ Business Owner not established causing lack of "ownership"</li> <li>➤ Governance and implementation model detailing roles and responsibilities,</li> </ul>	Moderate	<p>No.1. Establish a Business Owner to oversee the procurement system. This role and its</p>	<p>Business Owners have been established to oversee the procurement system. This role and its responsibilities are incorporated within the draft internal procurement policies.</p> <p>The Manager Strategic and Strategy Commercial Services was established as the Business Owner for</p>	11/1/2017	Pam Jackson, Manager Strategic and Strategy Commercial Services	Complete

	with responsibility attributed accordingly. Whilst the function of accounts payable is the responsibility of the finance area, it has no influence on the decisions to procure goods and services, or on the supplier selection.	particularly in regard to Procurement and Finance not established and agreed <ul style="list-style-type: none"> <li>Failure to determine capacity requirements and properly resource the implementation plan</li> </ul>		responsibilities should be incorporated within the internal procurement policies. <sup>3</sup> The Manager Strategic and Strategy Commercial Services be established as the Business Owner for procurement systems with the aim of creating a strategic context to our processes.	procurement systems with the aim of creating a strategic context to the processes. Project governance structure has been adopted. The Project Governance Model included: <ul style="list-style-type: none"> <li>Development of Project Governance Team</li> <li>Sign off on Project Implementation Structure</li> <li>Acceptance of project scope</li> </ul> Sign-off on Project Implementation Objectives		Chris Kavanagh, Project Manager	
9	<b>Insufficient policy framework</b>  Section 49 of the Local Government Act 1999, requires the Council to prepare and adopt policies on contracts and tenders, including policies on the following: The contracting out of services Competitive tendering and other measures to ensure that services are delivered cost effectively The use of local goods and services The organisation has procurement policies and procedures that address the contract tendering processes. However, it does not clearly articulate its objectives and directions in regard to how it will conduct its relationships with businesses and suppliers. As such, there are no reference points to which service levels, procurement processes, responsibilities, accountability and measures of success can be anchored. Also, there is no "line of sight" between the City of Holdfast Bay's business relationship objectives and the procurement process. This provides a clear understanding of why and how the procurement processes have been designed. The absence of such a framework has seen the procurement process regularly circumvented to suit operational expediency. These policies and procedures are: Procurement Policy; Procurement Procedure; and Contract and Tendering Procedure.	<ul style="list-style-type: none"> <li>Insufficient policies and procedures could result in fraud, error or maladministration generally</li> <li>Non compliance with legislation</li> <li>Reputational damage</li> <li>Decision making process may be obsolete or not appropriate</li> <li>Increased risk of inconsistency where there is a change of staff.</li> <li>Processing inefficiencies</li> </ul>	Moderate	No.2. Develop a Governance Policy framework to support and provide direction in regard all the procurement activities. This should consist of: <ul style="list-style-type: none"> <li>A council policy that articulates Councils objectives of fair dealings and business principles.</li> <li>Internal policies and associated procedures that establish responsibilities, internal service levels, accountability and measures of success for the procurement processes.</li> </ul> Promote and provide information and training throughout the organisation on the business objectives and principles, responsibilities, expectations, accountability standards, service levels, and processes covered in the proposed Governance Policy framework on procurement.	The current Procurement Policy and Procedures has been amended to concentrate on principles and commitments of Council. Copy of policy and procedure were presented to Project Governance Team for review and uploaded to the Council's website.	28/3/2017	Melissa Kretschmer, Team Leader Governance  Chris Kavanagh, Project Manager	Complete
10	<b>Lack of customer charter and service levels</b>  A "Customer Charter" defines and articulates to suppliers the commitments in regards to not only how CHB will conduct business, but more importantly the period within which CHB will guarantee the payment of accounts. Internal service levels should then be based on this "Customer Charter". The time limits in the internal service levels should be shorter than those articulated in the "Customer Charter". Council is establishing an environment where CHB constantly under promise and over delivery. The internal service levels will need to be closely linked to the capacity to deliver, therefore these should be established as part of the efficiency improvements to the procurement processes. The Customer Charter should be based on a reasonable expectation to constantly deliver within the guaranteed timeframe. Currently there is no clear performance standard for payment and receipting of goods. Council's general terms and conditions indicate a payment period of 30 days. The payment period should be consistent with those articulated by each supplier in their invoice. This change was implemented in the "Finance One" system, however there was no assessment regarding whether the current P2P process had the capability to support such a change. Consequently, there is a number of payments agreements that are not able to be met, particularly in relation to those payment terms of 7 days. There needs to be an understanding of the processes capacity to deliver before establishing and expectation with a supplier. The current "Terms and Conditions" located on the Council's web page still indicates that the payment period is 30 days.	<ul style="list-style-type: none"> <li>Lack of customer charter and service levels could result in noncompliance with internal policies and procedures</li> <li>Use of the incomplete or out-dated Contract/Purchase Terms and Conditions could exposes Council to additional risks including compromised insurances and reduced WH&amp;S coverage.</li> </ul>	Moderate	No.3. Establish and articulate a "Customer Charter". This charter should be based on the principle of under promising and over delivering. No.4. Develop internal service levels, which amongst other things, addresses the processing and receipt of invoices. These service levels should be established and updated as efficiency improvements are made to our procurement processes and should be align to the capacity to deliver. No.5. Establish a suite of measures based on the internal service levels and Customer Charter to measure the operational performance and corporate commitment. No.6. Establish internal policies and procedures with clear accountability measures linked to the functional responsibilities of those with financial delegated authority. Incorporate procurement responsibilities, financial delegations, accountability, Council policy directions, and service levels in the induction program for all new managers to be conducted within a week of their commencement.	A Supplier Charter, outlining Council's service levels, has been endorsed by Council and has been mailed each of our Suppliers. It has also been published on the Council website. Internal policies have been drafted that clearly outline roles and responsibilities and internal service levels, which will be approved and implemented with the system in Q4 2017. The system is being configured to allow for reporting against the service levels. The induction is being reviewed to incorporate delegations and outlining procurement accountability for Managers.  <b>Update on 22 August 2018</b>  Recommendations 5 and 6 are complete. Recommendation 7, 8 and 9 are in progress. There has been a structural review and more resourcing has been applied to this area with increased focus on supplier management effective from September 2018.	14/4/2017  Revised to 31/12/2017  Revised to 31/10/2018	Melissa Kretschmer, Team Leader Governance  Chris Kavanagh, Project Manager	In Progress
11	<b>Disconnection between budget owner and delegation</b>  <b>P2P Review Report Findings</b> A constant concern raised during the stakeholder interviews by managers with budget responsibility regarded the ability for budget expenditure to be allocated against their cost codes without their knowledge. This issue is further exacerbated when it is realised that many budget managers were not aware of the pending commitments associated with their budgets. A contributing factor to this issue is associated with the financial delegation to procure goods and services	<ul style="list-style-type: none"> <li>Incorrect delegations may result in confusion over delegations and subdelegations, and resulting in incorrect spending and non-compliance with the procurement policy.</li> <li>A disconnect between budget owner and delegation increases risk of over spend.</li> </ul>	High	<b>P2P Review Report Recommendations</b> No.15. Define the "approval to purchase and pay". Provided the invoice amount falls within established tolerance/variation limits". No.16. Internal Policies and Service Levels reflect that the Officer approving the requisition is responsible for all matters relating to that purchase. No.17. Only persons with budget responsibility shall approve requisitions. It should be standard practice that no person, other than the	The Procure-to-Pay system to be implemented in Q4 2017 will include configuration that will only allow Budget Managers to approve expenditure from their budgets. Through further internal consultation, there has been a change in policy direction in relation to the invoices not being processed without a purchase order. The change will allow for invoices to be paid under a certain amount without a purchase order. The current threshold is \$2,000. A final decision has not been made on the threshold going forward, however the	14/6/2017  Revised to 31/12/2017  Revised to 31/12/2018	Melissa Kretschmer, Team Leader Governance  Chris Kavanagh, Project Manager	In Progress

<sup>3</sup> P2P review report recommendation number



		<p>and approve payment is not always directly linked to budgetary responsibility. Persons with varying levels of financial delegation can, and do, seek quotes, prepare requisitions, approve the requisition within their financial delegation, receipt and authorise payment attaching a cost centre. In many cases this can occur without any oversight from the Manager with budget responsibility. This practice leaves staff exposed to a risk of allegations of mismanagement of financial resources.</p> <p><b>Internal Audit Comment</b> During the review, Internal Audit found the following issues regarding lack of compliance of purchase order approvals remain:  <ul style="list-style-type: none"> <li>People raising purchase orders as someone else does not link to the correct department, thus utilising their budgets;</li> </ul>                     The policy and procedure is educated on a yearly basis when they identify non-compliance, however the training doesn't seem to be altering repeat offender's behaviours.</p>			<p>relevant budget manager, Finance Manager, or General Manager shall allocate a payment to a budget cost code.</p> <p>No.18. Establish an Internal policy position that articulates all orders for goods and service shall have a requisition order raised before the supplier is contacted to deliver.</p> <p>No.19. Establish clear policy position stating that no invoice will be processed unless there is an approved requisition in the system, supported by information to suppliers in a Customer Charter indicating that only invoices carry a requisition number will be honoured.</p> <p>No.20. Introduction of an accountability measure that tracks the number of invoices received without a link to a requisition.</p> <p>No.21. Where a quote is sought the requisition shall be raised based on the original quote. Variations to the quoted amount can then be discussed with the approving budget manager and authorised as the service is delivered by amending the original requisition.</p> <p>No.22. Requisitions for small amounts should be created as monthly standing orders based on the average expenditure in previous months, at the end of the month the requisition can be adjusted to account for any variations.</p> <p>No.23. The development of detailed a procurement schedules as part of capital works, and major contracts. These should be developed are part of project management plan. This would be approved by a person with an appropriate level of delegated authority.</p> <p><b>Internal Audit Comment</b> It is recommended that management implement the agreed actions and provide trainings to responsible officers and system users.</p>	<p>amount will be equal or below the current level. This decision will be made prior to the implementation of the system.</p> <p>Processes are being developed to be able to track the number of invoices received without a purchase order above the threshold amount. This will be implemented as part of the system roll-out. The use of standing orders and procurement plans will be incorporated as part of the training when the system is implemented.</p> <p><b>Update on 22 August 2018</b></p> <p>New procure to pay system went live in October 2017. The system is configured with strict workflows including financial delegations and authorisation permissions. All requisitions over \$2,000 must have a purchase order. Blanket (standing) orders have been implemented to improve accountability and efficiencies. Additional resources have been allocated to this project to enable ongoing improvements and to meet the remaining recommendations.</p>			
	12	<p><b>Lack of KPI's monitoring and reporting</b></p> <p>The successful implementation changes to the P2P process will be heavily reliant on the development of appropriate service levels and associated performance measures. A one step approval process reliant on the Budget Manager to approve requisitions will create a potential constraint point, particularly if the system is locked down. Consequently there needs to be in-house service levels for approving requisitions linked to an escalation process. Although such service levels need to be established after consultation with business units, it should not exceed three days. In the electronic CI Anywhere environment this may be reduced significantly. Clear reporting measure to ascertain the number and process time of requests within the system will need to be established. These should be aligned to efficiency targets and reflected in measures of success.</p>	<ul style="list-style-type: none"> <li>Lack of KPI's monitoring and reporting could result in noncompliance with internal policies and procedures</li> <li>Inappropriate or unauthorised spending undetected</li> <li>Strategic planning objective may not be met</li> <li>KPIs not be sufficiently monitored to improve performance.</li> </ul>	Moderate	<p>Establish clear reporting measures to ascertain the number and process time of requests within the system. These should be aligned to efficiency targets and reflected in measures of success.</p>	<p>Internal service levels have been established in the draft internal policies. These service levels and reporting are being built within the system to measure the efficiency and effectiveness of the end-to-end process.</p> <p><b>Update on 22 August 2018</b></p> <p>Will be addressed during 2018/19 as part of Phase 2 implementation.</p>	<p>31/8/2017</p> <p>Revised to 31/12/2017</p> <p>Revised to 31/12/2018</p>	<p>Melissa Kretschmer, Team Leader Governance</p> <p>Chris Kavanagh, Project Manager</p>	In Progress
Payroll Process – CHB	13	<p><b>Excess annual leave balance</b></p> <p>Review of the Leadership Team Summary Leave Entitlement Report (LT Leave Report) dated 27 October 2017 found that three employees (of 201 employees in total, i.e. 1.5%) had excess annual leave (A/L) balance over 304 hours (i.e. 40 work days) with no leave plan scheduled. LT Leave Report is a monthly monitoring and reporting tool of all leaves including excess A/L and the leave plan for a number of years. The Senior Payroll Officer developed the LT Leave Report with consolidated information from TechnologyOne and manual timesheets/leave approvals. The Manager People &amp; Culture reviewed and escalated issues addressed in the LT Leave Report for the leadership team including General Managers and Managers to action. Discussion with these employees found that they were fully occupied with the work due to staff shortage and latest legislative changes. One of them (ID 3478) advised that he will plan to take A/L for about nine weeks in March, April, September and October 2018 after he finishes the current urgent work in January 2018.</p>	<ul style="list-style-type: none"> <li>Financial commitment of excess A/L balance on employment termination;</li> <li>Increasing leave liability as pay increases are applied each year;</li> <li>Reliance on one employee subjects the council to risks such as "key man risk" and succession issues;</li> <li>A reluctance to take leave is an indicator for fraud;</li> <li>Employee's health and welfare may be influenced if no leave taken for a long time; and</li> <li>Non-compliance with the EAs requirements.</li> </ul>	Low	<p>We recommend management:</p> <ul style="list-style-type: none"> <li>Direct employees who have accrued in excess of 40 work days (i.e. 304 hours) A/L to take their annual leave with written notice as suggested by EAs; and</li> <li>Provide refresher training to the relevant managers to enhance the controls.</li> </ul>	<p>The leave report is provided to SLT on a monthly basis through the People &amp; Culture Strategic meeting held on a fortnightly basis. General Managers are tasked with advising Managers to ensure that excess leave is reduced. If no indication of planned leave in the payroll system, written requests to be provided to relevant Manager and employee to be scheduled in leave reduction. Leave management/responsibility refresher to be provided to the Leadership Team to ensure leave is managed appropriately</p>	<p>8/2/2018 – Leadership Team meeting.</p> <p>Excess balances already addressed.</p>	<p>Senior Payroll Officer provides monthly report to Manager, People &amp; Culture.</p> <p>Manager, People &amp; Culture/Manager Finance to provide refresher at Leadership Team Meeting</p>	Complete

		The above findings were not compliant with the Council Enterprise Agreements' (EA) requirements and the Council had a large liability to pay A/L on employment termination. Section 30.2 of the Australian Services Union (ASU) Administrative Staff EA and Section 40.1 of the Field/Depot Staff EA require that Council may give an employee reasonable written notice to reduce their A/L entitlements greater than 40 work days (i.e. 304 hours) by no more than one quarter of the current balance.							
	14	<b>Sick leave without certificate</b>  Sample testing of 30 timesheets and relevant leave/overtime/allowances approvals from July 2016 onwards identified that two employees had sick leave (S/L) taken over two consecutive work days without a medical certificate or statutory declaration. This increased the risks of financial loss due to granting invalid S/L; and was not compliant with the Council EAs' requirements. Section 31.3.2 of the ASU Administrative Staff EA and Section 40.2 of the Field/Depot Staff EA require employees to produce a medical certificate or statutory declaration for any absence taken for personal leave more than two consecutive work days.	<ul style="list-style-type: none"> <li>Financial loss due to granting invalid S/L;</li> <li>Potential dispute if similar requests approved or denied; and</li> <li>Non-compliance with the EAs requirements.</li> </ul>	Low	We recommend management: <ul style="list-style-type: none"> <li>Provide refresher training of the EAs' requirements to the relevant managers to enhance the approval of S/L taken over two consecutive work days; and</li> <li>Enforce the controls by increasing the review responsibilities of Senior Payroll Officer.</li> </ul>	Leave management/responsibility refresher to be provided to the Leadership Team to ensure leave is managed appropriately. Senior Payroll Officer to refer future issues back to the relevant Manager to ensure appropriate documentation is provided in accordance with EA requirements.	8/02/2018	Manager, People & Culture/Manager Finance to provide refresher at Leadership Team Meeting	Complete
	15	<b>EFT Payments Report Audit Trail</b>  The Fortnightly Payroll EFT Transfer is all (100%) checked by Senior Payroll Officer and appropriately authorised by two Accountants/Finance Officers within the Finance. The current practice requires an EFT Payments Report, which shows total amount paid and amounts paid to individual employees, after making the EFT payment. The Senior Payroll Officer creates the EFT Payments Report and performs verification. Our review found two out of ten pay runs tested (20%), where no EFT Payments Report was on file to indicate the verification process. It indicates a weakness in the payment detective controls that should be strengthened to reduce the risk of error or misappropriation.	<ul style="list-style-type: none"> <li>Changing of bank accounts may not be detected; and</li> <li>Incorrect payment to individual employees is made.</li> </ul>	Low	We recommend management ensure the EFT Payments Report is reviewed and verified appropriately before payment is made and is retained on file as audit trail.	The EFT report is normally prepared before transmitting payments to employees bank accounts. The report will now be additionally verified by Manager Finance/Finance Officers who will sign/date the report.	Immediately – January 2018	Manager Finance	Complete
	16	<b>System access and data integrity</b>  BRS Payroll System (BRS) has weak controls over access. System users have the same level of access and can modify any data. Also, reports/data from BRS were not accurate and included irrelevant information. For example, <ul style="list-style-type: none"> <li>BRS Sick Leave Taken Report recorded sick leave per period not per day; and did not split the hours correctly when charging to different business areas;</li> <li>BRS Employees Bank Accounts Report had 113 bank details not attached to any employees although it was unable to send pay to a bank account that was not attached to an employee; and</li> <li>BRS Employees Tax File Numbers (TFN) Report had TFNs of 16 people who had terminated their employment.</li> </ul> These have been addressed by the organisation and Alwyndor has started implementing the new system CARE which is scheduled to roll out by 30 June 2018. With regards to this, the most payroll processes will be changed shortly.	<ul style="list-style-type: none"> <li>Incorrect payroll data may be entered, processed, summarised, and reported;</li> <li>Authorisation, completeness, and accuracy of payroll processing may be compromised; and</li> <li>Incorrect payroll payment due to data corruption.</li> </ul>	High	We recommend management to implement appropriate and regular manual controls to address findings above and enhance the control environment until the new system takes over. We also recommend when the new system is implemented, management: <ul style="list-style-type: none"> <li>Ensure appropriate system access levels are designed and allocated to the responsible officers to perform their duties;</li> <li>Regularly review the system access and ensure controls are in place and people who left the relevant positions are taken out of the system;</li> <li>Design the system reporting function to serve the payroll process; and</li> <li>Ensure regular reporting and monitoring of data integrity is in place to remove irrelevant and out-of-date data.</li> </ul>	'New payroll software is being implemented which will address all of the issues noted. In regards to BRS password has been updated and only three team members have access to the payroll software and password.	28 Feb 2018 1 July 2018 (for new payroll software)	Pam Warburton	Complete
Payroll Process – Alwyndor	17	<b>Termination process</b>  Termination process is not fully formalised with the following findings identified: <ul style="list-style-type: none"> <li>No exit checklist was applied including return of properties; and</li> <li>No exit interview was applied to permanent employees, therefore, not compliant with the relevant Alwyndor's Exit Interview Policy &amp; Procedure dated March 2016.</li> <li>In absence of a termination policy, Alwyndor follows relevant requirements of the Alwyndor's Enterprise Agreement (EA). Although EA states the notice requirement and the employee's entitlement for payment; however, the following key areas are not included in the agreement: <ul style="list-style-type: none"> <li>Termination payments are correct;</li> <li>Alwyndor's assets, such as purchasing cards, all mobile devices and IT equipment are returned prior to termination; and</li> <li>Access to IT systems, such as BRS, are removed prior to termination.</li> </ul> </li> </ul> Although there was no issue identified so far, there is a potential of incorrect termination payment, assets loss, and inappropriate access to IT systems by terminated employees.	<ul style="list-style-type: none"> <li>Incorrect payroll practice conducted by someone unfamiliar with the termination process may result in financial loss or breach of EA or legislation;</li> <li>Increased errors in process with no formalised and reviewed policies and procedures where there is a change of staff may result in financial loss or breach of EA or legislation; and</li> <li>Incorrect payment, assets loss, and inappropriate access due to lack of Termination Policy.</li> </ul>	Low	We recommend management: <ul style="list-style-type: none"> <li>Formalise the standard termination process;</li> <li>Apply an exit checklist including return of properties, and remove of system access;</li> <li>Conduct exit interview as required by the Exit Interview Policy &amp; Procedure; and</li> <li>Provide education and training to employees to ensure consistent implementation.</li> </ul>	We are reviewing the current termination process and developing a new policy on terminations, which will include a process on exit interviews.  <b>Update on 22 August 2018</b>  Policy is currently being reviewed and estimate that the policy will be updated and completed by the end of August.	30/06/2018  Revised to 31/8/2018	Brett Capes	In Progress
	18	<b>Leave application process and approval</b>	<ul style="list-style-type: none"> <li>Financial loss if leave is not appropriately recorded or authorised</li> </ul>	Low	We recommend management: <ul style="list-style-type: none"> <li>Formalise the leave application process;</li> </ul>	Implementation of new payroll system will include an employee portal.	1/07/2018	Nadia Andjelkovic	Complete

	<p>Leave application process is not formalised. It was advised that the Rostering Officer verifies the leave balance and advises the Line Manager to approve. However, Leave Application Form was not always used and approved; although there was no negative leave balance.</p> <p>Sample testing of 25 timesheets for the period from July 2016 up to 5 December 2017 found that:</p> <ul style="list-style-type: none"> <li>▶ There were eight out of 12 sick leaves (67%) with no Leave Application Form used, and three out of 12 (25%) with Leave Application Form not approved;</li> <li>▶ There were one out of ten annual leaves (10%) with no Leave Application Form used and one out of 10 (10%) with Leave Application Form not approved; and</li> <li>▶ There were two leave without pays (LWOP) taken by permanent employees (100%) with no Leave Application Form used; however, the EA requires General Manager – Alwyndor’s approval on LWOP taken by permanent employees.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Culture of non-compliance with internal policy; and</li> <li>▶ Non-compliance with the EAs and awards requirements.</li> </ul>		<ul style="list-style-type: none"> <li>▶ Apply the Leave Application Form consistently for different types of leave;</li> <li>▶ Ensure the approval of leave (other than sick leave) is obtained prior to the leave taken; and</li> <li>▶ Provide refresher training to employees to ensure consistent implementation.</li> </ul>	<p>All leave will be applied through this portal and a workflow will be linked to ensure correct line management approval of leave.</p> <p>Training will be held as part of the implementation process of the new payroll system.</p>			
19	<p><b>Payment in lieu of taking annual leave</b></p> <p>General Manager – Alwyndor approved a Home Care Assistant (permanent part-time staff) to receive a payment (gross amount of \$3,916) in lieu of taking 150 hours annual leave on 5 December 2017. This was not compliant with the award requirement.</p> <p>According to the Section 7.1.1.3 of the Health Services Employees Award, “Payment must not be made or accepted in lieu of taking annual leave, except in the case of termination of employment”.</p> <p>As advised by the General Manager – Alwyndor, this payout was once off urgent event as the employee had a major car accident.</p>	<ul style="list-style-type: none"> <li>▶ No sufficient funding to cover other potential payout requests;</li> <li>▶ Potential dispute if similar requests approved or denied; and</li> <li>▶ Non-compliance with the EAs and awards requirements.</li> </ul>	Low	<p>We recommend management:</p> <ul style="list-style-type: none"> <li>▶ Establish a leave management strategy in line with the following factors:                             <ol style="list-style-type: none"> <li>a) EAs and awards requirements;</li> <li>b) The employee’s conditions of employment;</li> <li>c) Equity issues across the division; and</li> <li>d) Budgetary constraints;</li> </ol> </li> <li>▶ Ensure no payout in lieu of taking annual leave occurs; and</li> <li>▶ Provide refresher training and education to the relevant managers to enhance the controls.</li> </ul>	<p>New payroll system will provide us with a greater capacity to plan for leave and it will be collaborated to contemplate all industrial instruments.</p> <p>Refresher training will be provided in conjunction with training on the new payroll system.</p>	1/07/2018	Nadia Andjelkovic	Complete
20	<p><b>Monitoring of annual leave balance</b></p> <p>There was no regular monitoring of annual leave (A/L) balance, leading to an excess A/L balance. This was not compliant with the Clause G.2. “Annual Leave” of the EA, which requires that “Employees with 8-weeks or more accrued Annual Leave may be directed to take annual leave, provided that a balance of equal to or less than 4-weeks remains”. This oversight issue may be due to the changes of senior management within last year.</p> <p>There were four employees with over 304 hours (equivalent to eight weeks full-time) A/L balance at the time of the audit on 5 December 2017.</p>	<ul style="list-style-type: none"> <li>▶ Financial commitment of excess A/L balance on employment termination;</li> <li>▶ Increasing leave liability as pay increases are applied each year;</li> <li>▶ Reliance on one employee subjects the council to risks such as “key man risk” and succession issues;</li> <li>▶ A reluctance to take leave is an indicator for fraud;</li> <li>▶ Employee’s health and welfare may be influenced if no leave taken for a long time; and</li> <li>▶ Non-compliance with the EAs and awards requirements.</li> </ul>	Low	<p>We recommend management:</p> <ul style="list-style-type: none"> <li>▶ Direct employees who have accrued in excess of eight weeks (i.e. 304 hours full-time or pro-rata) A/L to take their annual leave with written notice as suggested by the EA; and</li> <li>▶ Provide refresher training to the relevant managers to enhance the controls.</li> </ul>	<p>A monthly report will be sent to line managers of leave balances in excess of eight weeks.</p> <p>Line managers to communicate with staff and ensure a leave plan is in place.</p> <p>Training to managers will occur as part of the implementation of new payroll software.</p> <p><b>Update on 22 August 2018</b></p> <p>Process has been agreed and will be implemented in August.</p>	1/07/2018 Revised to 31/08/2018	Nadia Andjelkovic	In Progress
21	<p><b>Pay run record management</b></p> <p>For the testing period from July 2016 to 5 December 2017, ten fortnightly pay runs were reviewed and the following was identified:</p> <ul style="list-style-type: none"> <li>▶ Inconsistent report name was used. There were eight pay runs addressing Exception Report and two (20%) pay runs addressing Gross Pay Report; however, the report contents were the same and relating to exceptions;</li> <li>▶ All (100%) Department Total Reports had no reviewer (Senior Accounting Officer) sign off and one (10%) was not signed off by preparer (Payroll Officer);</li> <li>▶ There were four (40%) EFT Payments Reports not consistently signed by two reviewers; and</li> <li>▶ No preparer (Payroll Officer) and reviewer (Senior Accounting Officer) signed off on the Time Sheet Checklist for Community Staff (100%).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Controls are not evident due to no audit trails retained;</li> <li>▶ Errors may occur due to inconsistent practice; and</li> <li>▶ Noncompliance with the Section 124 “Accounting records to be kept” of the Local Government Act 1999.</li> </ul>	Low	<p>We recommend management:</p> <ul style="list-style-type: none"> <li>▶ Unify the name of the report used during the fortnightly pay run process;</li> <li>▶ Improve the process and apply preparer and reviewer’s signoff on the Department Total Reports and the Time Sheet Checklist for Community Staff;</li> <li>▶ Streamline the process and ensure one rather than two senior managers to review and sign off EFT Payments Reports; and</li> <li>▶ Ensure the consistency of the process.</li> </ul>	<p>As part of the implementation of the new payroll system, payroll processes will also be reviewed and recommendations will all be addressed.</p> <p>The new system will ensure consistency of reports.</p> <p><b>Update on 22 August 2018</b></p> <p>New payroll system implemented. Currently in the process of determining the most effective reports to run each payrun. All pays reports are being reviewed and signed off.</p>	1/07/2018 Revised to 30/09/2018	Nadia Andjelkovic	In Progress

## Appendix 2

### Business process improvement opportunities

Project	Ref #	Observations	Opportunities
Asset Management	1	<p><b>Communication and Training Plan</b></p> <p>It is noted there is lack of communication between departments. For example, customer service received calls regarding road works but they haven't been informed of anything in that area, therefore no information to provide to the community. It is also noted that depot staff were asked to do small and "inconveniencing" jobs without any proper warning / lack of communication.</p>	<p>It is recommended that management develop a communication plan to inform the organisation of the current status of the Asset Management related projects, such as the System Implementation and arrangements for the next stage of development. This plan could include:</p> <ul style="list-style-type: none"> <li>➤ Reiterate the objectives of the project.</li> <li>➤ Determine the level of communication and timing.</li> <li>➤ Determine the audience for each communication.</li> <li>➤ Determine mechanisms for each communication.</li> </ul> <p>It is also recommended that management develop a Training Plan which:</p> <ul style="list-style-type: none"> <li>➤ Incorporates a needs analysis of staff</li> <li>➤ Identifies needs and develops a program for Stage 2 Implementation.</li> <li>➤ Incorporates refresher and catch-up training for Work Group Leaders and Teams.</li> </ul> <p>Training programs should incorporate an assessment and follow-up process and be designed by a person with workplace assessment and training qualifications.</p>
	2	<p><b>IAMP and LTFP assumptions</b></p> <p>As the current asset management plan is being reviewed and updated according to the latest condition assessment result, the asset management related assumptions such as capital expenditure, maintenance schedule, asset valuation are yet to be finalised. The capital program that will feed into the LTFP is still in progress. It is also noted some assumptions that relates to asset maintenance may not be considered by the management. For example, Community leases don't have enforceable conditions for tenants to comply with, therefore, maintenance by the tenant is non-existent, which over time becomes a structural issue and falls back to the council's responsibility. The current LTFP doesn't include these types of costs.</p>	<p>It is recommend management review the key IAMP and LTFP assumptions to ensure its integrity.</p>
	3	<p><b>Control self-assessment</b></p> <p>The South Australian Local Government Financial Management Group Inc. (SALGFMG) Better Practice Model (BPM) provides the framework of internal control include the provision for regular and effective review. By adopting this approach, Councils will be adequately equipped to meet the statutory obligations under Section 125 of the Local Government Act 1999 ("Local Government Act"). Control Track is a tool based on this BPM to assist Council develop and monitor the effectiveness of the Internal Controls. Our audit found that Finance team has completed a control self-assessment in 2015/16 with regards to the financial related controls. However, the other controls relating to City Asset Team is not been undertaken.</p>	<p>It is recommended that City Asset Team conduct the control self-assessment annually to:</p> <ul style="list-style-type: none"> <li>➤ better understand the asset management business operations (by both management and operational staff),</li> <li>➤ get stronger awareness of risk practices; and</li> </ul> <p>establish a reinforced governance regime.</p>



Project	Ref #	Observations	Opportunities
		Internal Auditor has assessed the core BPM controls within the scope of this audit. Please Refer to the Control assessment and control track linkage for detailed information.	
Procure to Pay Implementation	4	<p><b>Invoice management – paper based component of P2P process</b></p> <p>The elimination of the paper based component of the process would return significant efficiency gains, and can be achieved relatively easily and quickly. Suppliers should be informed that Council will only receive invoices in an electronic form and that all invoices are to be sent to the Accounts Payable Officer. The receipt of all invoices through a centralised point in the organisation will ensure that invoices can be properly tracked, and appropriate performance measures can be put in place. Ideally this should be clearly stated in a Customer Charter and on any published terms and conditions. Internally persons raising orders should ensure that the supplier is made aware of this requirement.</p>	<p>No.10. Discontinue the practice of accepting paper based invoices, all suppliers should be informed that invoices shall only be accepted in an electronic format via e-mail.</p> <p>No.11. All invoices should be received through one point in the organisation, the Accounts Payable Officer.</p> <p>No.12. Suppliers should be informed of the electronic format and centralised receiving requirements for invoices at the time of ordering. These requirements should be incorporated in a Customer Charter, and provided in the procurement terms and conditions.</p> <p><b>Internal Audit Comment</b> It is recommended that management implement the agreed actions by due date.</p>
	5	<p><b>System design and function</b></p> <p>Council should upgrade its current electronic system to provide a more accessible, user friendly system. The Procurement Applications currently being developed in the CI Anywhere environment feature:</p> <ul style="list-style-type: none"> <li>➤ A screen view consistent with that associated with online purchasing sites. Online purchasing site screen views have been heavily researched for simplicity and user friendliness.</li> <li>➤ A catalogue system which allows internal and external catalogues to be maintained, in effect allowing the introduction of inventory management.</li> <li>➤ A clear easily traceable history for all purchases by supplier name and inventory quantity.</li> <li>➤ Ability to link to supplier panels including the LGA Contractor Panel Tendering Site</li> <li>➤ The Ability for Managers to approve requisitions on mobile devices and phones.</li> <li>➤ The Ability to establish variation tolerance levels for invoices, so that only invoices with variations from the approved requisition need to be distributed for further approval.</li> </ul>	<p>No.13. Investigate the transition to the CI Anywhere Environment Procurement system.</p> <p>No.14. Consider a pilot/ key user transition to the "My Requisition" as an interim step to the CI Anywhere" Procurement system.</p> <p><b>Internal Audit Comment</b> It is recommended that management implement the agreed actions by due date.</p>
	6	<p><b>Management of new creditors</b></p> <p><b>P2P Review Report Observations</b></p> <p>The managing suppliers register, and negotiating supplier agreements, terms and conditions, and maintaining a strategic outlook for the procurement should be undertaken by the Procurement Area.</p> <p>Whilst managers may maintain the ability to approve new suppliers this should be done in consultation with the procurement area. A change in the workflow to accommodate this change will bring greater governance and accountability to the supplier management without affecting the current time restraints in the P2P process. However there will need to be a consideration of the capacity and resource implications for the procurement area.</p> <p>Currently a requisition cannot be raised if a creditor has not been registered on the system. This is aimed at ensuring that the selection of suppliers is consistent with the supplier panels. However there is no step in the current process that involves a check with the procurement area to ascertain whether the goods or service can be supplied by a current panel supplier.</p> <p><b>Internal Audit Comment</b></p>	<p><b>P2P Review Report Recommendations</b></p> <p>No.24. Discard the current "New Creditors" form and assessment process.</p> <p>No.25. Investigate the possibility electronic system configuration to maintain the new creditor requests and approvals inside the electronic procurement system.</p> <p>No.26. Assign the responsibility for overseeing the approval of new suppliers, management of the suppliers register, negotiation of any supplier agreements and developing a strategic focus in regard to management of all suppliers, to the Procurement Area.</p> <p><b>Internal Audit Comment</b> It is recommended that management implement the agreed actions by due date. It is also recommended that management evaluate suppliers' performance (KPIs) on a set of criteria using historical data and buyers' experience. This could be knowledge from current pre-qualified providers or broader industry expertise.</p>

Project	Ref #	Observations	Opportunities
		<p>During the review, Internal Audit also noted that recognition of suppliers requiring WH&amp;S and Insurance compliance is not through standard access to a pre-qualified/preferred supplier list. One of the advantages of pre-qualification is to reduce the need to evaluate unqualified contractors. It is a way of narrowing the field to only those who have the requisite ability to comply with the terms of the contract and the financial capability to undertake the work. This also reduces the possibility of rejecting good suppliers early in the supplier selection process. There is also increased demand for better risk management over the procurement. We noted that the risk assessment of procurement activity was not clearly defined in the procurement policy and its guidelines. Lack of procurement risk definition could increase the risk of inconsistency and not obtaining value for money during pre-qualification.</p>	
	7	<p><b>Communications and training</b></p> <p>The need to improve the internal communications and training is reflected by the number of interviews where, users indicated that they relied on their own “cheat sheets” or guidance notes to navigate the system. The lack of knowledge of the number of and whereabouts of invoices in the organisation, circumventing of the process for expediency purposes, and uncertainty over responsibilities, are all systematic of a lack of communication and suitable ongoing training. It is noted that the Technology 1 CI Anywhere system has simple training videos embedded in the system that can assist the user and guide them through the creation of a requisition, tracking histories, and approval processes. Whilst this is a clear benefit, should CHB upgrade the electronic environment, there is a need for a broader communications and training program that is guided that reflects the policy positions, customer charter, service levels, and responsibilities.</p>	<p>No.28. Review the location of the Procurement Terms and Conditions on the Council's web site. It is suggested that a separate Procurement heading is established under the Council section.</p> <p>No.29. Amend the current Terms and Conditions to reflect the changes recommended in this report.</p> <p>No.30. Develop a Communications and training schedule for the procurement processes, governance framework, and system operation.</p> <p><b>Internal Audit Comment</b> It is recommended that management implement the agreed actions by due date.</p>
	8	<p><b>Single tender and no tender situation</b></p> <p>During our review, we noted that the current Contract and Tendering Procedure (P2P changes) do not define the activity for situations such as 'sole tender received' and 'no tenders received'. Use of incomplete tender and selection procedures as guidance could increase the risk of procurement of goods and services from non-preferred suppliers and compromise the value for money in Council's purchasing and procurement.</p>	<p>It is recommended that management update the tender and selection requirements in the procurement policy and procedure to define the desired process for 'sole tender received' and 'no tenders received'.</p>
	9	<p><b>Use of purchase cards</b></p> <p>As part of this review, we requested details of non-purchase card transactions paid via accounts payable from 1 January 2016 to 31/12/2016. A spread sheet was provided February 2017 which was analysed and any credit notes/adjustments (negative amount transactions) excluded. The table below summarises these accounts payable transactions split into eight groups. As can be seen, a significant number of accounts payable transactions are below \$1,000. The percentage of accounts payable transactions less than \$1,000 is 70.29% for the 12 month period with 18.25% of the total AP transactions being less than \$100.</p> <p>Using purchase card can eliminate touch points in the purchase to pay process, decrease the number of invoices and checks processed by AP while maintaining sufficient control. Establishing purchasing card accounts for each supplier can enable better expense tracking. The touch points for non purchase card AP transactions are 7 including:</p> <ol style="list-style-type: none"> <li>1. Create purchase order after acquiring required quotes;</li> </ol>	<p>If 50% of the AP transactions less than \$1,000 (2,910 transactions) could be done by purchase card instead of accounts payable, for every minute saved per transaction by using purchase cards, 48.5 hours per year of resourcing will become available. If 5 minutes per transaction is saved, resource capacity increases by 243 hours. On a \$60,000 salary, the benefit is \$7,460, assuming no additional purchasing cards are required by the Council. This can lead to potential staff reductions within accounts payable and/or the ability to redirect staff to more value-added activities.</p> <p>In addition, issuing purchasing cards can help reduce fraud and unauthorised spending by setting credit limits on each card account tailored to the expected payment use of that account.</p>

Project	Ref #	Observations	Opportunities
		<ol style="list-style-type: none"> <li>2. Send invoice to Records;</li> <li>3. Stamp the invoice with date received and scan into Records Management System;</li> <li>4. Administration Officer - Finance actions the invoice to the relevant authorising person;</li> <li>5. The authorising officers approves the payment and enters the purchase order or account number;</li> <li>6. Enter the invoice into AP either by vouching against the purchase order or direct entry if no purchase order raise;</li> <li>7. Account paid by EFT.</li> </ol> <p>Compare with the purchase card transaction touch points of 5 which include:</p> <ol style="list-style-type: none"> <li>1. Credit Card Holder processes codes the transaction directly in to the Bank Credit Card Software;</li> <li>2. Supervisor approves or rejects the transaction;</li> <li>3. Invoices are provided to the Team Leader Finance accompanied by the authorised credit card statement;</li> <li>4. Finance check invoices received against statement which is received from vendor at the end of each month;</li> </ol> <p>Account paid monthly by EFT. If 50% of the AP transactions less than \$1,000 (2,910 transactions) could be done by purchase card instead of accounts payable, for every minute saved per transaction by using purchase cards, 48.5 hours per year of resourcing will become available. If 5 minutes per transaction is saved, resource capacity increases by 243 hours. On a \$60,000 salary, the benefit is \$7,460, assuming no additional purchasing cards are required by the Council. This can lead to potential staff reductions within accounts payable and/or the ability to redirect staff to more value-added activities.</p> <p>In addition, issuing purchasing cards can help reduce fraud and unauthorised spending by setting credit limits on each card account tailored to the expected payment use of that account.</p>	
<b>Payroll Process – CHB</b>	10	<p><b>Policies and flowcharts</b></p> <p>The audit highlighted that improvement could be made to payroll related policies and procedures relating to areas such as recruitment, leave, overtime, allowance, reclassification, and termination etc.–While EAs and awards can compel or prohibit behaviors, policy clearly guides actions toward those that are most likely to achieve a desired outcome of the Council.</p> <p>The existing human resources (HR) flowcharts of New Employees, Parental Leave, Reclassification, Separation, and Change to Employment Conditions for Existing Employees are designed with the intention to document and manage the process; however, these flowcharts do not use the standardised symbols according to the ISO 5807:1985 Information Processing.</p> <p>The <i>Local Government Act 1999</i> Section 125 “Internal control policies” requires the Council to maintain current documentation of policies, procedures and systems.</p>	<p>We recommend management</p> <ul style="list-style-type: none"> <li>➤ Prioritise resources to formalise the payroll related policies and procedures relating to areas such as: <ul style="list-style-type: none"> <li>○ Recruitment;</li> <li>○ Leave;</li> <li>○ Overtime;</li> <li>○ Allowance;</li> <li>○ Reclassification;</li> <li>○ Termination; and</li> </ul> </li> <li>➤ Update flowcharts according to the ISO 5807:1985 Information Processing.</li> </ul>
	11	<p><b>Periodic review of user access in payroll system</b></p> <p>The audit also highlighted that improvement could be made to individual IT profiles that need to be reviewed and any inactive accounts to be deleted.</p> <p>User access of the payroll system TechnologyOne was not reviewed regularly. It contained users that had terminated employment of the Council. Although their access to the Council’s Windows domain networks Active Directory was removed, there is a potential security risk of the “ghost user” account hijacked by an external hacker.</p>	<p>We recommend management:</p> <ul style="list-style-type: none"> <li>➤ Enhance controls for the user access in payroll system where possible, such as use expiry dates on users set up; and</li> <li>➤ Review user access on a regular basis, at least quarterly.</li> </ul>

Project	Ref #	Observations	Opportunities
<b>Payroll Process – Alwyndor</b>	12	<p><b>Timesheet submission requirements for Senior Management Team</b></p> <p>During our review, we noted that 13 people within the Senior Management Team (SMT) did not submit timesheets as this was agreed about five years ago. When they applied for leave, the application was raised in the Leave Application Form and General Manger – Alwyndor’s approval was obtained. However, this special entitlement was not formally documented and the SMT was changing over the time. There was no transparency for this practice.</p>	<p>We recommend management review the timesheet submission processes of the SMT and formalise the timesheet submission requirements and process for Senior Management Team.</p>
	13	<p><b>Retain New Employees Entering Form</b></p> <p>During our review, we tested five new employees for the recruitment process and found the New Employees Entering Form was destroyed a few months after Payroll Officer entered the payroll information within the form. Without this form, it is impossible to identify who enters the payroll information into BRS.</p> <p>As prescribed by Section 99 of the <i>Local Government Act 1999</i>, the CEO is responsible for ensuring that systems are in place to cause all records required under any legislation to be kept and maintained properly.</p>	<p>We recommend management review the recruitment data entering process and investigate the feasibility of retaining and archiving the New Employees Entering Form.</p>

## Appendix 3

### Strategic internal audit plan

Project	High level scope	Risk report ref.	Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
<b>Resource Mapping</b>	<p>The audit could include a review organisational structure to assess:</p> <ol style="list-style-type: none"> <li>1. Organisational/strategic needs analysis</li> <li>2. Resource mapping to identify skills gaps</li> <li>3. Review of resource reporting (HR annual review reporting and monitoring)</li> </ol>	1	2016	70 hours @ 146 \$10,220
<b>Contract Management</b>	<p>This project could include a review on the adequacy of tender processes and the management and reporting of contract costs in accordance with contractual requirements. The scope of this project will be limited to major or strategic contractual arrangements across the relevant business units and a wide sample selected across all business units.</p> <p>In addition, the review may include:</p> <ul style="list-style-type: none"> <li>• Review of current and planned policies, procedures, guidelines, directives related to procurement and contract management processes.</li> <li>• Review of a sample of project / contract files</li> <li>• Review of financial reporting on contracting activity</li> <li>• Review the maintenance of contract registers</li> <li>• Review the contract between the council and the preferred supplier and determine if a standard contract has been used and the contract includes provisions managing the risks identified.</li> <li>• Review the appropriate levels of delegated authority</li> <li>• Review the invoice verification and authorisation to ensure vendor invoices are paid according to the contract and in accordance with the prescribed process.</li> <li>• Contract variation monitoring</li> <li>• Performance monitoring and reporting</li> <li>• Records management and documented audit trails</li> </ul>	5	2018	70 hours @ 146 \$10,220

Project	High level scope	Risk Report Ref.	Proposed Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
<b>Asset Management</b>	<p>The audit focuses on the system of internal controls and management processes and includes the following asset classes: buildings, land, road, vehicles and equipment (including ICT assets). This audit excludes assets with value under \$10,000 (GST exclusive), intangible assets and financial assets.</p> <p><b>Framework and Governance</b></p> <ul style="list-style-type: none"> <li>Assess whether an asset management framework is established, documented and approved;</li> <li>Assess current asset management governance structures against the industry better practice - Local Government Association of South Australia (LGA) guidance;</li> <li>Ensure IAMP is linked to strategic planning;</li> <li>Assess the currency of training and relevancy of capability for key staff included in the IAMP preparation processes; and</li> <li>Identify improvement opportunities that Council need to address in future updates to improve value.</li> </ul> <p><b>LTFP and IAMP</b></p> <ul style="list-style-type: none"> <li>Assess the appropriateness and accuracy of key assumptions relating to Asset Management that form the basis of the LTFP and IAMP;</li> <li>Assess whether the key assumptions of the planning processes are integrated with the strategic corporate planning process including the alignment of planning time frames;</li> <li>Review LTFP to ensure it includes adequate provision for estimated warranted expenditure projections included in Council's IAMP; and</li> <li>Ensure Council has undertaken sensitivity analyses to assess the impact of variations in underlying key assumptions.</li> </ul> <p><b>Planning</b></p> <ul style="list-style-type: none"> <li>Assess whether the key elements of asset and maintenance planning processes are aligned with the strategic planning process including the alignment of planning time frames;</li> <li>Assess appropriateness of criteria and quality of information used for asset portfolio decision making; and</li> <li>Ensure asset management strategy and plans are appropriately authorised before implementation.</li> </ul> <p><b>Acquisition</b></p> <ul style="list-style-type: none"> <li>Validate whether approval for procurement is compliant with financial delegation requirements;</li> <li>Determine whether acquisition of assets is consistent with the acquisition plan and any variation between budget and actual is approved, monitored and appropriately escalated; and</li> </ul>	<p>Included as good practice</p>	<p>Q4 2016 (Done)</p>	<p>90 hours @ 152 \$13,680</p>

Project	High level scope	Risk Report Ref.	Proposed Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
	<ul style="list-style-type: none"> <li>Assess controls implemented to ensure asset acquisitions are completely and accurately recognised.</li> </ul> <p><b>Maintenance &amp; Renewal</b></p> <ul style="list-style-type: none"> <li>Review Routine Operations and Maintenance Plan, Renewal Plan and the preceding assumptions to ensure a level of precision, or confidence, on the forecasts of maintenance and renewal expenditure for the asset has been provide;</li> <li>Assess the influence of CRM or other external factor to the planned and unplanned maintenance;</li> <li>Assess whether comprehensive asset records are maintained;</li> <li>Determine whether condition assessment was undertaken to review maintenance needs; and</li> <li>Assess maintenance management activities including inspection, assessing the condition against failure/breakdown criteria/experience, prioritising scheduling, actioning the work and reporting what was done to develop a maintenance history and improve maintenance and service delivery performance.</li> </ul> <p><b>Disposal</b></p> <ul style="list-style-type: none"> <li>Determine whether asset disposal is in line with the strategic asset management plan;</li> <li>Assess whether the disposal plan is implemented to achieve maximum salvage value;</li> <li>Assess controls in place to ensure asset disposals are accurately and completely recognised; and</li> <li>Assess compliance with delegation requirements and appropriate segregation of duties.</li> </ul> <p><b>Performance Monitoring and Reporting</b></p> <ul style="list-style-type: none"> <li>Assess the processes in place to monitor and manage key asset performance and that appropriate reporting processes are in place;</li> <li>Assess the processes in place to establish the asset maintenance plan and that the plan is fit for purpose based on risk assessment, current and effectively implemented.</li> <li>Assess the adequacy of processes in place to prevent inappropriate use or theft of assets and to ensure a healthy and safe workplace.</li> </ul>			
<p><b>Procurement</b></p>	<p>The audit will include a review of procurement policies, documentation, procurement plans and contract activity. It will include review as to council receiving the best value for money for services and probity issues are being adequately addressed.</p> <p>The Audit will include:</p> <ul style="list-style-type: none"> <li>Assurance as to whether council's purchasing policies and procedures have been effectively implemented and transactions are appropriately recorded in the Finance system;</li> </ul>	<p>Included as good practice</p>	<p>Q1 2017 (Done)</p>	<p>60 hours @ 152 \$9,120</p>

Project	High level scope	Risk Report Ref.	Proposed Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
	<ul style="list-style-type: none"> <li>Review of purchase order management and variance analysis;</li> <li>Review of Procurement Plan - Evaluation, Handbook, Assessment Criteria and Evaluation Briefing Notes, Evaluation Report and Council Agenda item;</li> <li>Test procurement process for compliance with Local Government (Functions and General) Regulations;</li> <li>Test budget allocations and annual creditor expenditure to check compliance with the tender threshold to highlight possible anti avoidance issues;</li> <li>Assess risk management issues relating to procurement have been correctly identified and monitored;</li> <li>Check the current year's gift register against historical data.</li> <li>Review the appropriate levels of delegated authority;</li> <li>Review monitoring and reporting;</li> <li>Records management and documented audit trails.</li> </ul>			
<b>Compliance Mapping</b>	<p>Understand current mechanisms for identifying and monitoring legal and regulatory compliance for the Council and controlled entities.</p> <p>Review assessment and prioritisations processes, ownership mechanisms and escalation/reporting procedures to ensure compliance and /or timely response to potential breaches.</p>	6	Q3 2017	65 hours @ 152 \$9,880
<b>Payroll</b>	<p>The Audit may include:</p> <ul style="list-style-type: none"> <li>Review of current process (Inc. pay runs, time sheeting, adding, editing and terminating employees from payroll system)</li> <li>Assessing process to best practice</li> <li>Review of compliance with EBA and awards</li> <li>Transactional testing (where required)</li> <li>Application of payroll policy</li> <li>Leave policy and process review and application</li> <li>Review and reporting</li> </ul>	Included as good practice	Q4 2017 (Done)	60 hours @ 128 \$7,680
<b>Human Resource Management</b>	<p>Review of HR policies, procedures and tools used to assess effectiveness and consistency in identifying and addressing: Annual/performance reviews, informed process to assess EB, Reporting on cultural issues, Training and development needs, Employee performance management, discipline and dismissals, Promotions and job specification changes.</p>	16	Q1 2018 (Done)	65 Hours @ 128 \$8,320



Project	High level scope	Risk Report Ref.	Proposed Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
<b>BCP/DRP</b>	<p>The Audit may include a review on the adequacy and effectiveness of controls established for:</p> <ul style="list-style-type: none"> <li>• Governing, managing and protecting ICT assets and data;</li> <li>• Defining and assigning ICT roles, responsibilities and reporting lines;</li> <li>• Managing disaster recovery and business continuity operations;</li> <li>• Supporting ICT strategic planning, monitoring, reporting and continuous improvement; and</li> <li>• BCP plans, response protocols and training.</li> </ul>	4a, 4b	Q2 2018	75 hours @ 155 \$11,625
<b>Strategic Planning Alignment (inc Alwyndor as part of council strategy)</b>	<p>The audit could include a review on the following major processes:</p> <ul style="list-style-type: none"> <li>• Planning the Preparation and Development of Plans</li> <li>• Implementation of Plans</li> <li>• Monitoring of Plans</li> <li>• Reporting on Progress of Plans.</li> </ul>	12	Q3 2018	80 Hours @ 155 \$12,400
<b>Review of project assessment/feasibility process</b>	<p>Review current project acceptance decision making process to and compare to best practice. Points to consider:</p> <ul style="list-style-type: none"> <li>• Project governance structures</li> <li>• Financial viability</li> <li>• How community value is determined</li> <li>• Milestone identification decision management</li> <li>• Sufficiency of resources to execute the project efficiently and effectively (Internal v external support)</li> <li>• Project selection process (in the case of competing projects)</li> <li>• Mechanisms to select providers (component tendering)</li> <li>• Reporting and monitoring.</li> </ul>	Included as good practice	Q4 2018	60 Hours @ 155 \$9,300
<b>Recruitment, Selection, Induction and Probation</b>	<p>This review would involve the complete end-to-end recruitment processes and include tasks, activities and controls from the planning stage to the approval and appointment of suitable candidates and subsequent induction and probation processes.</p>	Included as good practice	Q1 2019	60 hours @ 131 \$7,860
<b>Complaints Handling</b>	<p>The audit would include a review of the complaint handling policy and processes. This would include:</p> <ul style="list-style-type: none"> <li>• Complaints management and issue escalation protocols</li> <li>• CRM monitoring,</li> <li>• Resolution processes and authorities</li> </ul>	15	Q2 2019	65 hours @ 158 \$10,270

Project	High level scope	Risk Report Ref.	Proposed Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
	<ul style="list-style-type: none"> <li>• Complaints training</li> <li>• Structures for internal v external complaints</li> <li>• Reporting and monitoring.</li> </ul>			
<b>Contract Management</b>	<p><i>This project could include a review on the adequacy of tender processes and the management and reporting of contract costs in accordance with contractual requirements. The scope of this project will be limited to major or strategic contractual arrangements across the relevant business units and a wide sample selected across all business units.</i></p> <p><i>In addition, the review may include:</i></p> <ul style="list-style-type: none"> <li>• Review of current and planned policies, procedures, guidelines, directives related to procurement and contract management processes.</li> <li>• Review of a sample of project / contract files</li> <li>• Review of financial reporting on contracting activity</li> <li>• Review the maintenance of contract registers</li> <li>• Review the contract between the council and the preferred supplier and determine if a standard contract has been used and the contract includes provisions managing the risks identified.</li> <li>• Review the appropriate levels of delegated authority</li> <li>• Review the invoice verification and authorisation to ensure vendor invoices are paid according to the contract and in accordance with the prescribed process.</li> <li>• Contract variation monitoring</li> <li>• Performance monitoring and reporting</li> <li>• Records management and documented audit trails.</li> </ul>	Included as good practice	Q3 2019	70 hours @ 158 \$11,060
<b>Business Planning and Budget Process</b>	<p><i>This project would involve a review of the processes and procedures used to compile the annual council budget, measuring these processes and procedures against best practice and making recommendations for improvements to the next business planning and budget process.</i></p>	10 and Included as good practice	Q4 2019	65 Hours @ 158 \$10,270
<b>Planning Assurance and Development Assessment</b>	<p><i>The audit would review the planning and building assessment process to ensure appropriate categorisation, due diligence and quality assurance of planning and building assessments. Due to the high risk nature of the Development Assessment process, it is critical to council's reputation and insurance liability that adequate due process, quality assurance and decision making is in place end to end.</i></p>	Included as good practice	Q1 2020	60 hours @ 158 \$9.480

Project	High level scope	Risk Report Ref.	Proposed Timing	Estimated Hours/Cost (Ex GST based on 2015/16 rate)
	<i>This review would focus on practices, processes and controls through the various stages of planning, evaluation and assessment relating to both residential and commercial properties.</i>			
<b>Work Health and Safety</b>	<p><i>Review of current knowledge and tools used to ensure safe work and compliance with relevant legislation. Including the sufficiency of the adherence of Council staff to documented policies and procedures.</i></p> <p><i>Assess reporting tools in place to identify, capture and report preventative actions and incidences (including remedial activities) for the Council.</i></p>	9	Q2 2020	60 hours @ 158 \$9,480

Item No: **6.2**

Subject: **2017-18 AUDIT COMMITTEE SELF ASSESSMENT**

Date: 29 August 2018

Written By: General Manager, Mr R Bria

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## **SUMMARY**

The Audit Committee's Terms of Reference state that the Committee shall at least once a year, review its own performance to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to Council for consideration. A self-assessment questionnaire was distributed to all Committee Members and Council Staff who regularly attend Audit Committee meetings.

This report provides results of the self-assessment undertaken by the Audit Committee regarding its performance over the previous twelve months

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## **RECOMMENDATION**

**That the 2017-18 self-assessment of the Audit Committee be noted.**

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## **COMMUNITY PLAN**

A Place that Provides Value for Money

## **COUNCIL POLICY**

Audit Committee Terms of Reference

## **STATUTORY PROVISIONS**

*Local Government Act, 1999, Sec 126*

## **BACKGROUND**

Clause 6.9.3 of the Audit Committee's terms of reference that were endorsed by Council on 12 September 2017 require that the Audit Committee Presiding Member shall report annually to Council summarising the activities of the Committee during the previous financial year. This was undertaken at the last Audit Committee on 6 June 2018.

In Clause 5.1 of the terms of reference the Audit Committee shall, at least once per year following the adoption of the audited financial statements by Council, review its own performance, terms of reference and provide a report to Council including any recommended changes. The Terms of Reference were reviewed in August 2017 by the Committee and subsequently endorsed by Council on 12 September 2017, however a self-review of the Audit Committee's performance was not undertaken.

To facilitate the review of performance, a self-assessment questionnaire was drafted for use by the Committee. The final questionnaire was sent out to be completed by the Committee and staff supporting the Committee before the next Committee meeting so that the results can be provided at the next meeting, for consideration.

## **REPORT**

The self-assessment questionnaire was undertaken by 8 individuals, 5 Audit Committee members and 3 staff.

The overall average score was 4.5 out of 5 with the average ranking from Staff being 4.6 and the Committee being 4.5.

Based on the comments provided, Staff consider it would be worth discussing the following:

- Training requirements for Committee Members
- Council's understanding the functions and role of the Audit Committee

Staff will also schedule a Committee review of the Terms of Reference to occur later this year.

Members can also raise any particular comments contained in the attachment that they consider warrant further discussion.

If Members have any comments about the self-assessment questions or process these can be discussed at the meeting.

## **BUDGET**

There are no budget implications from this report.

## **LIFE CYCLE COSTS**

There are no full life cycle cost implications from this report.

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

**Responses received 8 in total, 5 Audit Committee and 3 staff.**

1. Do you believe that the Council sufficiently understand the nature, responsibility and function of the Audit Committee?

Committee	3.8
Staff	4.0 (1 x Unsure)
Overall	3.9

### Comments

- Not regularly reviewed/reminded of role and function of the Audit Committee.
- Possible area for improvement - expect the new Council will receive information in this regard
- I think Council could receive some training on issues it can refer to Audit Committee for advice.

2. Are you satisfied with the effectiveness of the committee to date in terms of meeting its Terms of Reference?

Committee	4.6
Staff	4.7
Overall	4.6

### Comments

- Nil

3. Are the terms of reference reviewed and amended in a timely and appropriate manner?

Committee	5.0
Staff	4.5 (1 x Unsure)
Overall	4.8

### Comments

- Nil

4. Is the number of independent members appropriate to effectively discharge the responsibilities of the Audit Committee?

Committee	4.6
Staff	5.0
Overall	4.8

### Comments

- Nil

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

5. Are Audit Committee meetings well attended by members?

Committee	4.4
Staff	5.0
Overall	4.7

### Comments

- Nil

6. Do Audit Committee meetings allow sufficient time for discussion and questions?

Committee	4.8
Staff	5.0
Overall	4.9

### Comments

- Nil

7. Are meeting agendas and related background information circulated in a timely manner to enable full and proper consideration to be given to the issues?

Committee	4.8
Staff	4.7
Overall	4.7

### Comments

- Yes - sometimes (due to time constraints and logistics) it is not always possible to get documents/attachments circulated in a timely manner. This year's draft ABP is a case in point.

8. Is sufficient time allowed between Audit Committee meetings and Council meetings to allow any work arising to be carried out and reported to the Council as appropriate?

Committee	4.4
Staff	4.3
Overall	4.4

### Comments

- Yes - meeting dates have been reviewed during this year and reflect more clearly milestone work and key business time lines.

9. Does the Audit Committee Presiding Member, and to a lesser extent the other members, keep in touch on a continuing basis with the key people involved in the Council's governance e.g. the Council Presiding Member, the Chief Executive Officer and the General Managers?

Committee	4.4
Staff	4.3

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

Overall 4.4

### Comments

- As the presiding member is an elected member I understand that this is the case. It

10. Are you satisfied with the decision making process/conduct of the Committee?

Committee 4.4

Staff 4.3

Overall 4.4

### Comments

- Nil

11. Are you satisfied with the contribution that each Committee Member makes?

Committee 4.6

Staff 4.7

Overall 4.6

### Comments

- Nil

12. Does the Audit Committee have sufficient skills, experience, time and resources to undertake its duties?

Committee 4.6

Staff 5.0

Overall 4.8

### Comments

- Nil

13. Do Audit Committee members receive relevant training in financial reporting and related legislation on an ongoing and timely basis?

Committee 4.2

Staff 4.00 (1 x Unsure)

Overall 4.1

### Comments

- Has not been necessary in my time. Not happened for some years.
- To my knowledge ongoing structured training has not been promoted or conducted.
- This is an area that could be explored further.
- We are not aware of what training is available. I



## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

- In addition, Committee members ought to do a familiarisation tour of key sites in the City at least bi-annually, in conjunction with elected members.
- Independent members are appointed for their expertise in risk and audit, therefore should have the appropriate technical skills.

14. Do Audit Committee members have the opportunity to attend courses and seminars, run by external advisers such as the Local Government Association, the External and Internal Auditors and Lawyers?

Committee	3.2
Staff	4.0 (1 x Unsure)
Overall	3.6

### Comments

- Not promoted.
- Not happened for some years.
- In my view they have the opportunity, eg one attended a risk management workshop conducted by the Internal Auditors in 2017.
- Targeted training is an area that may require more promotion/advice - refer also comment above.

15. Does the Audit Committee review and challenge where necessary the consistency of, and any changes to, accounting policies on a year to year basis?

Committee	4.6
Staff	4.5 (1 x Unsure)
Overall	4.6

### Comments

- I think these are well done.
- Not actively reviewing and challenging policies, however any policy change is reported to the Committee for comment and endorsement.

16. Does the Audit Committee review and challenge where necessary the methods used to account for significant or unusual transactions where different approaches are possible?

Committee	4.56
Staff	5.0 (1 x Unsure)
Overall	4.8

### Comments

- Significant or unusual accounting transactions are reported as necessary and feedback/endorsement sort eg loan impairments, revaluations and depreciation.

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

17. Does the Audit Committee review and challenge where necessary whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor?

Committee	4.8
Staff	5.0 (1 x Unsure)
Overall	4.9

### Comments

- The Committee meets with the external auditor and reviews the draft audit report. The external auditor informs the Committee of results and accounting treatments in accordance with the standards. This meets this requirement to follow appropriate accounting standards, estimates and judgements.

18. Does the Audit Committee review and challenge where necessary the clarity of disclosures in the Council's financial reports and the context in which statements are made?

Committee	4.8
Staff	4.7
Overall	4.7

### Comments

- Covering reports present clear disclosures as do the model financial statements, notes and interim audit reports.
- For 16/17 feedback was positive.

19. Does the Audit Committee review and challenge where necessary all material information presented with financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management)?

Committee	4.8
Staff	4.7
Overall	4.7

### Comments

- Covering reports present material information. For 16/17 feedback was positive.

20. Does the Audit Committee keep under review the effectiveness of the Council's internal controls and risk management systems?

Committee	4.4
Staff	4.3
Overall	4.4

### Comments

- Annual review of internal controls conducted and reported on.

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

- More work required on risk management and effective number and review of internal controls.

21. Does the Audit Committee monitor and review the effectiveness of the Council's Internal Audit function in the context of the Council's overall risk management system?

Committee	4.8
Staff	4.5 (1 x Unsure)
Overall	4.7

### Comments

- This could be strengthened - not aware of any formal review of the effectiveness on internal audit function.

22. Does the Audit Committee consider and make recommendations on the Internal Audit programme?

Committee	4.8 (1 x Unsure)
Staff	5.0
Overall	4.9

### Comments

- Nil

23. Does the Audit Committee review the findings of the External Audit with the External Auditor, including, but not limited to a discussion of any major issues which arose during the audit?

Committee	4.8
Staff	5.0
Overall	4.9

### Comments

- Nil

24. Does the Audit Committee review the findings of the External Audit with the External Auditor, including, but not limited to any accounting and audit judgements?

Committee	4.8
Staff	5.0
Overall	4.9

### Comments

- Nil

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

25. Does the Audit Committee review the findings of the External Audit with the External Auditor, including, but not limited to levels of errors identified during the audit?

Committee	4.8
Staff	5.0
Overall	4.9

### Comments

- Nil

26. Does the Audit Committee also review the effectiveness of the External Audit?

Committee	4.5(1 x Unsure)
Staff	3.3
Overall	3.9

### Comments

- To my knowledge an effectiveness review has not been conducted.

27. Are you satisfied with the relationship the Audit Committee has with Council?

Committee	4.2
Staff	4.0 (1 x Unsure)
Overall	4.1

### Comments

- Council could promote and refer more to the Audit Committee expertise on important relevant matters as they arise.

28. Are you satisfied with Councils understanding of the role and advice of the Audit Committee?

Committee	3.0 (1 x Unsure)
Staff	4.0 (1x Unsure)
Overall	3.5

### Comments

- This question is similar to Q1. I believe the Council has an understanding of the role of the Audit Committee, however I am uncertain as to the extent of their understanding. For this reason, a rating of 4 was given rather than 5 (ST); Refer above comment.

29. Does the report on the Audit Committee's activities provide sufficient detail to enable stakeholders to understand how the Audit Committee has discharged its duties?

Committee	4.2
Staff	4.3

## Audit Committee Self Assessment Summary For the Year Ended 30 June 2018

Overall 4.3

### Comments

- Nil

30. Are you happy with the style and amount of communication with Council management?

Committee 4.8

Staff 4.7

Overall 4.7

### Comments

- Apart from reports and minutes not aware of any additional structured communication from Audit committee members with management.

31. Is there any way you think the Committee can improve its performance?

### Comments

- Consider retraining and development when they arise.
- Nil besides those already highlighted in by comments already provided.
- Refer comments above - ongoing training as required and effectiveness reviews of internal/external audit roles and functions.
- Perhaps a workshop (next Council term) outlining the role and scope of Audit for sitting elected members would be beneficial.

32. Do you have any other comments?

### Comments

- Basically, I think Audit Committee does its job well, but needs to remain vigilant.
- See 9 re Councillors.
- Improved engagement between senior management and Audit Committee members has occurred in last 12 months. This has improved overall performance and focus of the Committee.
- Meeting schedule has improved and correlates better with key decision points for Council.

### **TOTAL RANKINGS**

**Committee 4.5**

**Staff 4.6**

**Overall 4.5**

Item No: **6.3**

Subject: **REVALUATION OF OPEN SPACE AND COASTAL ASSETS AS AT 30 JUNE 2018**

Date: 29 August 2018

Written By: Asset Accountant

General Manager: Business Services, Mr R Bria

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### **SUMMARY**

For the financial year ending 30 June 2018 a full valuation is being carried out of Council's Open Space and Coastal assets. The valuation includes the application of capitalisation thresholds, revaluation of recently completed large projects and the transfer of a number of car parks to a different class of assets. The valuation outcomes will be sent out under separate cover to Audit Committee members as soon as they are received.

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### **RECOMMENDATION**

**That the Audit Committee advises Council that it has received and noted the report from Jones Lang LaSalle on the revaluation of Open Space and Coastal assets.**

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### **COMMUNITY PLAN**

Culture: Being financially accountable  
Culture: Supporting excellent, efficient operations

### **COUNCIL POLICY**

Annual Financial Statements – Note 1 – Significant Accounting Policies – *6.2 Materiality, 6.3 Subsequent Recognition*

### **STATUTORY PROVISIONS**

Australian Accounting Standard AASB 116

### **BACKGROUND**

In preparing the annual financial statements a number of Council's accounting policies relating to the treatment of its Infrastructure, Property, Plant and Equipment need to be considered. It is

Council policy, in line with Australian accounting standards, that all material asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value.

## **REPORT**

### **Valuation of assets**

AASB 116 *Property, Plant and Equipment* states that 'after recognition of an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount' and 'revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially'.

The last valuation of Council's Open Space and Coastal assets was in 2013 so it was imperative that a valuation be carried out for the preparation of the 2017/18 financial statements. After a number of providers of valuation services were contacted Jones Lang LaSalle's quote was chosen as the successful submission. Their detailed report is being reconciled to Council's asset register to confirm that all assets have been included and are correct.

As the valuation results will affect the financial position of Council it is timely for the Audit Committee to review the impact prior to the presentation of the Annual Financial Statements at the next Audit Committee meeting. The completed valuation document including results will be sent out under separate cover to Committee members as soon as it is received.

### **Carrying Value Considerations**

The main requirement in carrying out the valuation of this class of assets is to provide a detailed and accurate list of individual assets across the city to help improve the quality of data held in the asset register. This accuracy will improve maintenance and renewal schedules for the City Assets and Services department.

This process has resulted in capturing assets at an individual level rather than in groups. The existing capital threshold of \$6,500 for this class of assets has been applied resulting in a reduction in the amount of assets recorded with a financial value. These excluded assets include benches, bins, bollards and similar operational type of assets. While information to this level of detail is not required for financial reporting requirements, it is useful for those tasked with maintaining this infrastructure.

Council has also completed and capitalised in recent years a number of large Open Space projects of high financial value. These projects have often included significant overheads and expensive groundworks which have now been valued on a replacement cost basis. As the direct replacement of these assets would not require the same input, for example, design, consultancy and earthworks, the value of these assets have decreased.



Finally a number of car parks located at sporting facilities and local reserves had previously been included within this class of assets due to their association with Open Spaces, and these have been transferred to the Infrastructure class of assets in line with current maintenance and renewal policies.

Given this process there is the potential for a decrease in the carrying value of the Open Space and Coastal assets. The valuation report will identify the carrying value outcomes.

### **Depreciation**

As part of the revaluation a review of useful lives was carried out. It was ascertained that some assets, especially those within 1km of the coastline, require replacement sooner than is currently being allowed for. Where appropriate a reduction in the expected useful life of these assets has been made thus increasing their annual depreciation charge.

### **BUDGET**

The 2018/19 budget has provided \$1.87 million depreciation for this class of assets. Preliminary depreciation calculations indicate that annual depreciation will remain similar to previous years and this will be confirmed in the valuation report.

### **LIFE CYCLE COSTS**

Changes to the revaluation of asset values and the application of capitalisation thresholds will impact depreciation and asset recording.

Item No: **6.4**

Subject: **BRIGHTON OVAL REDEVELOPMENT**

Date: 29 August 2018

Written By: General Manager Business Services

General Manager: Business Services, Mr R Bria

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## **SUMMARY**

At its meeting on 14 August 2018 Council resolved the following in regards to the Brighton Oval Sporting Complex Redevelopment:

*“That the background papers supporting the motion, together with all other supporting documentation including the internal/external correspondence, budgets, cash flow forecasts, feasibility statements and memos concerning the recommendation that the Managing Contractor model be adopted as the prudent option, and a copy of the subsequent tender documents be presented to Audit Committee for review and comment.”*

Attached to this report are the key documents that have been sourced for review and comment.

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## **RECOMMENDATION**

- 1. That the Audit Committee note the report.**
  - 2. That having considered Attachment 5 to Report No: 304/18 – Brighton Oval Redevelopment in confidence under section 83(5) of the Local Government Act 1999, the Council, pursuant to section 91(7) of the Act orders that Attachment 5 be retained in confidence for a period of 24 months and that this order be reviewed every 12 months.**
- 

## **COMMUNITY PLAN**

Placemaking: Creating lively and safe places

Placemaking: Developing walkable connected neighbourhoods

Placemaking: Building character and celebrating history

Community: Building a healthy, active and resilient community

Community: Celebrating culture and diversity

Community: Providing welcoming and accessible facilities

Community: Fostering an engaged and contributing community

Environment: Fostering an environmentally connected community

Culture: Supporting excellent, efficient operations

### **COUNCIL POLICY**

Not Applicable.

### **STATUTORY PROVISIONS**

Not Applicable.

### **BACKGROUND**

At its meeting on 14 August 2018 Council resolved the following in regards to the Brighton Oval Sporting Complex Redevelopment:

*“That the background papers supporting the motion, together with all other supporting documentation including the internal/external correspondence, budgets, cash flow forecasts, feasibility statements and memos concerning the recommendation that the Managing Contractor model be adopted as the prudent option, and a copy of the subsequent tender documents be presented to Audit Committee for review and comment.”*

### **REPORT**

Attached to this report are a number of key reports/documents that are referred to in the motion above. Due to the time constraint of meeting the Audit agenda, not all documents have been attached to this report as discussed in the motion.

The following documents are provided for review and comment.

1. Council report No: 240/18 - 10 July 2018 – Brighton Oval Complex Redevelopment  
*Refer Attachment 1*
2. Council Report No: 272/18 – 14 August 2018 – Brighton Oval Redevelopment – Tender Documents.  
*Refer Attachment 2*
3. Workshop Presentation – 10 July 2018 – Brighton Oval Options  
*Refer Attachment 3*
4. Council Report No: 237/18 – 10 July 2018 – Prudential Report Brighton Oval Upgrade  
*Refer Attachment 4*
5. Brighton Oval Redevelopment - KPMG Business Case –  
*Refer Confidential Attachment 5*

There is a confidential report that is being considered by Council on the 28 August on the Brighton Oval Redevelopment that has a recommendation to provide the report confidentially to the Audit Committee.

If Council resolve that way the report will be forwarded to the Audit Committee on Wednesday morning.

**BUDGET**

Not applicable.

**LIFE CYCLE COSTS**

Not applicable.

Item No: **14.6**

Subject: **BRIGHTON OVAL COMPLEX - REDEVELOPMENT**

Date: 10 July 2018

Written By: Manager Assets & Facilities  
Manager Active Communities

General Manager: City Assets and Services, Mr H Lacy  
Community Services, Ms M Lock

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## **SUMMARY**

The master plan for the Brighton Oval was endorsed by Council in 2017 following considerable community and stakeholder consultation. Among a range of improvements to the precinct, the master plan recommended the construction of three (3) new club buildings to replace existing facilities (including the old grandstand) at the Oval.

A business case, developed by KPMG, identified key social and economic benefits of investing in and redeveloping the precinct. The business case was formally endorsed by Council in 2017. In January 2018, Council allocated \$6,000,000 towards the construction of the three (3) new clubroom buildings over two financial years subject to support through grant funding. The State Government's Office for Recreation Sport and Racing subsequently allocated \$2,000,000 grant funding to the project.

Following confirmation of State grant funding, planning and design work commenced using local architects, Folland and Panozzo, to prepare conceptual designs for the three (3) new clubrooms based on sports association recommended floor space allocations and detailed discussions with each of the clubs. This work has now progressed to a point where the conceptual designs are complete and ready to proceed to tender and construction.

In parallel with design development, Administration engaged consultant engineers Tonkin to recommend a project delivery and contract methodology, to develop technical specifications for the buildings and associated civil works, and to prepare draft contract documentation.

An Expression of Interest was also called to gauge industry interest in the project, identify suitable building contractors to construct the project, and to obtain feedback on the proposed contracting methodology and likely building costs based on the contractor's previous experience.

The EOI process highlighted that the conceptual design were likely to be more expensive than allowed for in council's original planning and this could result in the constructed costs of conceptual designs being considerably over the total \$8.0m budget.

A complicating factor has been the timing of the 2018 Local Government Election Caretaker Period which is scheduled to commence on 4 September 2018 and run until the declaration of the polls on 26 November 2018. During this period, Council is prohibited from making any “designated decisions” which would include any decisions related to procurement or award of contracts greater than around \$336,000 – which of course would capture any decisions or contract award related to the Brighton Oval project.

This report therefore recommends that Council approve adoption of an innovative project delivery methodology based on a hybrid Early Contractor Involvement (ECI) contracting model with a target price incentive mechanism.

Under this methodology, Administration would seek tenders from suitably qualified building contractors to join the Project Delivery Team early in the design development phase. The Project Delivery Team would comprise Council’s project manager, consultant architects, consulting engineer, quantity surveyor and the managing contractor who would work with the clubs to develop final construction drawings for each of the three (3) clubrooms but sized and designed to keep the forecast construction costs within the target price. The managing contractor would then engage qualified sub-contractors to execute the build within the target price. In this way the designs are optimised around what the builder believes is feasible to construct with the budget available – rather than the more conventional approach of completing detail design first and then tendering the completed design.

The contract methodology would include an incentive arrangement so that the contractor would benefit from any project cost savings, but also share some commercial risk if the overall project exceeded the target price.

One key aspect of the contracting methodology is that Council would approve the calling and awarding of tenders for the building contract partner and then sign off the project to proceed to detailed design and construction (within the target price) via a 2<sup>nd</sup> report to Council expected at the 24 August meeting. No further decisions would be taken by Council until the work was complete. All subsequent project decisions would be made by either the Project Delivery Team or in the case of sign-off of the final building designs, in conjunction with the individual clubs. Council would however receive regular project updates and briefings.

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## RECOMMENDATION

### That Council:

1. notes the progress made towards the Brighton Oval Upgrade Project;
2. (a) approves the inclusion of a Community Pavilion (150m<sup>2</sup>) in the overall design of the Brighton Oval redevelopment at an estimated cost of \$397,500 in order to consolidate community space allocated within the individual clubrooms into one Council managed facility and proportionally reducing floor plan size of clubrooms;

Or

- 2 (b) approves the floor plan designs of the clubrooms with integrated ground floor community space and first floor function space, with the removal of the proposed Community Pavilion from plans. Funds previously allocated to the Community Pavilion be allocated to contingency and civil works;
3. approves the upgrade of oval lighting to competition standard for one Lacrosse pitch (main pitch) as part of the Brighton Oval redevelopment at an estimated cost of \$90,000.
4. (a) endorse the use of the hybrid Early Contractor Involvement (ECI) contract model with a target price incentive mechanism, in order to deliver the project within the target price (\$8.0m) and by June 2020.  
  
(b) approve the calling of a Request for Proposal to engage a construction contractor to join the Project Delivery Team as the Managing Contractor to assist with design and manage construction of the three (3) new clubrooms under the contract model.  
  
(c) notes that a further report (expected at meeting of 24 August 2018) will be provided detailing recommendations from the Tender Process and seeking approval to proceed with site investigations, statutory approvals, final detailed design and construction.

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## COMMUNITY PLAN

Placemaking: Creating lively and safe places

Placemaking: Developing walkable connected neighbourhoods

Placemaking: Building character and celebrating history

Community: Building a healthy, active and resilient community

Community: Celebrating culture and diversity

Community: Providing welcoming and accessible facilities

Community: Fostering an engaged and contributing community

Environment: Fostering an environmentally connected community

Culture: Supporting excellent, efficient operations

## COUNCIL POLICY

Not Applicable.

## STATUTORY PROVISIONS

Development Act 1993



## **BACKGROUND**

The master plan for the Brighton Oval was endorsed by Council in 2017 following considerable community and stakeholder consultation. The master plan recommended the construction of three (3) new club buildings to replace existing facilities (including the old grandstand) at the Oval.

A business case was formally endorsed by Council in 2017. In January 2018, Council allocated \$6,000,000 towards the construction of the three (3) new clubroom buildings over two financial years subject to support through grant funding. The State Government's Office for Recreation Sport and Racing subsequently allocated \$2,000,000 grant funding to the project.

Planning and design work commenced in May 2018 following confirmation of the grant funding. This involved local architects, Folland and Panozzo, preparing conceptual designs for the three (3) new clubrooms based on sports association recommended floor space allocations and detailed discussions with each of the clubs. This work has now progressed to a point where the conceptual designs are complete and ready to proceed to tender and construction.

In parallel with design development, Administration engaged consultant engineers Tonkin to recommend a project delivery and contract methodology, to develop technical specifications for the buildings and associated civil works, and to prepare draft contract documentation.

An Expression of Interest was also called identify suitable building contractors and to obtain feedback on the proposed contracting methodology and likely building costs based on the contractor's previous experience.

The EOI process highlighted that the conceptual design were likely to be more expensive than allowed for in council's original planning and this could result in the project being considerable over the total \$8.0m budget. 16 companies expressed interest and four of them have been short listed for the final tender.

In the lead-up to the 2018 Local Government Elections, Council enters a Caretaker Period on 4 September 2018 and runs until the declaration of the polls on 26 November 2018. During this period, Council is prohibited from making any "designated decisions" which includes any decisions related to procurement or award of contracts greater than around \$336,000 in value. This captures any decisions or contract award related to the Brighton Oval project.

Following discussions with Tonkins, Administration is recommending that Council adopt a hybrid Early Contractor Involvement (ECI) contract model (with a target price and incentive mechanism), in order to deliver the project within the \$8.0m project budget and by June 2020.

Under this methodology, Administration would seek tenders from suitably qualified building contractors to join a Project Delivery Team comprising Council's project manager, consultant architects, consulting engineer, quantity surveyor and the managing contractor who would work with the clubs to develop final construction drawings for each of the three (3) clubrooms but designed so that the managing contractor could then engaged qualified sub-contractors to build the designs within the target price set by Council. In this way the designs are optimised around

what the builder believes is feasible to construct with the budget available – rather than the more conventional approach of completing detail design first and then tendering the completed design.

The contract methodology would include an incentive arrangement so that the contractor would benefit from any cost under-run, but also share some commercial risk if the overall project exceeded the target price.

One key aspect of the contracting methodology is that Council would approve the calling and awarding of tenders for the managing contractor and then sign off the project to proceed to detailed design and construction (within the target price) via a 2<sup>nd</sup> report expected at the 24 August meeting. No further decisions would be taken by Council until the work was complete. All subsequent project decisions would be made by either the Project Delivery Team or in the case of sign-off of the final building designs, in conjunction with the individual clubs. Council would however receive regular project updates and briefings.

The second risk is not achieving a concept plan that is agreeable to the three Clubs. At this stage not all of their requests have been accommodated in the concept designs because those proposals are likely to cause the project to be over budget. An option will be to reduce overall floor areas of the proposed clubrooms (the recommended contracting methodology provides a mechanism by which this can be done), to reduce the proposed community space allocated within the club buildings, or to remove other items currently included in the design proposal including upgrading lighting to one of the Lacrosse pitches and/or a proposed Community Pavilion.

Managing the risk of cost overruns and the time needed to reach agreement on the final detail design of the three (3) clubroom buildings will be critical to the overall delivery of the project within budget and by June 2020.

## **REPORT**

### **Project Scope**

The endorsed master plan for Brighton Oval contains redevelopment of three (3) new club buildings in lieu of existing facilities at the Brighton Oval.

The three (3) new 2 storey clubrooms are proposed for each of the following clubs:

- Brighton Rugby Club – located to the Brighton Road frontage of the oval site with views over the rugby field looking east.
- Brighton Sport and Social Club – providing combined facilities for cricket and Australian Rules football with a new clubroom on the western edge of the main oval (in a similar location to the existing grandstand) with views over the oval looking east.
- Brighton Lacrosse Club – located in the same location as the existing Lacrosse Club.

Each of the proposed clubrooms includes:

- 4 change rooms – comprising changing areas, toilets & showers configured so that they can be utilised concurrently by 2 matches (4 teams) in various configurations to allow for male and female teams.

- Ground floor treatment rooms, medical, training space, referee facilities, office and storage space.
- Ground floor public toilets, canteen, community room, club entrance and lift/stair foyer
- Upper floor club facilities including covered balcony, board/meeting room, bistro style seating space, kitchen, cool room, storage, toilets (incl disabled toilet), lift foyers and stair access.
- Individual clubs have also specified specific requirements for each of their buildings.

Preliminary floor space allocations have been based on sports association recommended space allocations and detailed discussions with each of the clubs. This work has resulted in three conceptual designs for each of the proposed clubs which are complete and ready to proceed to tender and construction, subject to adjustment if tendered rates indicate that they are unaffordable within the project target cost.

The three new buildings are proposed to provide improved player and spectator amenities along with elevated and undercover viewing over the playing fields.

A fourth space (known as the Community Pavilion) is also proposed adjacent to the proposed new Brighton Sports and Social Clubrooms and which was intended to consolidate community space included in the designs for the 3 clubrooms into one Council managed community space.

The purpose of the Community Pavilion was to provide a multi-purpose space, capable of being divided into a range of smaller flexible spaces, for use by the community and which would be managed by Council rather than under the care of control of the sporting clubs who may inadvertently annex the space into their club operations to the effective exclusion of the public.

At the request of the Lacrosse Club, the project is also proposing to fund the upgrade of pitch lighting to the main competition pitch at an estimated cost of \$90,000. This work is considered essential to the overall redevelopment of the Lacrosse facilities.

It is proposed that the project adopt architectural and quality standards similar to the new Kauri Parade Sporting Complex.

A minimum amount of civil and landscaping works have been included in the project, sufficient to ensure that the buildings fit and interface to their proposed sites.

The project does not include any of the other site improvements (other than what is mentioned above) proposed by the master plan including substantial civil and landscaping works, car parks, playground or roads safety improvements. This is dependent on future Council budgets other grant funding opportunities and ongoing discussions with the Federal Government through the Member for Boothby, Ms Nicolle Flint MP.

### **Project Stages**

Since confirmation of State Government funding in March 2018, Administration have progressed the preliminary stages of the project to a point now of Request for Proposal. The activities undertaken so far have included:

- Consultation with the 4 clubs that are currently tenants within the existing buildings
- Development of a draft concept designs for the proposed three (3) clubrooms
- Preparation for technical (on-ground) investigations
- Assessment of an appropriate contract model and project risks
- An expression of interest to gauge construction industry interest
- Preparations for Request for Proposal documents

An expression of interest to identify the interest from the construction industry has been completed. The closing date for the lodgment of Expressions of Interest was Thursday 14 June, 2018. A tender briefing session was held on site at 9.30am on Thursday 7 June.

The objective of the project is to deliver the identified developments within the budget, quality and time.

For the purpose of this paper, the project is divided into three (3) stages:

#### Stage 1 – Concept design and Project Approval

- develop concept plans in consultation with the clubs and contractors
- establish contract delivery model and designs to deliver project within the budget
- initiate on-site investigations and planning approval
- obtain Council approvals (by the end of August 2018) to:
  - engage managing contractor as part of the project delivery team
  - proceed with project implementation

#### Stage 2 – Project Preliminaries and Detailed Design

- finalise on-site investigations
- finalise detail designs in conjunction with Project Delivery Team and clubs
- finalise technical specifications, selection of finishes and target cost estimates for each building
- obtain planning approvals

#### Stage 3 – Project Delivery

- Managing contractor calls tenders for select sub-contractors to undertake work
- existing buildings demolished & new buildings constructed (construction sequence to suit contractor's and club's programs)
- handover & commission new buildings

### **Funding**

The overall approved funding for the project is \$8.0m which is funded \$6.0m by Council and \$2.0m by State Government through an Office of Sport and Recreation grant.

The overall expenditure budget is currently based on a floor space cost of around \$2650/m<sup>2</sup> although industry feedback from the recent Expression of Interest process would indicate that this rate is considered to be too low, with rates around \$2850/m<sup>2</sup> to \$3000/m<sup>2</sup> recommended.

The Brighton Sport and Social Club have secured \$75,000 from SANFL to fund enhancements to their building. Similarly Brighton Rugby Club is proposing a contribution of \$95,000 for improvements to their building.

These additional funds have been incorporated into the concept design process for these clubs and have funded some additional enhancements.

The clubs are also expected to contribute to the cost of fitout, fixtures and fittings for their clubrooms including kitchen equipment, fridges, beer systems and furniture. No specific allowance has been made in this project for these club fitout costs.

Based on current data, the estimated cost of the project is as follows:

<b>Project Funding</b>	\$8,000,000
add: contribution by SANFL (Brighton Football Club)	\$75,000
contribution by Brighton Rugby Club	\$95,000
<b>Total Project Budget</b>	<b>\$8,170,000</b>
Clubroom construction (3 off)	\$7,192,500
Council managed community pavilion (150m <sup>2</sup> )	\$397,500
Lighting Upgrade – Lacrosse pitch	\$90,000
Shared projects costs (eg soil testing, design, approvals, service relocations & connections, project management, landscaping and paving)	\$490,000
<b>Total Project Budget</b>	<b>\$8,170,000</b>

### Development of Concept Plans

Council staff and architects met with each club a number of times to discuss design issues relating to individual clubs. These issues have been considered and incorporated where possible. The issues included recommended floor areas and functional spaces for each of the buildings. Architects have attempted to incorporate the needs and preferences expressed by each club as much as possible without impacting on the budget bottom line.

Council's architects Folland and Panozzo have developed the functional requirements in consultation with the state and local sports associations. Under the current plans, each club building provides for a significant increase in floor size compared to the existing facilities.

Club	Existing area (m <sup>2</sup> )	Current Design - Proposed Area (m <sup>2</sup> )	Increase area (m <sup>2</sup> )
Football/Cricket	723	1006	+283m <sup>2</sup> or +138%
Rugby	469	972	+503m <sup>2</sup> or +207%
Lacrosse	359	770	+411m <sup>2</sup> or +214%
Community pavilion	-	150	+150m <sup>2</sup>

# all areas exclude verandas under roof/balconies

For project planning purposes, Administration has adopted a rate of \$2650/m<sup>2</sup> as the preliminary cost point for determining floor space allocations after deduction \$490,000 from the project budget to cover shared project costs (such as survey, soil & utility investigations, design, project management, service relocations etc), \$90,000 for lighting upgrade to the main lacrosse pitch and 150m<sup>2</sup> for a community facility. This cost estimate is significantly lower than achieved on the Kauri Parade sports complex (2014 tender). If the final pricing from our tendering process is higher than estimated, the floor space allowances will have to be further reduced as there is little contingency in the overall project budget.

The plans contained in **Attachment 1** achieve the core design principles of the project and in doing so, provide significantly increased floor space for each club compared to their current buildings. The 3D renders provided are indicative designs only, and are based on the floor plans that have been developed through input from each club.

*Refer Attachment 1*

The plans include:

- larger floor plans than what existing facilities have
- 4 x unisex change rooms enabling growth in female and junior participation
- double story buildings with first floor kitchen, bar, function spaces
- undercover balconies / elevated viewing
- ground floor community space

Naturally, the floor rates for each building can increase if a lower benchmark rate is achieved during the tender process, however all indications from the Expression of Interest process are that the base rate of \$2650/m<sup>2</sup> is going to be difficult to achieve.

In the event that tender prices exceed our project budget for the proposed plans, then negotiations will continue with all clubs and contractors to achieve a mutually acceptable outcome that meets budget. This would include reduction in overall floor plan size, seek additional financial contributions from each club towards their buildings, and a value management exercise undertaken on the designs to identify cost effective aesthetics, material selections and improved building geometry / uniformity to reduce costs.

### **Options for community space**

A key tenet of the Brighton Oval masterplan is to ensure there is broad community benefit achieved from the redevelopment. A means of achieving this is through the design of buildings to provide the ability to activate the buildings and spaces with a wide range of user groups / hirers in mind.

One of the challenges with designing the club buildings is that the inclusion of additional community space on the ground floor meant that we were essentially increasing the size of the 1st floor space of each clubroom by the equivalent amount– so in effect we were paying for the space twice.

Operationally, the issue of which entity would have effective control of the community space – particularly the ground floor space remains for discussion. Administration is of the view, it was very likely that the space, over time, would be integrated into the club operations and used for purposes such as storage, gym area, for team briefings and so on – potentially alienating some potential users because they were not hiring traditional community centre standard spaces, but rooms within working clubs. Critical to the success of these community spaces within each clubroom being of benefit to the broader community would be how well these spaces are promoted to the community as rooms for hire, and made available at all times in a clean and presentable state to non-club user groups. Some potential risks associated with this option relate to issues of cleaning, lack of adequate secure storage and inability or difficulty to negotiate long term usage arrangement with external hirers. There may also be less opportunity for Council to program activities in these rooms because they were embedded within the clubs.

### **Option 1**

Construct a community pavilion of approximately 150m<sup>2</sup> adjacent to the Football / Cricket building and eliminate the need for community space within the functional areas of each building. This will potentially decrease the overall footprint of each of the clubrooms, but the estimated cost of constructing the Community Pavilion is \$397,500.

In line with the concept / functional space designs of the masterplan, the current plans for each clubroom have incorporated a small community space in the ground floor with the specific purpose of broadening the community use of each building outside of the tenant clubs. Each building also has a substantial sized function room (total of 478m<sup>2</sup> across all buildings) on the first floor which would be made available on a hire basis to the general community. It is the preference of each club to have a ground floor community space for their use. The total ground floor community space across all clubroom buildings is 147m<sup>2</sup>.

### **Option 2**

Retain the proposed community pavilion of 150m<sup>2</sup> adjacent to the Football / Cricket building and reduce the footprint of the club buildings (and therefore to save cost) by removing the community space on the ground floors of the clubs. The consolidated community space adjacent to the location of proposed playspace and lawn area would allow council to create a larger space (also capable of being divided into smaller functions spaces) of a higher standard of presentation and cleanliness which the community could hire and where groups could establish longer term usage agreements (eg exercise and yoga classes, kinder gym, bridge club, etc) and where they could store small quantities of equipment and supplies. The clubs could also hire the space if they needed extra function space eg for carnivals). Operationally, this facility would be managed and booked through Council's existing resources.

Siting the pavilion between the football/cricket oval and the rugby fields provided an opportunity to have views across both fields and access to BBQ, playground and carpark facilities which are proposed as part of the upgrading of the overall oval precinct. The club function spaces in each building are still available for hire if a community group or function want to use them. However by consolidating proposed space from 3 clubs into a single community pavilion creates a single

facility which Council can control and manage rather than having to deal with 3 separate clubs. Based on indicative square metre rates and dependent on final designs and finish, the community pavilion is costed at approximately \$397,500. This cost would be off-set by savings achieved by removing the community space from ground floor designs in each building.

Based on indicative square metre rates, the removal of the community pavilion is estimated to save approximately \$397,500 with these funds directed to site works to enhance the integration of buildings into existing surrounds.

### **Planning and Technical Investigations**

Construction of the current three sporting buildings was completed in the 1960's. Since that time, clubs have undertaken minor extensions and enhancements. A structural and services condition assessment of the buildings confirmed that it was not cost effective to renovate / upgrade the existing facilities, and that maximum social and economic return on investment would be achieved through the construction of three new buildings.

To inform a detailed design for the three new buildings the following works have been commissioned. This information will be available prior to detailed design.

- Geotechnical and Environmental Investigation. This report will provide sufficient information for design of the footings for the buildings, identify geotechnical construction conditions and additional information on the possible fill in the mounds adjacent the existing rugby club.
- Engineering Survey is necessary to locate the three buildings, and undertake civil design of the works around the buildings. Currently building siting has been undertaken using old survey and aerial photography.
- Services Investigation. An initial services investigation was completed by Trinamic Consultants in September 2017 investigating current services capacity and condition to the three buildings. A second assessment is underway to determine services capacity to the site and the cost to ensure there is adequate capacity to the site. In particular the cost of power augmentation (if any) will need to be included in the budget.

Other documents currently available include the asbestos register for the three buildings.

A planning application for the three new clubs has not been lodged and is currently underway by URPS on behalf of the City of Holdfast Bay. As the works are for Council, the planning authority will need to be confirmed by the State Commission Assessment Panel.

As part of the development approval process, the following supporting information is currently being sourced by Council:

- Preliminary traffic and parking study is being undertaken by Frank Siow and Associates
- Noise assessment will be undertaken
- Arborist assessment of trees that may be affected has been commissioned by Council



Following an initial planning assessment, the final development approvals including building rules consent is expected to be undertaken by the contractor as part of a design development process.

Council anticipates that some community notification will be required to residents adjacent the sporting facility.

### **Key Risks**

The key risks to the project have been identified as follows.

- Caretaker period – commencing on 4 September. During that period, Council is unable to make designated decisions which involve approving or issuing significant contracts. If a contract is not issued for the whole of the project by the end of August 2018, the project is likely to experience significant delay in approvals or even concept modifications. This will significantly delay the project delivery and increase the project risks (including financial and other risks).
- Other risks to be mitigated includes:
  - Planning Approvals
  - Budget
  - Contract Model
  - Program
  - Political
  - Stakeholders
  - Maintenance and Operation
  - Ongoing Management (Lease arrangements)
  - Reputation.

Please see the attachment for risk assessments and mitigation strategies.

*Refer Attachment 2*

### **Next Steps**

The next step is to call the Request for Proposal to engage a contractor and to implement Stage 2 and 3 of the project. The following are the key objectives for the Request for Proposal process:

- To develop current concept into a detailed design that is agreeable to stakeholders.
- To achieve the developments within the current budget.
- To achieve tender bids for contractor costs to deliver the project to an agreed target price.
- Manage the planning approval issues (including community notification, additional works / higher scope or redesign, etc).
- To identify (and fund) any additional works including civil works, carpark upgrades, lighting etc that has not been included in the budget and may be required as part of any development approval.
- Award the Managing Contractor contract before the caretaker period (4 September 2018).

It is likely than an iterative approach will be required to come up with a suitable functional design that meets an agreed budget. This may include:

- Detailed cost of the current concepts by a contractor(s) and or / Quantity Surveyors(s) to determine if scope of works can be delivered to budget, with an estimate for civil works and servicing external to the buildings and any special requirements likely to be imposed as part of a planning approval process. Cost estimates would need to be for each building and broken down to a square metre rate.
- Value Management (if exceed budget) -what can be changed to meet budget and functional brief or if additional budget is available. This would be on a building by building basis so that the budget split is equitable between all three buildings.
- Revise design including negotiation with stakeholders to meet agreed budget.
- Finalise detail designs and confirm meets Council and stakeholder requirements.
- Obtain preliminary development approval.
- Commence project delivery.

This process may be time consuming and more than one round of cost and value management may be required.

### **Contract Model**

An assessment into traditional contract options has been undertaken and is attached together with advantages and disadvantages.

The preferred model is the hybrid Early Contractor Intervention (ECI) model where a managing contractor is engaged to deliver the project based on a detailed functional brief for a target price (ie the Council budget) working as part of a Project Delivery Team.

The contractor quotes an overhead rate / fee to provide advice during design development phase and an overhead rate / margin to be added to subcontractor rates for managing the delivery of the project once design development and DA approvals have been completed. The contractor essentially undertakes the normal project delivery activities, except that under the ECI model, these are visible to the project delivery team and are incentivized initially by the competitive tender process and secondly by incentives/penalties included in the contract.

The upfront costs for design and approvals are a risk as this is an unknown scope of work due to the possible iterative nature of design with stakeholder input.

The contractor and the project delivery team would work collaboratively with Council and stakeholders to develop designs that can be delivered for the budget. A quantity surveyor would assist to review the contractor's prices during the design. Whilst this is a collaborative open book approach, disagreement with a contractor can still occur.

Once a design and approvals are mostly agreed, the contractor will then move into project delivery.

The selection of the Managing Contractor will be predominantly based on the following:

- Capability, systems and experience of the contractor's project team.
- Overhead /fee basis for the design and project delivery phases.
- Commitment to work in partnership with Council's project delivery team to deliver the project within the target price and project timeline.
- Any innovation and/or alternative ideas the contractor can bring to the project.
- Proposed incentive mechanism to adjust the price under or over runs.
- Project management, quality and safety systems proposed by the contractor.

### RFP Schedule

Request for Proposal documents are being prepared. It is envisaged that the tender will be released on 11 July 2018 (subject to Council approval), with tenders closing on 2 August 2018.

Action	Completion Date
Finalise concept plans, drawings & tender documents	29 June 2018
Council meeting – preliminary project approval & approval to call tenders	10 Jul 2018
Tenders Issued	11 Jul 2018
Tenders close	2 Aug 2018
Assess tenders & prepare Council report	8 Aug 2018 (or 22 Aug 2018)
Council decision	14 Aug 2018 (or 28 Aug 2018)
Award Tender	31 Aug 2018

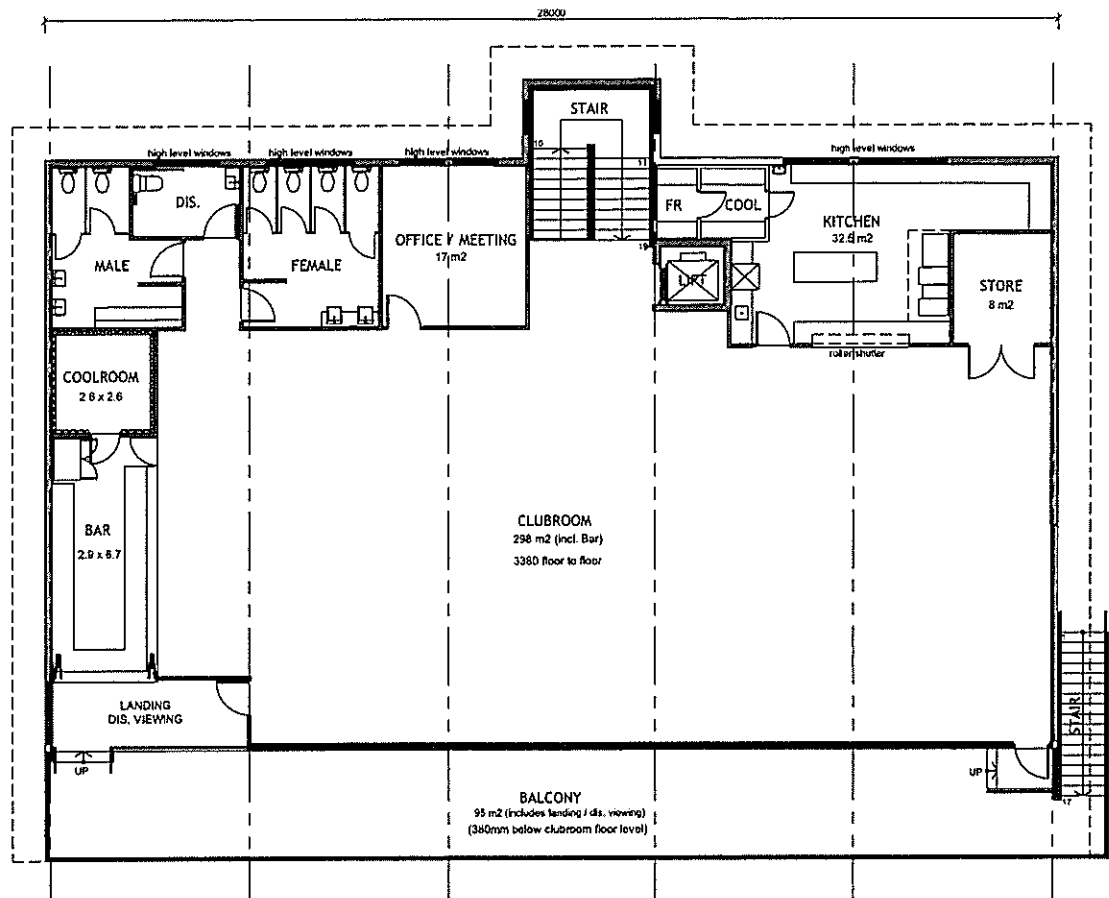
### BUDGET

The 2018/19 budget has allocated capital expenditure of \$4m offset by \$2m in external funding. The 2019/20 budget allocation is proposed to be \$4m, providing a total committed project cost of \$8m offset by \$2m in external funding.

### LIFE CYCLE COSTS

Life cycle costs includes developmental costs (~\$8m) and the life time maintenance costs for the assets. The real cost of the development would not be known until the development is completed. The full cost of maintenance (~ 3% of the capital value, per year) also would not be known until the detailed design is completed.

Once the development is completed, the asset, component lives, and their values will be included in the asset register. The regular maintenance costs will be appropriately shared between the lessee and the Council. The required replacements and the associated costs will be included in the relevant asset management plan.

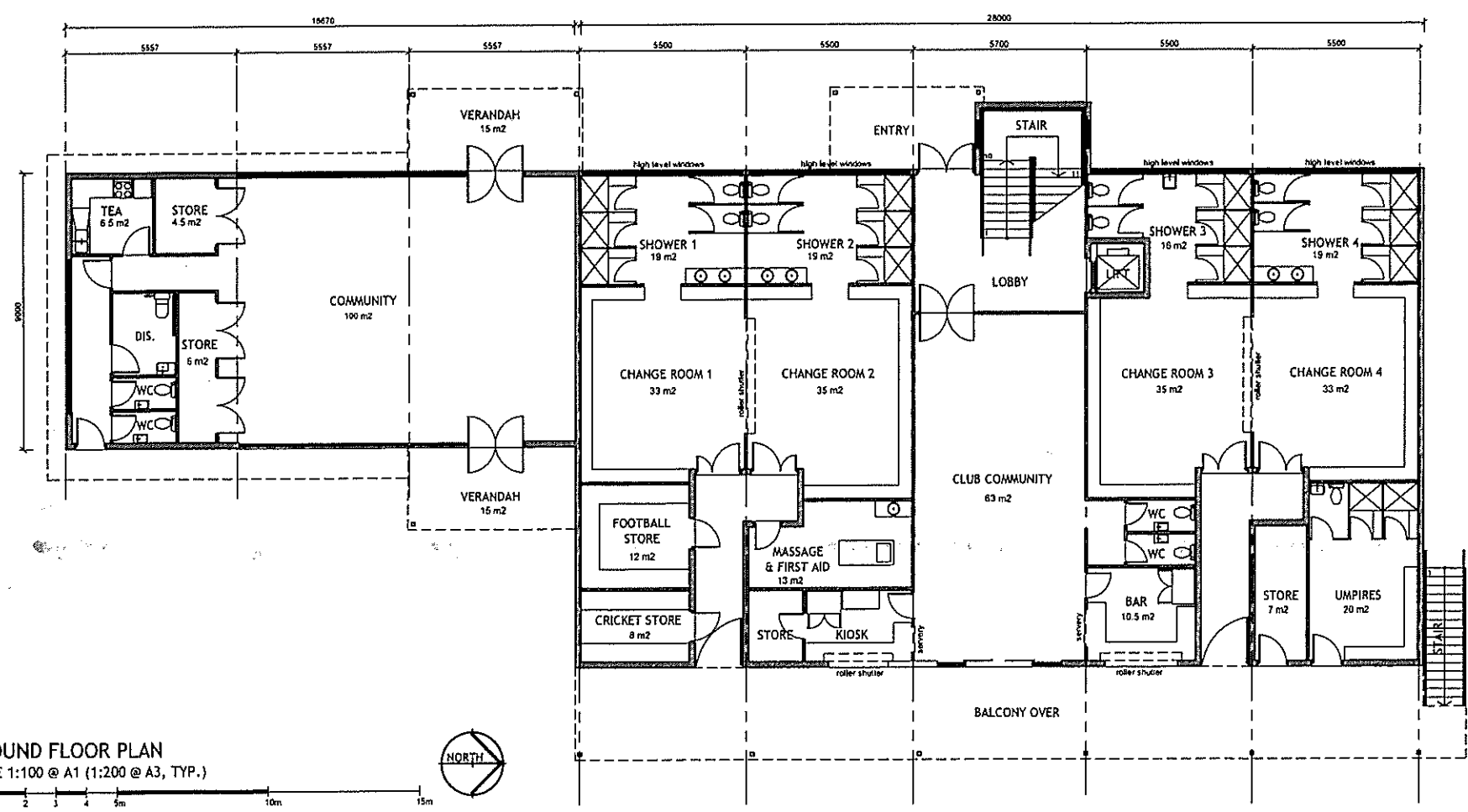


FIRST FLOOR PLAN  
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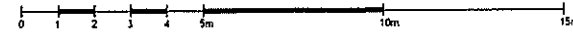


AREA SCHEDULE (gross m2 building footprint areas)	
Football / Cricket Ground (excluding Balcony over)	461 m2
Football / Cricket First Balcony (incl. dis. viewing)	450 m2
TOTAL Football / Cricket	1006 m2
Community	150 m2

REV #	DATE	DESCRIPTION



GROUND FLOOR PLAN  
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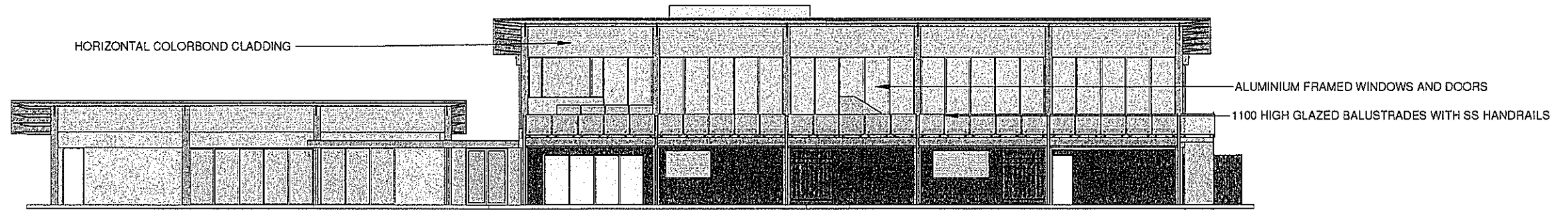


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f (08) 82946699  
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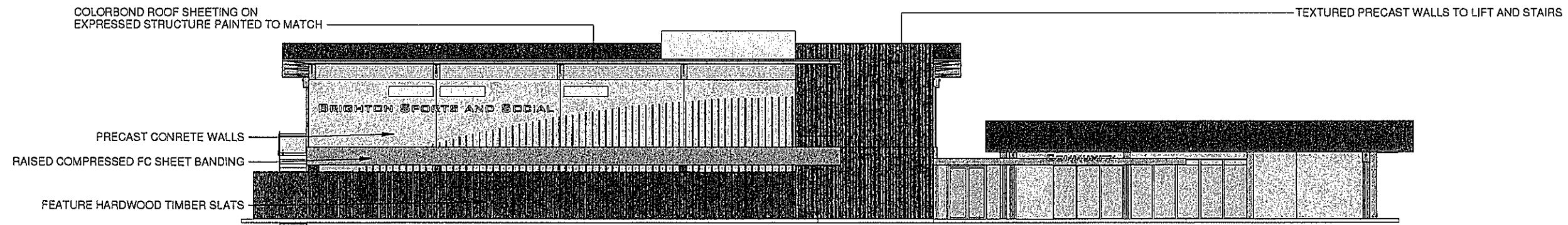
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BRIGHTON OVAL  
PROPOSED NEW  
FOOTBALL & CRICKET  
CLUBROOMS  
AND  
COMMUNITY FACILITY

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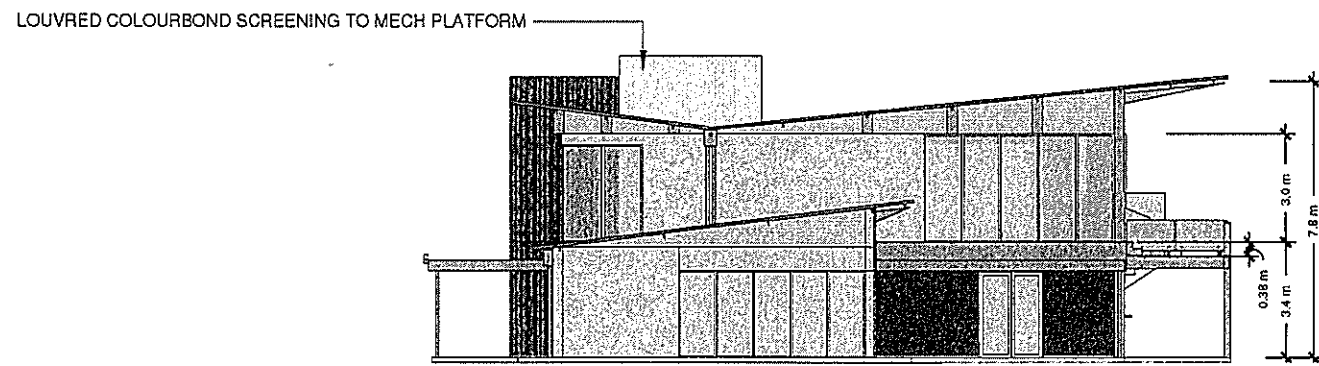


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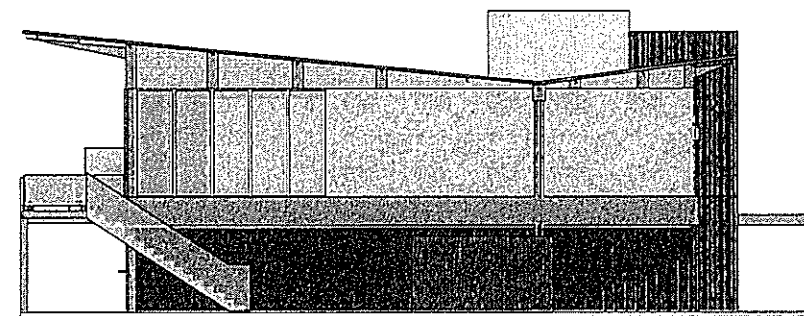
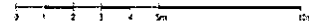


WEST ELEVATION  
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REV	DATE	DESCRIPTION



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NORTH ELEVATION  
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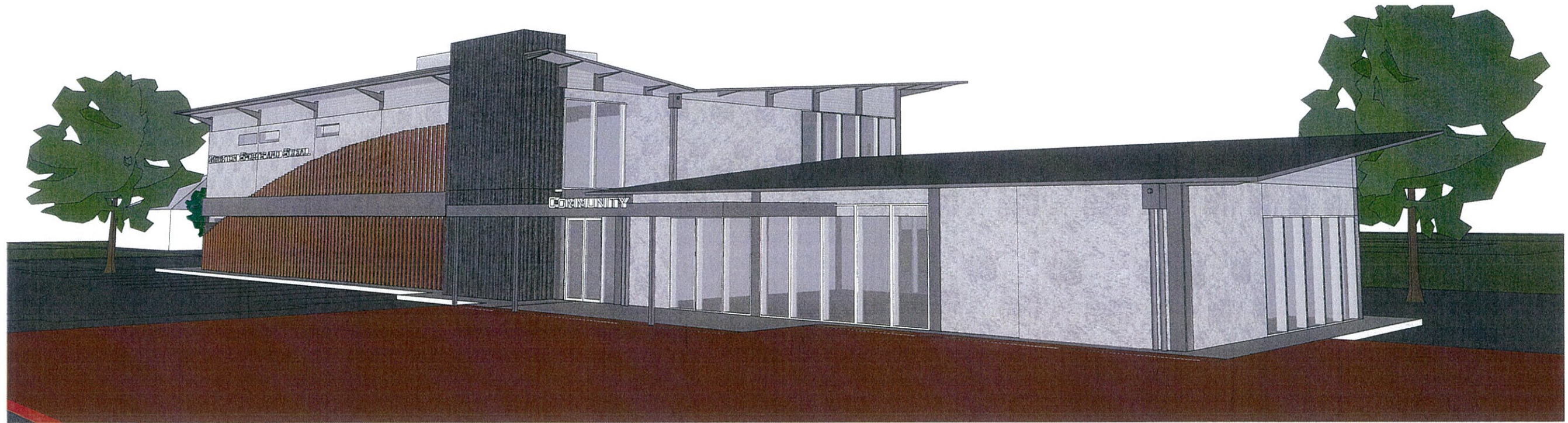
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f (08) 8294 6699  
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BRIGHTON OVAL  
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CLUBROOMS

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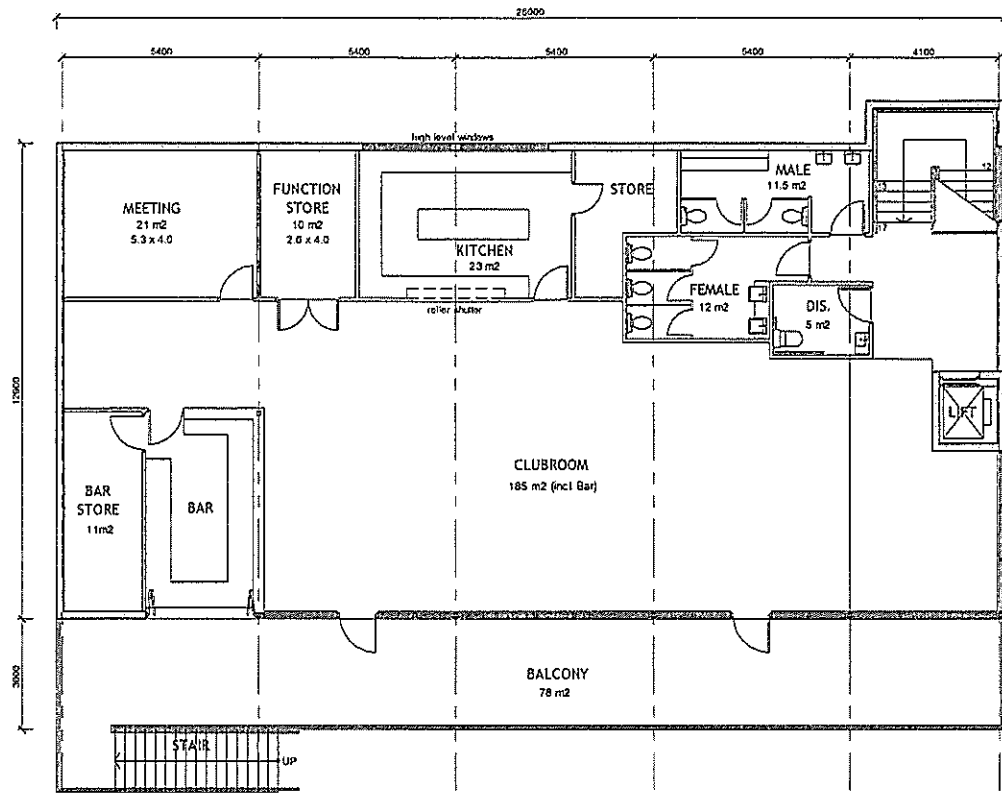
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 PROPOSED NEW  
 FOOTBALL & CRICKET  
 CLUBROOMS**

PRELIMINARY

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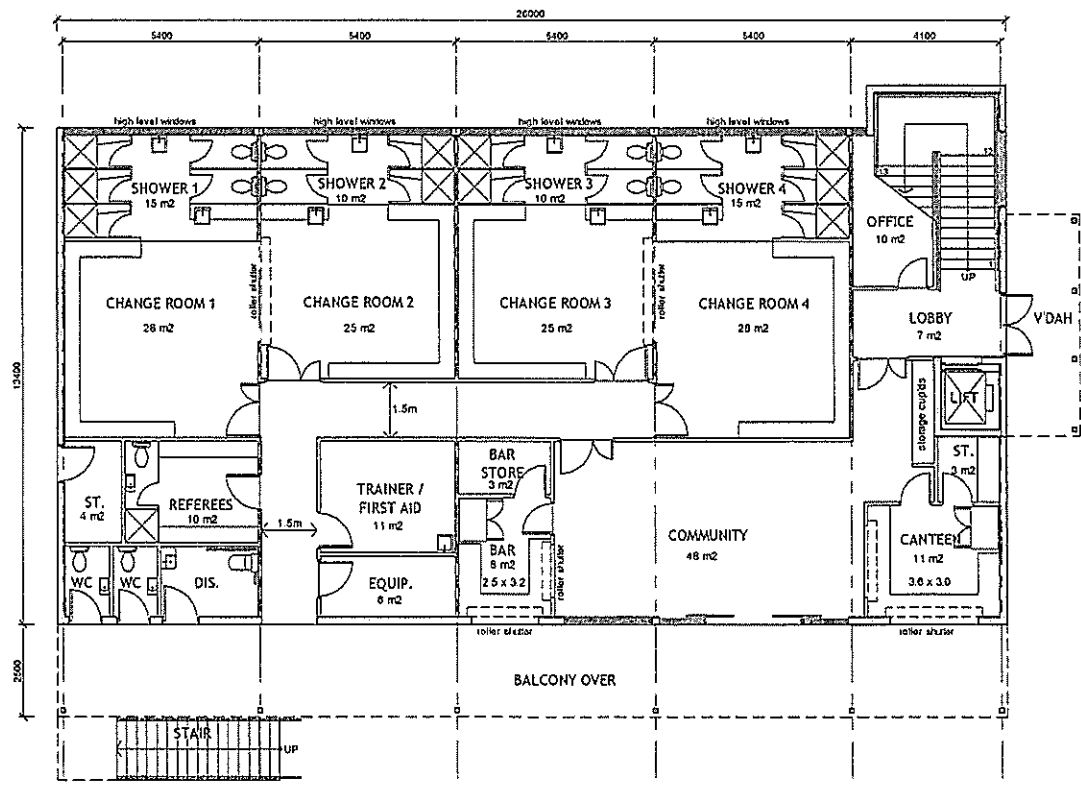




FIRST FLOOR PLAN  
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AREA SCHEDULE (gross m2 building footprint areas)		
Lacrosse Ground (excluding Balcony over)		352 m2
Lacrosse	First	340 m2
	Balcony	78 m2
TOTAL Lacrosse		770 m2

rev #	date	description



GROUND FLOOR PLAN  
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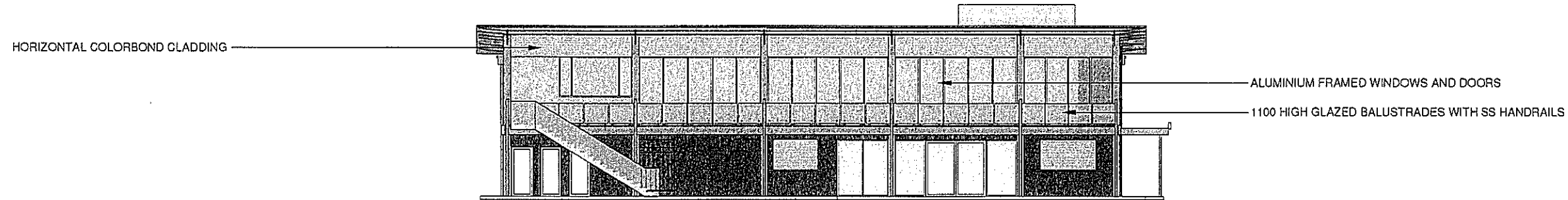
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p (08) 8376 8888  
f (08) 82946999  
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PRELIMINARY

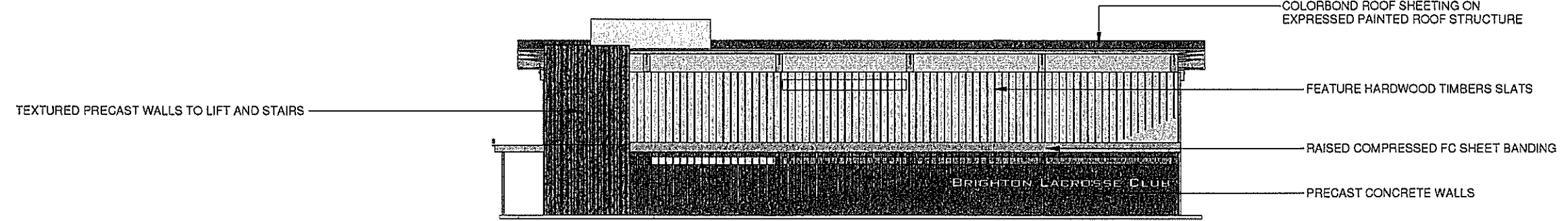
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PROPOSED NEW  
LACROSSE  
CLUBROOMS**

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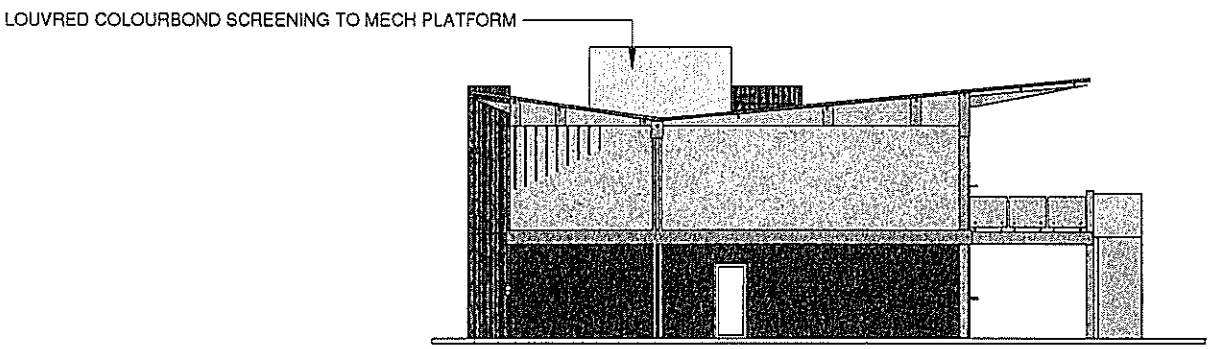
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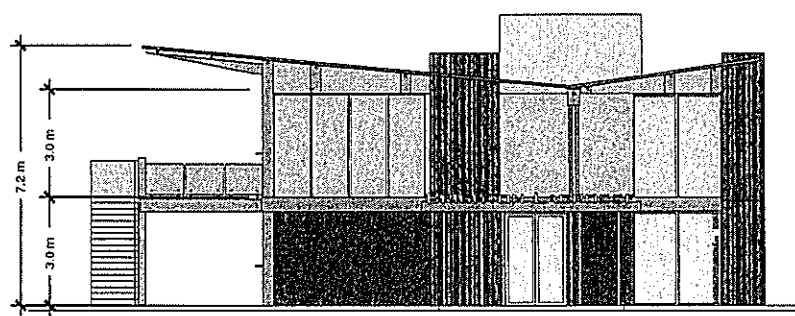
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WEST ELEVATION  
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SOUTH ELEVATION  
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NORTH ELEVATION  
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NO.	DATE	BY	CHKD



218 Brighton Road  
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p (800) 3375 2133  
f (831) 82946199  
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ASN 56 100 562 879

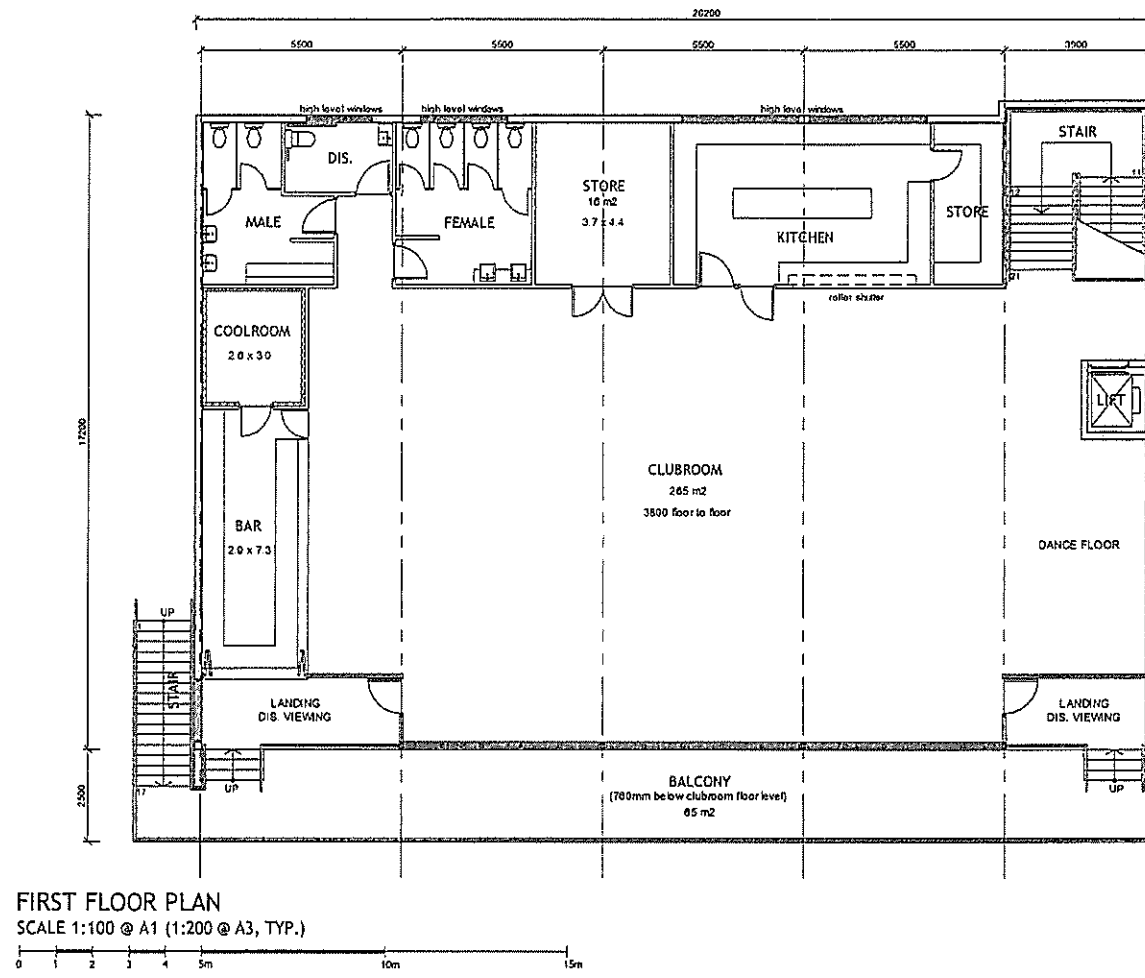
**BRIGHTON OVAL  
PROPOSED NEW  
LACROSSE  
CLUBROOMS**

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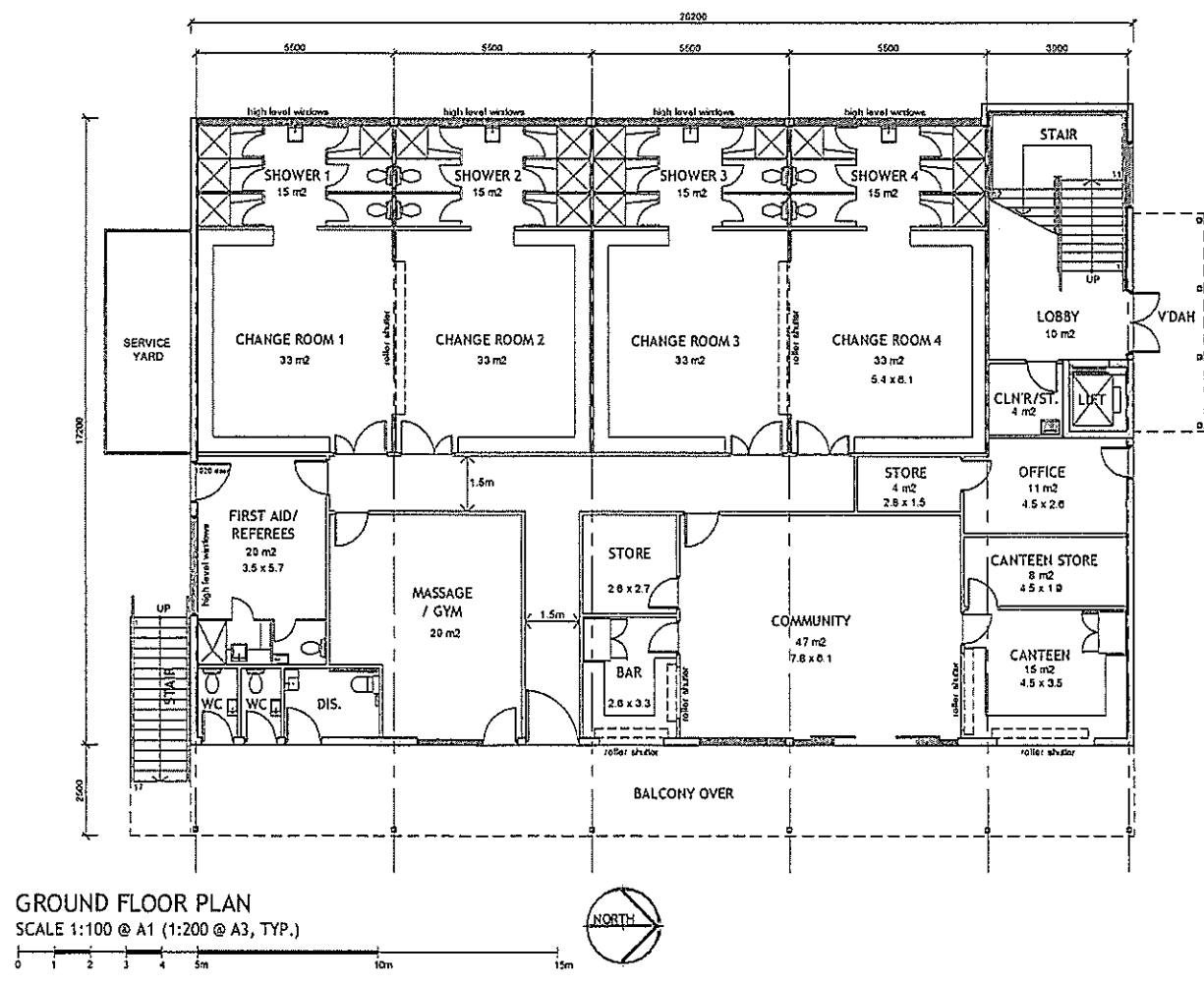






AREA SCHEDULE (gross m2 building footprint areas)		
Rugby Ground (excluding Balcony over)		452 m <sup>2</sup>
Rugby First Balcony (incl. dis. viewing)		83 m <sup>2</sup>
<b>TOTAL Rugby</b>		<b>972 m<sup>2</sup></b>

rev #	date	description



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Somerton Park SA 5044  
P (08) 8376 8888  
F (08) 82946699  
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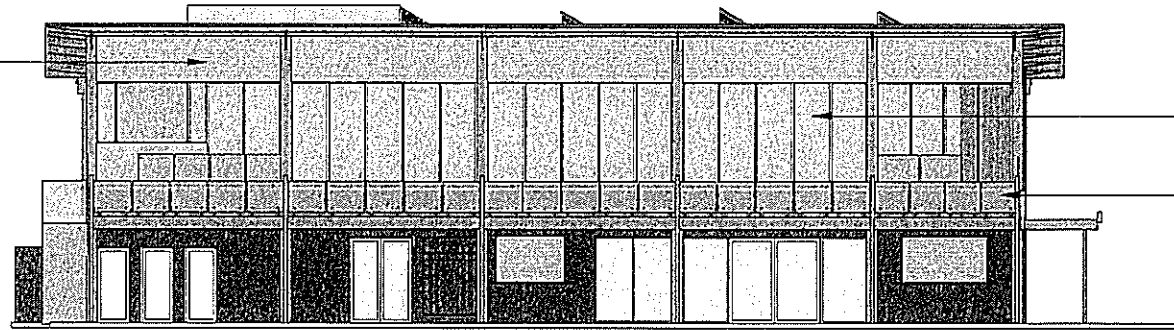
**BRIGHTON OVAL  
PROPOSED NEW  
RUGBY  
CLUBROOMS**

drawing title		
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HORIZONTAL COLORBOND CLADDING

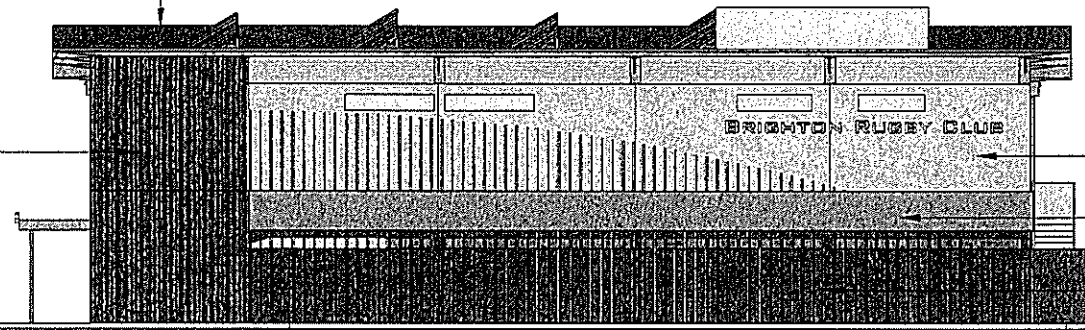


ALUMINIUM FRAMED WINDOWS AND DOORS

1100 HIGH GLAZED BALUSTRADES WITH SS HANDRAILS

COLORBOND ROOF SHEETING ON EXPRESSED STRUCTURE PAINTED TO MATCH

EAST ELEVATION  
SCALE 1:100 @ A1 1:200 @ A3



TEXTURED PRECAST WALLS TO LIFT AND STAIRS

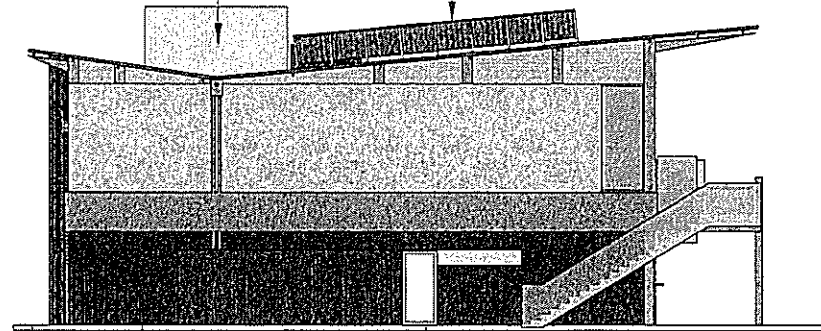
PRECAST CONCRETE WALLS

RAISED COMPRESSED FC SHEET BANDING

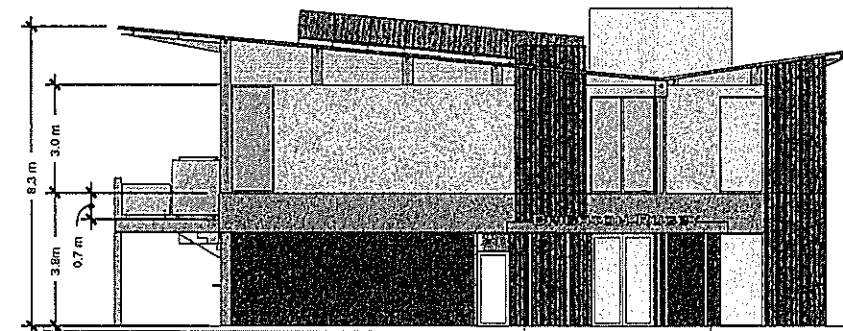
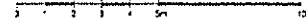
FEATURE HARDWOOD TIMBERS SLATS

WEST ELEVATION  
SCALE 1:100 @ A1 1:200 @ A3

EXISTING SOLAR PANELS TO BE REUSED ON NEW ROOF  
LOUVRED COLORBOND SCREENING TO MECH PLATFORM



SOUTH ELEVATION  
SCALE 1:100 @ A1 1:200 @ A3



NORTH ELEVATION  
SCALE 1:100 @ A1 1:200 @ A3

Table with 3 columns and 4 rows, likely a revision or schedule table.



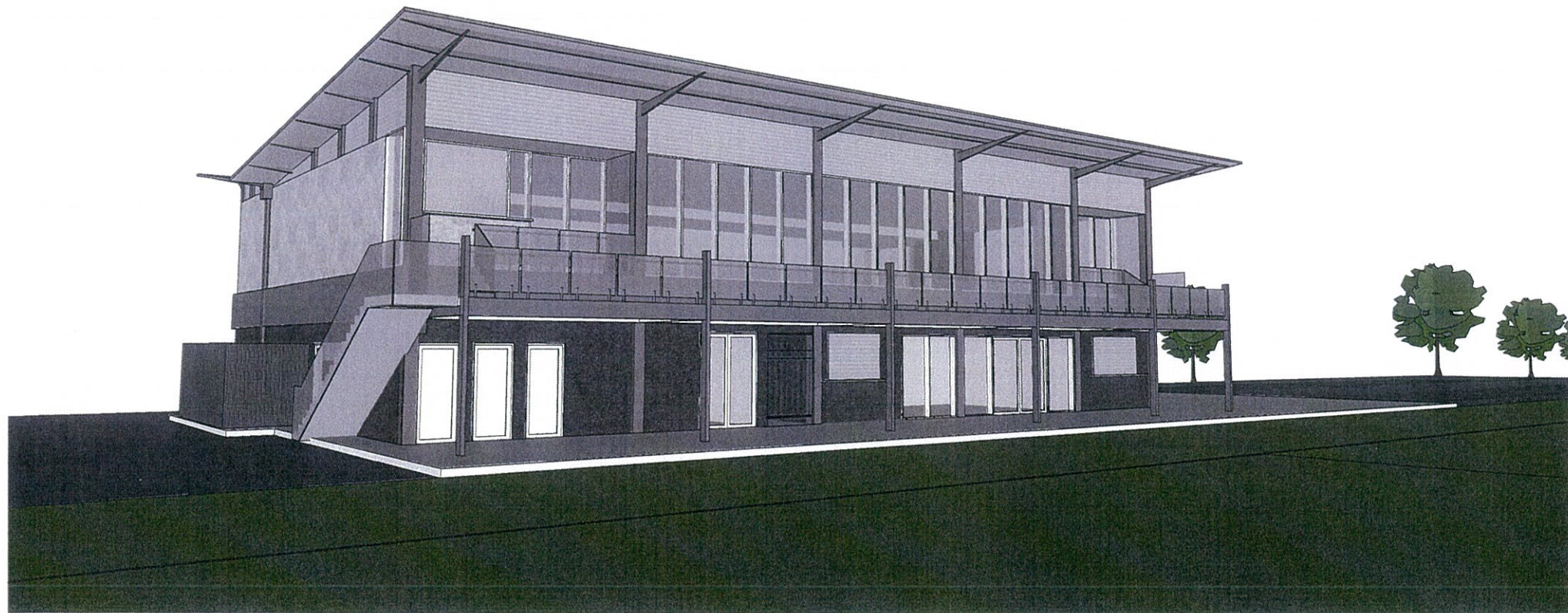
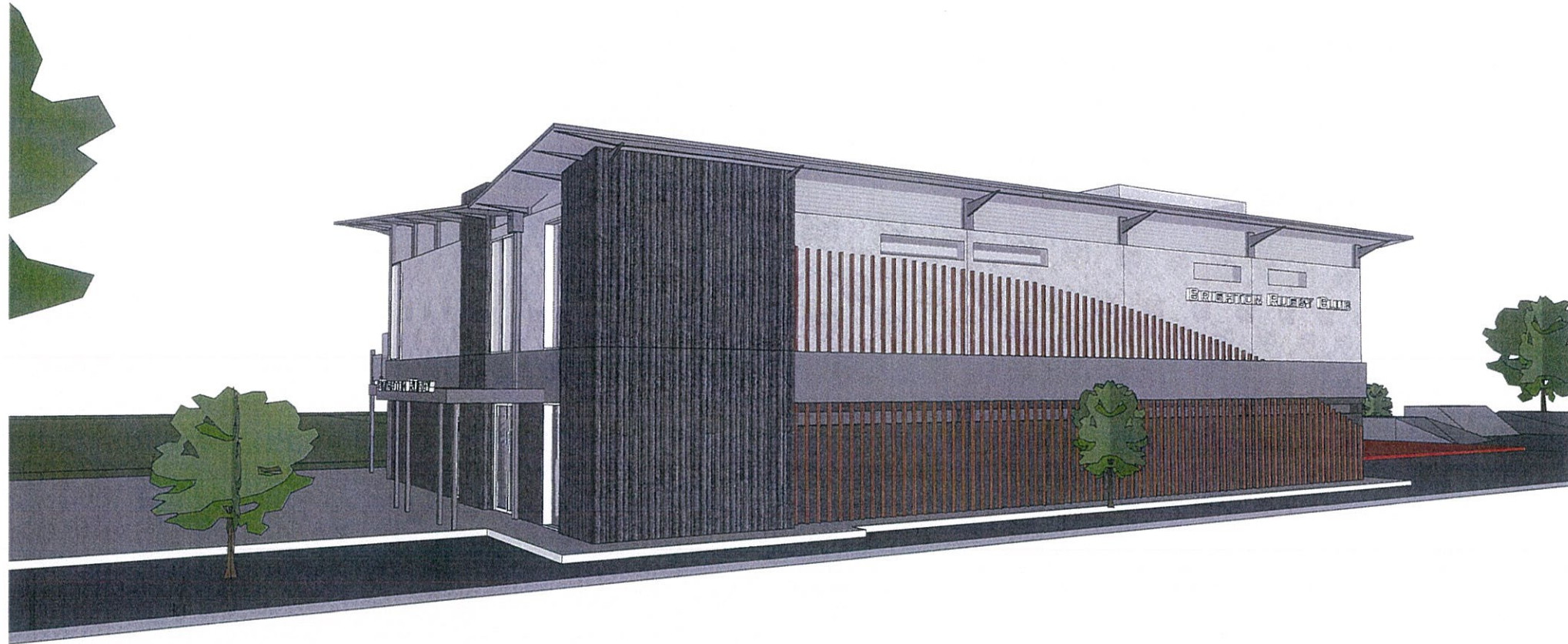
268 Brighton Road  
Warracora Park SA 5244  
p (08) 8276 8188  
f (01) 82346699  
www.follandpanozzo.com.au  
ABN 54 100 842 879

BRIGHTON OVAL  
PROPOSED NEW  
RUGBY  
CLUBROOMS

Table with 4 columns: Date, Scale, Drawing No., and Description. It lists drawing dates and scales for the project.

ALL DRAWINGS AND CONTRACTS ARE TO BE USED FOR ALL BUILDING AND  
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WRITTEN PERMISSION OF FOLLAND PANOZZO ARCHITECTS IS PROHIBITED.





NO.	DATE	DESCRIPTION



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 P (08) 8376 8888  
 F (08) 82946699  
 www.follandpanozzo.com.au  
 ABN 56 100 862 879

**BRIGHTON OVAL  
 PROPOSED NEW  
 RUGBY  
 CLUBROOMS**

PRELIMINARY

NO.	DATE	DESCRIPTION
2018-1806	04.08	A
20/06/18	1:100	35/AM

RENDERING AND CONTRACTORS ARE TO VERIFY ALL DIMENSIONS AND LEVELS ON SITE BEFORE CONSTRUCTION AND SHOW ANY PROPOSED SHOP DRAWINGS IF APPLICABLE FOR CLARIFICATION.





STOPFORD ROAD

HIGHT AVENUE

BRIGHTON ROAD



SITE PLAN  
SCALE 1:500 @ A1



rev #	date	description



269 brighton road  
somerlyn park sa 5044  
p (08) 8374 8888  
f (08) 82946699  
www.fpanchitects.com.au  
ABN 56 100 862 879

BRIGHTON OVAL  
PROPOSED NEW  
CLUBROOMS

PRELIMINARY

job #	dwg #	issue #
2018 1806	sk.04	B
date	scale	drawn by
27/06/18	1:500	js/am

BUILDERS AND CONTRACTORS ARE TO VERIFY ALL DIMENSIONS AND LEVELS ON SITE BEFORE COMMENCING ANY WORK AND PREPARING SHOP DRAWINGS. IF IN DOUBT ASK FOR CLARIFICATION.



Risk Identifier	Risk Description	Detail	Discussion
1	Planning Approvals	<p>Planning approvals have not been sought for the development. Whilst overall site has existing recreational use, the new buildings with increases in floor areas and larger function areas changes require a planning application (and considering possible / anticipated club membership growth) . In addition the lighting upgrade to the Lacrosse Pitch needs to be considered.</p>	<ul style="list-style-type: none"> <li>• A planning application will be prepared suitable to be lodged. Council will discuss with SCAP to determine planning authority for the development</li> <li>• A preliminary parking and traffic investigation has been commenced to support a planning application. Onsite parking is likely to be a concern.</li> <li>• A noise assessment will be undertaken to support a planning application</li> <li>• An arborist report is underway to identify any tree constraints. Should significant trees need to be removed this should be addressed as part of a planning application</li> <li>• The Lacrosse Lighting should be a separate application</li> <li>• Delays to the project (and to a tenderer if awarded) may occur should the planning application not be successful, have community representations/ objections, require significant changes or appealed at the ERD court.</li> <li>• Liquor licencing requirements (particularly around noise) may reduce functionality of the areas or require additional works (cost) or redesign to meet functional needs (ie thick glazing, airlocks to reduce noise externally)</li> <li>• If the contractor has responsibility for the final development approval, additional design and construction costs to meet planning conditions may compromise budget</li> <li>• Special requirements for rugby club due to proximity/visibility from Brighton Road &amp; proximity to playing field</li> </ul>
2	Budget	<p>Budget for the overall project was based on actual costs from the Kauri Parade development. The architects developed a cost effective (standardized) design to meet the budget. Requests from the sporting clubs to increase floor area and personalize the buildings (ie 3 bespoke buildings) are likely to result in costs exceeding budget. Comments from a number of tenderers as part of the EOI indicate completing the buildings within the budget was ambitious.</p> <p>The Kauri Parade building tendered in 2014 was a single building where we are constructing 3 separate buildings each with lift, function area etc</p>	<ul style="list-style-type: none"> <li>• Identify risk items including survey, geotechnical investigations, services requirements to inform a detailed design (underway).</li> <li>• Confirm scope of budget (inclusions and exclusions) and value these, ie extent of civil works, lighting, electrical and services upgrades, contract management etc</li> <li>• Seek quote from service authorities for services upgrades, particularly SAPN</li> <li>• Understand minimum functional needs (must haves)</li> <li>• Reduce floor areas to meet budget</li> <li>• Review community building attached to football/cricket club</li> <li>• Combine buildings</li> <li>• Defer a building</li> <li>• Provide a communal function area for the three clubs</li> <li>• Updated QS for the current building designs to confirm if budget is adequate</li> <li>• Seek quotes to construct the buildings – real construction cost</li> <li>• Develop a contractual model to deliver functional buildings to the budget</li> <li>• Concern design to a budget may not meet functional and quality requirements</li> <li>• Arrange a budget commensurate with the scope with additional funding – Sporting clubs, grant funding, Council</li> <li>• Each building will have a different cost / m2 – how is this managed – do clubs contribute to the premium over a standard build cost and over the proportional increase in size over existing footprint</li> <li>• The current budget does not allow for solar power, batteries, recycled water etc which may be required as part of a planning approval</li> <li>• Risk of contractors producing minimum possible quality in order to meet budget</li> <li>• Risk of contractors reducing quality throughout construction from one building to the next as budget runs low</li> <li>• Furniture, fixtures &amp; equipment (FFE) supplied by clubs to reduce fit out and meet budget</li> </ul>
3	Contract Model	<p>A contract model that allows design to be completed to address stakeholder and Council minimum standards, manages risk, meets Council procurement process, meets Councils program (noting caretaker period), manages budget, meets planning requirements and has flexibility should there be delays or issues</p>	<ul style="list-style-type: none"> <li>• A number of traditional contract models have been identified which will allow selection of a contractor prior to commencement of the caretaker period. A hybrid model may be necessary to meet the project objectives</li> <li>• An EOI process has been completed which has resulted in a shortlist of suitable contractors</li> <li>• Risk of delay costs if a contractor is appointed and works are delayed</li> <li>•</li> </ul>
4	Program	<p>Delays in the project</p>	<ul style="list-style-type: none"> <li>• Commence planning approval process and have a high degree of confidence in the outcomes</li> <li>• Final development approval (including Building Rules) by contractor as part of a design and construct arrangement</li> <li>• Availability of grant funding / Council funding</li> </ul>

			<ul style="list-style-type: none"> <li>• To meet the program of completion June 2020, some works will need to be undertaken during the winter months</li> <li>• A concurrent build may be required resulting in clubs sharing a facility during the construction period or no club facilities during a summer period.</li> <li>• Risk of project delay if tenderers cannot meet council procurement process dates</li> <li>• Some contract models allow contractor to begin construction of one building before full design complete for all buildings (reduce program duration)</li> </ul>
5	Political	Council Elections may affect delivery of the project	<ul style="list-style-type: none"> <li>• Council caretaker period – award of contract may be affected</li> <li>• Changes in elected members may affect scope and program</li> </ul>
6	Stakeholders	Three clubs are actively contributing to the design of the buildings	<ul style="list-style-type: none"> <li>• Clubs have specific needs that they have identified resulting in larger footprint buildings</li> <li>• Need to identify <b>must have</b> functional requirements meeting sporting code requirements and current needs</li> <li>• Highly desirable to have design mostly agreed that meets Council and stakeholder requirements prior to a design and construct contract</li> </ul>
7	Maintenance and Operation Ongoing Management (Lease arrangements)	Management of the facility into the future	<ul style="list-style-type: none"> <li>• Three function areas all competing for similar business will need to be considered</li> <li>• Higher cost to operate and maintain the buildings with more floor area</li> <li>• Design brief to ensure a suitable quality and design life</li> <li>• Lease arrangements and responsibilities for operation and maintenance, fees and charges should be agreed prior to construction commencing</li> <li>• Facilities can be constructed, used, operated maintained safely (safety in design approach)</li> <li>• Responsibility to upgrade and maintain areas outside clubs will need to be agreed, including car parking</li> <li>• How will community access the facility – with or without a separate community pavilion. If there is no community pavilion, will the community areas in three separate buildings be of adequate size, quality and availability</li> </ul>
	Reputation	Reputation for council, Contractor and Sporting Clubs	<ul style="list-style-type: none"> <li>• Delivery of a functional outcome, good quality, on time and to budget required</li> <li>• No negative media coverage</li> <li>• Works are constructed safely</li> <li>• Project delays may impact on sport participation and club memberships</li> </ul>

Item No: **14.3**

Subject: **BRIGHTON OVAL REDEVELOPMENT - TENDER DOCUMENTS**

Date: 14 August 2018

Written By: General Manager

General Manager: City Assets and Services, Mr H Lacy

---

### **SUMMARY**

At its meeting 24 July 2018 Council resolved (Resolution No: C240718/1220) that a further report be submitted to table the tender documents prepared by Administration for the Brighton Oval Redevelopment.

This report presents the tender documents as prepared by Administration and issued to the Tenderers. As a number of addendums have been issued, only the final version of the documents is presented to avoid confusion and avoid unnecessary printing.

---

### **RECOMMENDATION**

**That Council notes Report No: 272/18.**

---

### **COMMUNITY PLAN**

Placemaking: Creating lively and safe places  
Placemaking: Developing walkable connected neighbourhoods  
Placemaking: Building character and celebrating history  
Community: Building a healthy, active and resilient community  
Community: Celebrating culture and diversity  
Community: Providing welcoming and accessible facilities  
Community: Fostering an engaged and contributing community  
Environment: Fostering an environmentally connected community  
Culture: Supporting excellent, efficient operations

### **COUNCIL POLICY**

Not applicable

### **STATUTORY PROVISIONS**

Development Act 1993



## BACKGROUND

- **Council Report No: 240/18; Item No. 14.6 'Brighton Oval Complex – Redevelopment', 10 July 2018.**
- **Council Report No: 255/18; Item No. 11.2 'Motion on Notice – Brighton Oval development – Tender Documents', 24 July 2018 (resolution C240718/1220).**

## REPORT

Since confirmation of State Government funding in March 2018, Council has progressed this project to a point where a Request for Tender (RFT) process is underway.

The activities undertaken prior to the RFT included:

- Consultation with the 4 clubs that are currently tenants within the existing buildings
- Development of a draft concept designs for the proposed three (3) clubrooms
- Preparation for technical (on-ground) investigations
- Assessment of an appropriate contract model and project risks
- An expression of interest to gauge construction industry interest and short list a number of suitable companies to tender for the project. This process selected four companies who offered the best methodology, team, experience, process and systems.
- Preparation of Request for Tender documents

The Request for Tender documents comprise a number of parts:

- Request for Tender documentation & related schedules
- General Conditions of Contract
- Principal's Project Requirements (technical specifications)

### Concept Design drawings

The Request for Tender and General Conditions of Contract were prepared by Council's lawyers MinterEllison. The Principal's Project Requirements documentation was prepared by Tonkin Consulting. Architects Folland and Panozzo prepared the Concept Design Drawings in association with Council staff and Club representatives.

As a number of addendums have been issued, only the final versions of the documents which will form the basis of the tender submissions are presented to avoid confusion and avoid unnecessary printing. Copies of the documents are also available of The Hub.

*Refer Attachment 1  
(Due to the size of the Attachment it will be sent electronically)*

Tender close on 10 August 2018. The selection of the managing contractor will be predominantly based on the following:

- Overhead /fee basis for the design development and project delivery phases, inclusive of liaison with Principal and stakeholders and obtaining development approval.
- Capability, systems and experience of the contractor's project team.
- Processes and methodology – a commitment to work in partnership with Council's project delivery team to deliver the project within the target price and project timeline.
- Innovation and/or alternative ideas the contractor can bring to the project.
- Incentive mechanism to adjust the price under or over runs.
- Project management, quality and safety systems proposed by the contractor.
- Any other relevant matters.

#### **BUDGET**

The overall budget for this project is \$8.0m, with \$2.0m being provided by the State Government. The 2018/19 budget allocation is \$4m (funded \$2.0m by Council and \$2m in external funding) with a further 2019/20 budget allocation of \$4m (funded \$4.0m by Council).

#### **LIFE CYCLE COSTS**

There is no life cycle cost impact as a result of this report.



BRIGHTON OVAL  
OPTIONS

WORKSHOP

10 July 2018



# Project History

- 2016 – Master plan + community consultation (incl concept designs)
- 2017 – KPMG Business Case (incl updated concept designs)
- 2018 – Funding approval + updated concept designs
- 10 July – Council report – decisions:
  - Approval to adopt ECI contracting model
  - Include Community Pavilion or not
  - Include Lacrosse oval upgrade or not
  - Approval to seek tenders from ECI Construction Contractor (as form part of the ECI project team)
  - Further report 24 August – approval to proceed

# Project Scope

- Project budget \$8.0m + no further funds available
- 3 individual clubrooms (Rugby/Footy+Cricket/Lacrosse)
- Range of essential facilities (based on sports association recommendations):
  - Larger floor plans than previous clubrooms
  - 4 x unisex change rooms (cater for female, male &/or junior games)
  - Double storey buildings with 1<sup>st</sup> floor kitchen, bar, function space
  - Undercover balconies / elevated viewing
  - Ground floor community space
- Quality + finishes similar to recently build Kauri Pde Sports complex

# Funding model

- Total budget \$8.0m + no increase in funding available
- Funded:

Council		\$6.0m
State Government ORS Grant		<u>\$2.0m</u>
		\$8.0m
Club contributions:	Footy	\$75k
	Rugby	<u>\$95k</u>
Total available funds		\$8.17m
- Grant conditions:

Construction to commence by	30.6.2019
Practical completion by	30.6.2020

# Project Budget

- Preliminary cost estimate based on Kauri Pde actuals \$2,850/m2
- Budget:
  - Total funding available **\$8,170,000**
  - Shared project costs / preliminaries -\$ 490,000
  - Upgrade lighting to 1 lacrosse pitch -\$ 90,000
  - Funds available for buildings **\$7,590,000**
  
  - Target Price for 3 clubrooms \$7,192,500
  - Target Price for possible community pavilion \$ 397,500
  - \$7,590,000**
- Target floor space:
  - At \$3,000/m2 2,530 m2
  - **At \$2,850/m2 2,663 m2**
  - At \$2,650/m2 2,864 m2

# Community Pavilion

- Original concept plans had significant community space on ground floors
- Community space on ground floor:
  - Increased 1st floor areas → which increased overall costs
  - Likely to have restricted community use (storage, cleanliness, club use)
- Consolidate community space into single 'Community Pavilion'
- Benefits:
  - Council rather than club controlled → Council manages bookings
  - Space can be divided into smaller areas / users can store equipment
  - Can maintain cleanliness to support wider range of activities
  - Available for major events
  - Overlooks both footy & rugby fields + adjacent to playground & BBQ area
  - Designed to open out onto paved areas
- Estimated cost :

Capital	\$397,500
Operating costs	\$ 50,000



# Floor Areas

- Worked with Clubs + local architects Folland & Panozzo
- Concept plans reflect club preferences with functional/circulation spaces
- Current space allocations (incl balconies):

	Current	Community Space	Total Proposed
• Football/cricket	723 m2	63 m2	<b>1,006 m2</b>
• Rugby	469 m2	47 m2	<b>972 m2</b>
• Lacrosse	359 m2	48 m2	<b>770 m2</b>
• Community Pavilion	-	<u>150 m2</u>	<u><b>150 m2</b></u>
Total	1,551 m2	308 m2	<b>2,898 m2</b>

# What Floor Area can we Afford?

- Current space allocations (incl balconies):

	Current	Community Space	Total Proposed
• Football/cricket	723 m2	63 m2	1,006 m2
• Rugby	469 m2	47 m2	972 m2
• Lacrosse	359 m2	48 m2	770 m2
• Community Pavilion	<u>-</u>	<u>150 m2</u>	<u>150 m2</u>
• Total	1,551 m2	308 m2	2,898 m2

- Estimated cost at unit rate

**target price = \$7,590,000**

- At \$3,000/m2 x 2,898 m2 \$8,694,000
- **At \$2,850/m2 x 2,898 m2 \$8,259,300**
- At \$2,650/m2 x 2,898 m2 \$7,679,700
  
- 2,864 m2 at \$2,650/m2 \$7,590,000  
(ie would require 34 m2 reduction to reach target price)

# Removing Community Pavilion

- Space allocations excl community pavilion:

	Current	Community Space	Total Proposed
• Football/cricket	723 m2	63 m2	1,006 m2
• Rugby	469 m2	47 m2	972 m2
• Lacrosse	359 m2	48 m2	770 m2
• Community Pavilion	<u>-</u>	<u>-</u>	<u>-</u>
• Total	1,551 m2	158 m2	2,748 m2

- Release \$397,500 → retain \$240,000 as project contingency/civil works  
→ allocate \$157,500 to building works

- Estimated costs target price = \$7,350,000
  - At \$3,000/m2 x 2,748 m2 \$8,244,000
  - At \$2,850/m2 x 2,748 m2 \$7,831,800**
  - At \$2,650/m2 x 2,748 m2 \$7,282,200

# Contracting Model

- Two contracting models
  - ECI - Early Contractor Involvement (with incentives)
  - Design & Construct

# ECI Contracting Model

- ECI model based on:

## **Contractor Selection**

- Tender process used to select contractor partner
- Criteria includes quoted fees & builders profit; quality of project team; potential innovations; quality of work; experience, commitment to partnering

## **Design Phase**

- Project team (including contractor) work-up designs & price project to achieve the Target Price
- Process ensures design &/or construction innovations included at design phase to give the lowest project cost
- If project cost above Target Price, further design review(s) undertaken to reduce costs
- Contractor paid a fee for design phase (like other consultants)

# ECI Contracting Model

- ECI model:

## **Delivery Phase (managing contractor)**

- Once design signed off by project team as achievable within Target Price, contractor assumes role as 'Managing Contractor'
- Contractor engages & manages sub-contractors to execute work within Target Price (similar to any other contract)
- Contractor works to obtain fixed price quotes from sub-contractors so project spend is locked in as far as possible
- Project team monitors costs in open book process

## **Incentivisation**

- Contractor paid fixed builder's profit
- If project comes in under Target Price – contractor shares 50% savings
- If project goes over Target Price – contractor paid 90% of value of work, and cannot charge builders margin on variations or overrun component

# Design & Construct Contracting Model

- D&C model based on:

## **Preliminary Design & Call for Tender (Council)**

- Council staff, architect and clubs refine concept designs
- Tender documentation prepared
- Approval to tender in late Jan-early Feb 2019 after Election
- Forecast contract award date early-mid May 2019
- Likely seek tenders from 4 shortlisted companies

## **D&C Contract includes:**

### **Tender Phase (Contractors)**

- Contractor & their design team work up designs and costs estimates
- Contractor's team seeks clarifications & propose changes to stay within project budget and reduce quoted tender prices
- Contractors submit final tender prices for Council decision

### **Design & Delivery Phase (selected contractor)**

- Contractor engages detail design team to prepare final drawings
- Contractor executes work following approval by council
- Variations & changes negotiated and costed during construction

# Contracting Models – Project Risks

- Impact of Caretaker Period is significant

## **D&C Model**

- Can't run a D&C contract prior to Caretaker
- If D&C preferred, then will run after new council sworn in (probably late Jan – early Feb 2019)
- Places pressure on project to start by 30 June 2019 and hit practical completion by 30 June 2020
- Potential risk to deadlines for Grant funding (may need to renegotiate)

## **ECI Model**

- ECI has higher risks due to partner arrangements and lack of a firm contracted price
- Requires good Quantity Surveyor and experienced (external proposed) project manager to work with Contractor & project team
- Downside risk of cost overruns hard to limit



# Project Timelines

## ECI Model

- Approval to tender for contract partner 10 Jul 18
- Recommendation contract partner & approval to proceed 24 Aug 18
- Detail design & estimating commences Sept-Oct 18
- DA lodged Oct-Nov 18
- Construction commences (preliminary) Feb 19
- Practical completion 15-18 months (~Jul 20)

# Project Timelines

## D&C Model

- Work-up designs, cost estimates & contract docs July-Feb 19
- Approval to seek D&C tenders Feb 19
- DA lodged Mar 19
- Tender award Early May 19
- Detail design commences (preliminary) June 19
- Construction commences (preliminary) Aug 19
- Practical completion 15-18 months (~Dec 21)

# Comments and Questions

**City of Holdfast Bay**  
Section 48 Prudential Report

**Brighton Oval Complex Upgrade Project**

**January 2018**





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**BRM HOLDICH**  
**BUSINESS RESOURCE MANAGEMENT**

**Level 8, 420 King William Street, Adelaide SA 5000**  
**Tel 08 8168 8400 Fax: 08 8168 8499**

ABN: 79 392 957 230

## Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Background.....	1
1.2 Rationale .....	3
1.3 The Project .....	3
1.4 Legal Framework and Prudential Issues.....	4
<b>2. RELATIONSHIP WITH RELEVANT STRATEGIC MANAGEMENT PLANS .....</b>	<b>5</b>
2.1 Strategic Management Plans .....	5
2.2 The City of Holdfast Bay Our Place 2030 Strategic Plan.....	5
2.3 Annual Business Plan and Budget.....	6
2.4 Long Term Financial Plan .....	7
2.5 Asset Management Plans.....	8
2.6 Regional Objectives.....	8
2.7 South Australian State Government.....	10
2.8 National Objectives .....	12
<b>3. OBJECTIVES OF THE DEVELOPMENT PLAN.....</b>	<b>15</b>
3.1 Development Approval.....	15
3.2 Development Zone.....	16
3.3 Approving Authority .....	17
<b>4. ECONOMIC DEVELOPMENT .....</b>	<b>19</b>
4.1 Contribution to Economic Development.....	19
4.2 Economic Impact of capital works .....	20
4.3 Impact on Business in the Proximity .....	22
4.4 Fair Competition .....	22
<b>5. COMMUNITY CONSULTATION.....</b>	<b>24</b>
5.1 Level of consultation .....	24
5.2 Community Influence and Contribution .....	26
<b>6. FINANCIAL ASSESSMENT .....</b>	<b>27</b>
6.1 Revenue Production, Revenue Projections and Potential Financial Risks .....	27
6.2 Recurrent and Whole of Life Costs, Financial Arrangements .....	28
6.3 Financial Viability .....	31
6.4 Sale of Land .....	33
<b>7. PROJECT RISKS AND MITIGATION STRATEGIES.....</b>	<b>34</b>
7.1 Risk Management .....	34
7.2 Risk Mitigation .....	35
<b>8. PROJECT DELIVERY .....</b>	<b>36</b>
8.1 Delivery Mechanism .....	36
8.2 Procurement Implications.....	36
<b>9. CONCLUSION.....</b>	<b>38</b>
<b>ATTACHMENT ONE: BRIGHTON OVAL COMPLEX PROJECT SITE PLAN .....</b>	<b>40</b>
<b>ATTACHMENT TWO: LOCAL GOVERNMENT ACT, 1999 – SECTION 48.....</b>	<b>41</b>

## EXECUTIVE SUMMARY

In 2016, a Masterplan was developed for the upgrade of the Brighton Oval Complex. The Maximum Intervention option of the Project, consistent with the 2016 Masterplan is an upgrade to the Brighton Oval Complex, includes new two storey facilities for the Brighton Rugby Union Football Club, the Brighton Lacrosse Club, the Brighton Cricket Club and the Brighton Football Club, with each of these buildings having integrated multi-use community facilities. The Project also includes upgrades to the function and amenity of the surrounding areas.

The following report has been prepared in accordance with Section 48 of the Local Government Act which requires a council to consider a report addressing the prudential issues set out in subsection 2 of the Act before engaging in a project where the expected capital cost over the ensuing five years is likely to exceed \$4.713 million.

### *Relationship with Strategic Management Plans*

Many of the goals and objectives in the Holdfast Bay 'Our Place' Community Plan would be progressed by the Brighton Oval Complex Project.

However, specific funding for the Project has not been provided for in the Annual Business Plan Budget 2017/18 or the Long Term Financial Plan. If Council resolves to proceed with the Project then appropriate financial provisions will need to be made in the LTFP.

Consistent with current practice, once a decision has been taken to proceed with a project of this nature the relevant Asset Management Plans will require amendment to reflect the change in the operating cost base of Council.

Many goals and objectives in the 30 Year Plan for Greater Adelaide and the State Strategic Plan relating to an active community will also be progressed by the Project.

### *Objectives of the Development Plan*

The Brighton Oval Complex is located wholly within the Community Zone (Recreation Policy Area 1) as shown in Zone Map HoB/8 and Policy Area Map HoB/8 of the Development Plan. The form of development is generally consistent with the objectives, identified land use and principles of development control for the Zones.

In this instance, development should be referred to the State Commission Assessment Panel for approval under the Holdfast Bay Development Plan.

### *Contribution to Economic Development*

The Brighton Oval Complex Project is expected to provide a positive contribution to economic development in the local area through the construction activity associated with the Project.

The economic activity from the construction phase of the Project is forecast to have a positive economic impact in the region, generating economic output of \$6.192 to \$31.899 million depending on the project option that is progressed. The Brighton Oval Complex Project is estimated to have an impact of 14 to 76 jobs through direct, industrial and consumption effects.

The Project will not materially impact on related businesses in the area nor will it hinder competition.

### *Community Consultation*

Extensive consultation on the Brighton Oval Complex Project has been undertaken. The consultation ran for a 21 day period from 9 August 2016 to 30 August 2016 and involved collecting the views of the community via Council's website, Drop-in session held at the Brighton Sports and Social Club on 17 August 2016 and email submissions. A total of 55 submissions were received during the engagement period (40 online, 12 drop in session and 3 emails that only provided comment).

The community is therefore considered to have been provided with the opportunity to influence the Project and will be afforded further opportunities to do so during the Development Assessment Process.

### *Financial Issues*

Revenue relating to the Project is to be derived from leases with existing sporting clubs who use the current facilities at Brighton Oval however this revenue will not be sufficient to provide a return on construction costs or to cover the whole of life costs associated with the development.

The financial arrangements for the Project have not been finalised and grant funding has not yet been secured. Council has made an in-principle commitment to contribute a minimum of \$3.0 million in funding. The remaining funding to progress the preferred construction option will need to be obtained from other sources; which is a major financial risk that could prevent the Project from proceeding in the preferred form. A Council contribution of greater than \$3.0 million may be required for the preferred construction option to be progressed.

As the Project is not expected to materially increase revenue from lessees, progressing the Project will have a negative impact on Council's financial position which is expected given the nature of the assets being upgraded. Based on its financial indicators, Holdfast Bay has capacity to undertake the proposed redevelopment using borrowings, however, given the potential size of the redevelopment, this will significantly limit the capacity for Holdfast Bay to use borrowings to fund other capital projects over the LTFP period.

### *Risk Issues*

Holdfast Bay has not yet prepared a risk assessment, in accordance with the Risk Management Policy for the Brighton Oval Complex Project.

If the Project is to proceed, Holdfast Bay should prepare a detailed risk management plan and identify mitigation strategies to reduce the level of residual risk relating to the Project.

### *Project Delivery*

Holdfast Bay has identified and implemented appropriate procurement arrangements for the delivery of the Brighton Oval Complex Project to date, these are consistent with the Holdfast Bay Procurement (Contracts and Tendering) Policy.

Holdfast Bay has also identified that Project construction works will be procured by an Open Tender process, which, given the value of the works involved, is consistent with the Holdfast Bay Procurement (Contracts and Tendering) Policy. A Project Plan has not yet been developed for the Project.



## 1. INTRODUCTION

### 1.1 Background

- 1.1.1 Located on Brighton Road, between Stopford Road and Highet Avenue, Brighton Oval is one of three sporting hubs within the City of Holdfast Bay (Holdfast Bay).
- 1.1.2 The complex is a significant community asset with strong linkages to the sports fields of Brighton Primary School (immediately opposite the complex) and is the home ground to a number of sport and recreation groups including Brighton Rugby Union Football Club, Brighton Sport and Social Club, Brighton Football Club, Brighton Cricket Club, Brighton Lacrosse Club, Brighton Croquet Club and the Holdfast Bay Dog Owners Association.
- 1.1.3 In 2012, after extensive community consultation, the Holdfast Bay Council endorsed a Master Plan that was developed for the Brighton Oval Complex. The Master Plan aimed to provide a coordinated and strategic approach to the provision and development of community, sport and recreation infrastructure and opportunities at the site.
- 1.1.4 Through the development of the Master Plan, a vision for the site was developed which states:
- “The Brighton Parkland Sporting Complex is a major destination for the community of Holdfast Bay. It provides both active and passive opportunities for sport and community recreation in a safe, welcoming, well managed environment renowned for its sense of place and community spirit.”*
- 1.1.5 This 2012 Master Plan was based around the sporting hub model of one main building that the clubs would share along with community space and amenities throughout the site.
- 1.1.6 Since that endorsement, the Brighton Oval clubs identified that the 2012 Master Plan was no longer a viable option for them.
- 1.1.7 The Brighton Oval clubs subsequently worked together to develop a mutually agreed concept for the Brighton Oval Complex. The main difference between this new concept plan and the previous concept is that each sporting club will retain a clubroom facility of their own.
- 1.1.8 The following clubs have formally written to Holdfast Bay in support of the revised Master Plan: Brighton Dog Club, Brighton Lacrosse Club, Brighton Football Club, Brighton Rugby Union Football Club, and Brighton Cricket Club.
- 1.1.9 On 14 June 2016 the new plans were presented to Council to provide in-principle support so that discussions could commence around funding.
- 1.1.10 At a workshop held on 9 May 2017 Council agreed to undertake the process for developing a Business Case and as such, committing to in-principle funding support, to assist in securing partial State and Federal Government funding for the project.

1.1.11 This was subsequently formally endorsed by Council on 13 June 2017, where it was resolved as follows.

*“That Council:*

1. *Endorse the re-allocation of a portion of the \$100,000 allocated in the 2016/17 budget for detailed design, to develop a Social, Economic and Environmental Business Case for the Brighton Oval Complex Master Plan.*
2. *Provides an in-principle funding commitment of a minimum of \$3 million, contributing to the implementation of the Brighton Oval Complex Master Plan subject to receiving adequate funding from other bodies including state and federal government, sporting bodies and other organisations.”*

1.1.12 KPMG were subsequently engaged to prepare a business case with an assessment of the merit of the redevelopment and expansion of sport and recreation facilities at the Brighton Oval Complex. A business case was provided to Holdfast Bay on 1 December 2017.

1.1.12.1 The business case presents three project options for consideration by Council, as well as the base case against which they were evaluated, along with an estimation of capital expenditure provided by Rider Levett Bucknall based on design advice provided by JPE Architects as summarised in Table One.

1.1.12.2 Of the three project options, the ‘Maximum Intervention’ project option (the full development of Brighton Oval) is identified as the preferred solution.

**Table One: Summary of project options provided in KPMG business case**

Option	Capital Expenditure (\$'M)	Construction duration (Months)	Objectives met?
<b>Base Case</b>	0.700	6	6 not met 1 partially met
<b>Minimum intervention</b> Change room extension and Lacrosse lights	3.300	12	3 not met 2 partially met 2 fully met
<b>Moderate intervention</b> Reconfiguration, change room extension and Lacrosse lights	10.100	18	5 partially met 2 fully met
<b>Maximum intervention</b> Full redevelopment	17.000	36	All fully met

1.1.13 On 12 December 2017, Council considered a confidential report with an update on the status of the planned redevelopment and resolved as follows:

*“That Council endorses the Brighton Oval Complex Business Case for discussion with potential funding partners and administration report back to Council with*

*feedback from these meetings.”*

## 1.2 Rationale

- 1.2.1 The proposed Brighton Oval Complex Project (Project) will create new purpose built facilities that better meet the needs of the existing sporting clubs and the Holdfast Bay community generally.
- 1.2.2 The Holdfast Bay Community Vision is:
- “Balancing our progress with our heritage, we lead in coastal management to deliver high-quality public spaces and services to build a welcoming, safe and active community where resident, visitor and business prosperity meet.”*
- 1.2.3 The Project would also assist Holdfast Bay to advance the aspirations contained in the Community Vision through the provision of quality public spaces and encouraging an active community.

## 1.3 The Project

- 1.3.1 The Project is the implementation of the 2016 Brighton Oval Master Plan which involves the following key components:
- 1.3.1.1 Three separate two storey facilities for the Brighton Rugby Union Football Club, Brighton Lacrosse Club and Brighton Cricket Club and Brighton Football Club, with each building having integrated multi-use community facilities;
  - 1.3.1.2 New community play spaces;
  - 1.3.1.3 Warm up area (multi-purpose green space);
  - 1.3.1.4 Public amenities including BBQs, shelters; seating and toilets;
  - 1.3.1.5 Fitness stations;
  - 1.3.1.6 Relocated cricket nets;
  - 1.3.1.7 Increased formalised car parking (285 spaces, increase of 155);
  - 1.3.1.8 New scoreboards;
  - 1.3.1.9 New lighting for the Brighton Lacrosse Club;
  - 1.3.1.10 Raised paved zone as a traffic calming approach to Highett Avenue; and
  - 1.3.1.11 Youth area – resurfaced and formalised half-court basketball area.
- 1.3.2 The estimated Project cost based on the preferred ‘Maximum Intervention’ project option presented by KPMG in the business case is \$17.0 million.
- 1.3.3 The site plan for the Project is shown at Attachment One.

## 1.4 Legal Framework and Prudential Issues

1.4.1 This report has been prepared to meet the requirements of Section 48 of the Local Government Act 1999 (Act), this section is reproduced in full as Attachment Three. The Brighton Oval Complex Project meets certain criteria specified in Section 48 (1) (b) (ii) that require Council to consider a report addressing the prudential issues set out in subsection 2, namely that the expected capital cost of the project over the ensuing five years is likely to exceed \$4 million. We note that the \$4.00 million threshold in Section 48 (1) (b) (ii) is indexed by CPI from a September 2009 base year. As at the date of this report, the relevant threshold is \$4.713 million.

1.4.2 The prudential issues identified in Section 48 are:

- (a) *the relationship between the project and relevant strategic management plans;*
- (b) *the objectives of the Development Plan in the area where the project is to occur;*
- (c) *the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;*
- (d) *the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;*
- (e) *if the project is intended to produce revenue, revenue projections and potential financial risks;*
- (f) *the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;*
- (g) *the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;*
- (h) *any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);*
- (i) *the most appropriate mechanisms or arrangements for carrying out the project.”*

1.4.3 We note that as the expected capital cost of the project will exceed the threshold in Section 48(1)(b)(ii), Holdfast Bay has engaged BRM Holdich to prepare a report to satisfy the requirements of Section 48 and the Prudential Management Policy.

## 2. RELATIONSHIP WITH RELEVANT STRATEGIC MANAGEMENT PLANS

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (a) *the relationship between the project and relevant strategic management plans;*

### 2.1 Strategic Management Plans

2.1.1 Section 122 of the Act requires a council to develop and adopt strategic management plans; these are required to incorporate the extent to which a council's objectives are related to regional, State and national objectives.

2.1.2 For the purposes of this report the relationship between the Project and the following documents and plans is considered relevant.

#### 2.1.2.1 City of Holdfast Bay

- (a) Our Place 2030 Strategic Plan;
- (b) Annual Business Plan 2017/18;
- (c) Long Term Financial Plan; and
- (d) Asset Management Plans.

#### 2.1.2.2 Regional Objectives

- (a) South Australian Regional Level Recreation and Sport Facilities Planning Guidelines.

#### 2.1.2.3 South Australian State Government Objectives

- (a) South Australian Strategic Plan;
- (b) 30 Year Plan for Greater Adelaide;
- (c) State Strategic Priorities; and
- (d) Office for Recreation and Sport Strategic Plan 2017 – 2021.

#### 2.1.2.4 National Objectives

- (a) Sport and Active Recreation Policy Framework.
- (b) Play. Sport. Australia.

### 2.2 The City of Holdfast Bay Our Place 2030 Strategic Plan

2.2.1 The Holdfast Bay Strategic Plan – Our Place 2030 defines the following five key outcomes or focus areas to map the direction and provide objectives for maintaining, progressing and celebrating the city into the future.

- 2.2.1.1 Community;
- 2.2.1.2 Environment;
- 2.2.1.3 Economy;
- 2.2.1.4 Placemaking; and
- 2.2.1.5 Culture.

2.2.2 The Project would assist to advance a number of the key directions of the Strategic Plan - Our Place 2030 as shown in Table Two.

**Table Two: Degree of Alignment with Strategic Plan**

Key Direction	Objectives	Strategy	Alignment with Project
Community	1. Building a healthy, active and resilient community	Complete new sporting and community hubs; target at least two.	The Project delivers on specific target within the Plan
Economy	4. Boosting our visitor economy	Increase the number of visitors to Holdfast Bay: target increase – 15% by 2022	The creation of a new sporting hub with improved facilities should see an increase in utilisation and visitation to the complex
Placemaking	2. Developing walkable, connected neighbourhoods	Achieve a high level of community satisfaction with walkability and access to local shops, services, public transport and open space: target rating – 7 or more out of 10	The Project would also assist Holdfast Bay to advance the aspirations contained in the Community Vision through the provision of quality public spaces and encouraging an active community
Culture	3. Enabling High Performance	Achieve delivery on Annual Business Plan: target goals – 100%	The creation of a new sporting and community hub is specifically referenced in the Plan

2.2.3 The Project is considered strongly aligned to the Holdfast Bay Strategic Plan.

### 2.3 Annual Business Plan and Budget

2.3.1 The Holdfast Bay 2017/18 Annual Business Plan “Our plan for Our Place” outlines Council’s priorities and programs of works for the next 12 months and allocates funding for key projects and services to achieve the specific outcomes set by Council and the community.

2.3.2 The specific provision in the 2016/17 Annual Business Plan and Budget of \$100,000 was for ‘Sporting and community hub masterplan (detailed design)’. This was for the

detailed designs for a sporting and community hub masterplan to design and plan improvements for at least one major facility. A portion of these funds were re-allocated to develop a Social, Economic and Environmental Business Case for the Brighton Oval Complex Master Plan by resolution of Council on 13 June 2017.

- 2.3.3 The 2017/18 Annual Business Plan does not contain any additional specific provisions to advance the Project.
- 2.3.4 If the Project is to proceed, the annual budget will need to be updated to include provisions for further planning and designs works to be undertaken.

## 2.4 Long Term Financial Plan

- 2.4.1 Holdfast Bay has adopted the following statement on financial governance.

### “OUR FINANCIAL GOVERNANCE

Council’s long-term financial performance and position are sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.”

- 2.4.2 Holdfast Bay’s key financial principles include the following:
  - 2.4.2.1 Delivering a balanced budget that fully funds the costs of its services including depreciation.
  - 2.4.2.2 Developing sound infrastructure and asset management planning by creating, enhancing and using long-term infrastructure and asset management plans.
  - 2.4.2.3 Providing the community with a reasonable degree of predictability for rates over the medium term.
- 2.4.3 The Holdfast Bay Long Term Financial Plan (LTFP) is updated annually and was last reviewed and updated to include the 2017/18 budget, 2016/17 Annual Financial Statements and Budget update to 31 August 2017. The LTFP covers a period of 20 years.
- 2.4.4 The Asset renewal and upgrades in the LTFP are based on the latest Asset Management Plan information. No new major projects have been included. The Project is therefore not included in the LTFP.
- 2.4.5 The LTFP currently provides \$2.536 million for capital expenditure as part of the Asset Renewal program for Brighton Oval.
- 2.4.6 The LTFP demonstrates that from 2017/18 Holdfast Bay has the capacity to borrow additional funds for new major projects and remain under the Council agreed Net Financial Liabilities Ratio (NFLR) threshold of 75%.
- 2.4.7 The LTFP and NFLR indicate that the current forecast level of borrowings is sustainable over the mid-term however detailed modelling has not yet been performed to consider the impact of the Project on the LTFP or the NFLR.



## 2.5 Asset Management Plans

- 2.5.1 Holdfast Bay owns and is responsible for the management, operation and maintenance of a diverse asset portfolio that provides services and facilities to the community.
- 2.5.2 Asset Management Plans have been developed to ensure that Council continues to provide effective and comprehensive management of its asset portfolios. The assets at the Brighton Oval Complex are reflected in the following Asset Management Plans.
  - 2.5.2.1 Open Space; and
  - 2.5.2.2 Buildings.
- 2.5.3 The Open Space Plan makes reference to the fact that a Masterplan is being developed for the Brighton Oval Complex.
- 2.5.4 Observations and policies relating to sporting hubs in general are detailed within the Buildings document.
- 2.5.5 The Project involves the construction of new building assets which would need to be included in future versions of the Asset Management Plans.
- 2.5.6 At present \$2.536 million is allocated to the Asset Renewal program for Brighton Oval over the next 20 years.
- 2.5.7 The Asset Management Plans will need to be amended to reflect the upgraded assets if the Project proceeds.

## 2.6 Regional Objectives

- 2.6.1 South Australian Regional Level Recreation and Sport Facilities Planning Guidelines
  - 2.6.1.1 The Guidelines provide the key planning principles for the planning and provision of Regional Level recreation and sports facilities.
  - 2.6.1.2 There are four fundamental objectives that have been identified that set the foundation for these Guidelines:
    - (a) The need for more collaborative planning;
    - (b) Quality research and sharing of information to inform better decision making;
    - (c) Strategically targeted resources; and
    - (d) Design and management practices that ensure sustainable facilities and operations.
  - 2.6.1.3 According to Holdfast Bay the Project is closely aligned with these objectives as follows:

1. Working collaboratively
  - 1.1 Holdfast Bay has consulted closely with the Office for Recreation and Sport during the planning phase of this project, and has full support of the tenant clubs in the proposed precinct redevelopment. The redevelopment of the site will further enhance Brighton Oval's standing as a Regional Level sport and recreation venue catering for a wide range of sports for a broad cross section of the community.
  - 1.2 For the project to proceed as planned, Council will be seeking external funding contributions from State and Federal Governments and State Sports Organisations. Council leases will be provided to the existing tenant clubs and Council will continue to manage the facilities through the conditions outlined in the leases.
2. Information Sharing
  - 2.1, 2.2 and 2.3 The extensive research being undertaken as part of the Social and Economic Benefit Cost Analysis for the project, along with the Section 48 Prudential Report will ensure Council and any external funding partners are aware of and recognise the unique social and economic environment within the region. Furthermore, the final designs of the facilities will be able to respond to emerging trends within the region, and within each club, such as increases in junior participation, female participation etc. The Social and Economic Benefit Cost Analysis (incorporating the business case for the masterplan) will be used in the decision making process for the planning, provision, use and design of the Brighton Oval facilities.
3. Targeted Investment
  - 3.1 Council has identified the Brighton Oval Sports complex as a priority community sports hub to be redeveloped, and as such is investing resources to ensure thorough planning and research is undertaken and will provide relevant information to prospective funding partners to assist in funding negotiations.
  - 3.2 Redevelopment of Brighton Oval Sports Complex will provide improved facilities for a wider cross section of the community extending beyond Holdfast Bay to participate in sport and recreation on-site. Improvements to the informal recreation assets on-site (play spaces, outdoor fitness stations) add to the opportunities for increased use by the community.
4. Professional Approach
  - 4.1 and 4.2 Holdfast Bay has undertaken the master planning of the Brighton Oval Sports Complex and has completed the Social and Economic Benefit Cost Analysis (incorporating the business case

for the masterplan). Holdfast Bay has engaged JPE Architects to undertake the masterplan design and conceptual building designs in consultation with the tenant clubs. This has enabled Council to get a greater understanding of the needs of the clubs and community to ensure the implementation of the masterplan delivers on their key requirements ensuring maximum site activation. RLB (external cost consultants) have been engaged to provide cost estimates for each of the options considered.

4.3 The Brighton Oval precinct will be “managed” by Holdfast Bay, with individual clubs responsible for the professional management of their clubs and clubroom facilities. Council works with the clubs in regards to asset management and maintenance. Lease conditions will encourage broader community usage via rental concessions that enable clubrooms to be used outside of normal club usage.

## 2.7 South Australian State Government

### 2.7.1 30 Year Plan for Greater Adelaide

- 2.7.1.1 The State Government's broad vision for sustainable land use and the built development of the state is outlined in the Planning Strategy. The relevant volume of the Planning Strategy is the 30-Year Plan for Greater Adelaide (2017 Update).
- 2.7.1.2 The 30 Year Plan (2017 Update) retains the three key objectives of the original Plan, these are:
  - (a) Maintain and improve liveability;
  - (b) Increase competitiveness; and
  - (c) Drive sustainability and resilience to climate change.
- 2.7.1.3 The Brighton Oval Complex is likely to advance the objective of ‘Liveability’ as it provides the Holdfast Bay and surrounding communities with a vibrant open place and space to support the health, wellbeing and social interaction of an active community.
- 2.7.1.4 30 Year Plan (2017 Update) builds on the existing Plan’s principles and strengthens the Plan’s focus on creating healthy neighbourhoods where interaction and activity are encouraged.
- 2.7.1.5 The 30 Year Plan (2017 Update) simplifies the 89 recommendations in the 2010 Plan to six high level targets which better align the targets with the strategic directions.
- 2.7.1.6 Target Five focuses on ‘A green liveable city’ which supports the concept of thriving hubs of open space, social interaction and community activity to support health and wellbeing of the community.

2.7.1.7 The consolidation and upgrading of sporting and recreational facilities within the one location as proposed in the Brighton Oval complex where the community can access a range of formal sporting activities as well as participating in unstructured leisure activities or gather and feel part of the Holdfast Bay community, is essential to the progression of Target Five in the 30 Year Plan (Update 2017).

2.7.2 The State Strategic Plan

2.7.2.1 The State Strategic Plan is built on six pillars and identifies a number of targets. Table Three identifies the relationship between the Project and the goals and targets in the State Strategic Plan which are supported or would be advanced through completion of the Project.

**Table Three: Project Alignment with the South Australian Strategic Plan**

Relevant State Pillar	State Goals and Targets Advanced
<b>Our Community</b>	Goal: We are committed to our towns and cities being well designed, generating great experiences and a sense of belonging Target 1 Urban Spaces Goal: Increase the use of public spaces by the community Target 13 Work-life Balance Goal: People in our community support and care for each other, especially in times of need. Target 23 Social Participation Goal: Governments demonstrate strong leadership working with and for the community. Target 32: Customer and client satisfaction with government services
<b>Our Environment</b>	Goal: We reduce our greenhouse gas emissions. Target 61: Energy efficiency – government buildings
<b>Our Health</b>	Goal: We make healthy choices in how we live. Target 78: Healthy South Australians Goal: We educate young people about healthy living Target 82: Healthy weight Goal: We are physically active Target 83: Sport and Recreation

2.7.2.2 The Project will assist to advance or progress a number of goals and objectives of the State Strategic Plan.

2.7.3 State Government Strategic Priorities

2.7.3.1 The State Government has also set seven strategic priorities. Priority one focuses on ‘Creating a vibrant city’ and Priority five focuses on ‘Safe communities, healthy neighbourhoods’. The consolidation and upgrading of sporting and recreational facilities within the one location as proposed in the Brighton Oval Complex, where the community can access a range of formal sporting activities as well as participating in unstructured leisure activities or gather and feel part of the Holdfast Bay community, contributes to the progression of Priorities one and five in the State Government’s seven strategic priorities.

2.7.4 Office for Recreation and Sport Strategic Plan 2017 to 2021

2.7.4.1 The State Government Office for Recreation and Sport Strategic Plan 2017 – 2021 articulates a vision for ‘An Active State’.

2.7.4.2 The redeveloped Brighton Oval Complex will provide increased and enhanced opportunities to progress this vision.

2.7.4.3 The Project will assist the State Government to advance four of the six strategic priorities identified in the Strategic Plan as shown in Table Four. The degree of alignment with this Plan would be higher if the State government was to contribute funding towards the Project.

**Table Four: Project Alignment with Office for Recreation and Sport Strategic Plan 2017-2021**

Strategic Priority	Strategy Advanced
Places and Spaces	The redeveloped complex will provide sporting facilities and spaces to support and encourage participation in sport and recreation
Capacity and Capability	The redeveloped complex will provide the stakeholder clubs and associations with quality facilities to attract, retain and develop participation
Access and Opportunity	The regional sports and recreation hub will increase access and opportunities for all people to be involved in sport and recreation
Sporting Excellence	The redeveloped complex will provide quality facilities that will support maximising the performance of users

**2.8 National Objectives**

2.8.1 National Sport and Recreation Policy Framework

2.8.1.1 The Australian Government, through the Department of Health, which administers the Australian Sports Commission Act 1989 is committed to, amongst other things, encouraging increased participation by Australians in sport and providing resources, and facilities to enable Australians to pursue sport whilst also furthering their educational and vocational skills and other aspects of their personal development.

- 2.8.1.2 In June 2011, Commonwealth, state and territory Sport Ministers agreed to establish the First National Sport and Active Recreation Policy Framework (the Framework) to help guide the development of sports policy across Australia. The Framework provides a mechanism for the achievement of national goals for sport and active recreation and sets out the agreed roles and responsibilities of governments and their expectations of sport and active recreation partners.
- 2.8.1.3 The Framework outlines Commonwealth, State and Territory Government Expectations of Other Stakeholders including Regional and Local Government, these are as follows.
- (a) Facilitating a strategic approach to the provision of sporting and active recreation infrastructure including open space, and other needs;
  - (b) Establishing local management and access policies to sport and recreation facilities;
  - (c) Supporting and coordinating local and regional service providers (venues and programs);
  - (d) Liaising and partnering with state and territory governments on targeted program delivery;
  - (e) Supporting and partnering with non-government organisations that enable sport and active recreation participation;
  - (f) Incorporating sport and recreation development and participation opportunities in Council plans;
  - (g) Collaborating, engaging and partnering across government departments on shared Policy agendas; and
  - (h) Investment in sport and active recreation infrastructure.
- 2.8.1.4 The Project could be considered to support the objectives, through improved and increased sports and recreation facilities and is consistent with the Framework agreed by the Commonwealth and State Governments.
- 2.8.2 Play. Sport. Australia.
- 2.8.2.1 Play. Sport. Australia. is the Australian Sports Commission's (ASC) *"...game plan to get more Australians, particularly young Australians, playing sport more often – at school or with mates at their local club."* The Plan has three ambitions:
- (a) At the national level we want to see more Australians – particularly young Australians participating in sport more often.
  - (b) At the individual sport level we want the sports we invest in to achieve year-on-year membership and participation growth.

- (c) To achieve the above we want sports to be effective organisations – well governed, strategic, embracing of commercial opportunities, adopting new technologies and delivering user-friendly sports opportunities that Australians want.

2.8.2.2 The Project is aligned to all three of the ASC's ambitions in that it will provide improved and accessible facilities that will support inclusive and increased participation from which the sporting clubs and associations can enhance their involvement and engagement with the community.



### 3. OBJECTIVES OF THE DEVELOPMENT PLAN

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

(b) *the objectives of the Development Plan in the area where the project is to occur;*

#### 3.1 Development Approval

3.1.1 Development in Holdfast Bay is governed by the Holdfast Bay (City) Development Plan as consolidated on 2 June 2016, pursuant to Section 33 of the Development Act 1993 and the associated Development Regulations 2008.

3.1.2 The Development Plan outlines what sort of developments and land use are and are not envisaged for particular zones and various objectives, principles and policies further controlling and affecting the design and other aspects of proposed developments. As such, the Development Plan covers matters including zoning issues, building appearance and neighbourhood character, land division, building siting and setbacks and environmental guidelines.

3.1.3 The Development Plan is structured into Sections, as follows.

- General, containing general policy that applies across the council area and relates to a range of social, environmental, and economic development issues. These issues establish the development standards that apply to all forms of development and provide a yardstick against which the suitability of development proposals is measured.
- Zones, these provisions give greater certainty and direction about where certain forms of development should be located and identifies generally envisaged forms of development. The objectives and design requirements for development in the particular area are also expressed.
- Tables that list the conditions which are applicable to complying development, numeric values for setbacks from road boundaries and car parking rates for certain types of development. Conditions for complying development are grouped into their respective tables.
- Mapping, showing the broad distribution of land uses and movement patterns throughout the council area.

3.1.4 The Project will involve building work which is amongst the definitions of 'development' in Section 4 of the Development Act 1993. A detailed assessment of a Development Application against the Development Plan will be required, consistent with the provisions of the Development Act.

3.1.5 The Project Development Application will be the subject of a Category 2 public notification, where the owners and occupiers of 'adjacent land' (as defined under the Development Act) will be directly notified and invited to comment on the development proposal. The development proposal will also require formal referral to the Commissioner of Highways pursuant to Schedule 8(3)(a)(b)&(d) as part of the development assessment process.

## 3.2 Development Zone

3.2.1 The site of the Project is located wholly within the Community Zone (Recreation Policy Area 1) as shown in Zone Map HoB/8 and Policy Area Map HoB/8 of the Development Plan.

3.2.2 The Community Zone has the following Objectives which are of relevance to the Project.

- 1 *A zone accommodating community, educational and recreational facilities for the general public's benefit.*
- 2 *Development that is integrated in function and provides a coordinated base to promote efficient service delivery.*
- 3 *Development that contributes to the desired character of the zone.*

3.2.3 The Land Uses envisaged in the Principles of Development Control for the Community Zone include: community centre; recreation area; recreation centre; and reserve.

3.2.4 Recreation Policy Area 1 has the following Objectives which are also of relevance to the Project.

- 1 *A policy area accommodating sporting, entertainment, cultural and recreational activities and associated spectator and administrative facilities.*
- 2 *Development of integrated recreational areas and facilities that accommodate a range of activities accessible to the community.*
- 3 *Buildings, facilities and carparks located and designed to blend in with existing or additional trees, vegetation and landscaping.*
- 4 *Development that contributes to the desired character of the policy area.*

3.2.5 The Land Uses envisaged in the Principles of Development Control for Recreation Policy Area 1 include:

- car parking;
- clubroom associated with a sports facility;
- community centre;
- indoor and outdoor recreation facility;
- lighting for night use of facilities;
- office associated with community or recreation facility;
- playground; and
- spectator and administrative facilities ancillary to recreation development.

- 3.2.6 The Project will be assessed against the Objectives and Principles of Development Control for the Zone and Policy Area and a number of other objectives and principles in the General Section of the Development Plan including:
- 3.2.6.1 Community Facilities;
  - 3.2.6.2 Design and Appearance;
  - 3.2.6.3 Interface between Land Uses;
  - 3.2.6.4 Landscaping, Fences and Walls;
  - 3.2.6.5 Open Space and Recreation;
  - 3.2.6.6 Transportation and Access; and
  - 3.2.6.7 Vehicle Parking.
- 3.2.7 The envisaged Land Use of the Project is considered to be consistent with the objectives of the Community Zone and Recreation Policy Area 1.

### 3.3 Approving Authority

- 3.3.1 Pursuant to the Development Act 1993, a Council can make decisions on certain kinds of applications where the Council is the applicant subject to Schedule 10 of the Development Regulations 2008.
- 3.3.2 However, in circumstances where development is to be undertaken by a Council, and there is potential for a perception of bias or conflict, there is provision under the Development Act 1993, to refer the application to the Minister for Planning with a request for a determination that the Development Assessment Commission is the relevant authority, pursuant to Section 34(1)(b)(iii) of the Act, which reads:
- “Subject to this Act, the relevant authority, in relation to a proposed development, is ascertained as follows:*
- (iii) the Minister, acting at the request of a council or regional development assessment panel, declares, by notice in writing served personally or by post on the proponent, that the Minister desires the Development Assessment Commission to act as the relevant authority in relation to the proposed development in substitution for the council or regional development assessment panel (as the case may be) then the Development Assessment Commission is, subject to subsection (2), the relevant authority.”*
- 3.3.3 The Minister can either accede to the request and determine that the State Commission Assessment Panel is the relevant authority, or could decline the request and refer the application back to Council for determination. We note that the State Planning Commission assumed the functions, powers and duties of the Development Assessment Commission on 1 August 2017 and that on the same day it established the State Commission Assessment Panel (SCAP) to continue the assessment functions formerly undertaken by the Development Assessment Commission.

- 3.3.4 Given the scale of the proposed works and the anticipated revenue stream to Council from the proposed leasing arrangements with the various sporting groups, it would be prudent to request that the Minister appoint the State Commission Assessment Panel (SCAP) to assess any development application arising from the Project.

## 4. ECONOMIC DEVELOPMENT

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (c) *the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;*

### 4.1 Contribution to Economic Development

4.1.1 Economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.

4.1.2 The contribution to economic development of the local area from the Project will primarily come from the \$3.3 million, 10.1 million or \$17.0 million in capital expenditure depending on the project option selected.

4.1.3 There are economic and employment multiplier benefits to the broader economy from the economic activity generated during the construction phase of the Project.

4.1.3.1 The economic impact assessment undertaken to identify the potential jobs and incomes that may be associated with the Project is based on a measure of the value added and employment associated with the investment. This is consistent with the predominant measure of national economic activity, Gross Domestic Product.

4.1.3.2 The expenditures associated with this development will have direct economic effects, indirect effects of related purchases in the broader economy and induced effects of spending on goods and services by the employees of the companies providing goods and services to the Project development.

4.1.4 To quantify the benefits from these multiplier effects, Holdfast Bay has commissioned modelling using Remplan software based on Input-Output methodology, a common tool for measuring secondary and tertiary economic effects. The Remplan output is based on the estimated impact the Project will have on the region and the broader National economy.

4.1.5 The output from the model quantifies the expected impact the Project will have on the Holdfast Bay Council area based on the following assumptions.

4.1.5.1 The Project budget has been assumed at either \$3.3 million, \$10.1 million or \$17.0 million for each of the three project options;

4.1.5.2 The Project budget is spent over the next three Financial Years;

4.1.5.3 Local suppliers are sourced to deliver the Project; and

4.1.5.4 100% of the Project budget expenditure has been spent in the 'Non-Residential Building Construction' industry.

4.1.6 The output from the Remplan model forecasts the expected impact the Project will have on Holdfast Bay and on the national economy more broadly.

## 4.2 Economic Impact of capital works

4.2.1 Overall economic impact based on each of the three project.

4.2.1.1 The direct addition of \$3.3 million, \$10.1 million or \$17.0 million of output in the Building Construction sector on the Holdfast Bay Area would lead to an increase in indirect demand for intermediate goods and services across related industry sectors.

4.2.1.2 These indirect industrial impacts (Type 1) are estimated to be an additional \$2.230 million, \$6.825 million or \$11.488 million in Output, representing a Type 1 Output multiplier of 1.68 for each project option.

4.2.1.3 There would be an additional contribution to the Holdfast Bay economy through consumption effects as correspondingly more wages and salaries are spent in the local economy. It is estimated that this would result in a further increase in Output of \$0.662 million, \$2.026 million or \$3.410 million.

4.2.1.4 The combination of all direct, industrial and consumption effects would result in total estimated rise in Output of \$6.192 million, \$18.952 million or \$31.899 million in the Holdfast Bay economy, representing a Type 2 Output multiplier of 1.88 for each project option.

4.2.2 Impact on employment

4.2.2.1 The Project is also estimated to lead to a corresponding direct addition of 4, 14 or 23 jobs in the Construction Services sector. From this direct expansion in the economy it is anticipated that there would be flow on effects into other related intermediate industries, creating an additional 7, 22 or 37 jobs. This represents a Type 1 Employment multiplier of 2.75, 2.57 or 2.61.

4.2.2.2 This addition of jobs in the local economy would lead to a corresponding increase in wages and salaries, a proportion of which would be spent on local goods and services, this impact is expected to create an additional 3, 9 or 16 jobs.

4.2.2.3 The combination of all direct, industrial and consumption effects would result in a total estimated increase of 14, 45 or 76 jobs in the local economy. This represents a Type 2 Employment multiplier of 3.5, 3.2 or 3.3.

4.2.3 Impact on Wages and Salaries

4.2.3.1 The Project in the Holdfast Bay economy would lead to a corresponding direct increase in wages and salaries of \$0.376 million, \$1.152 million or \$1.939 million. From this direct expansion in the economy, flow-on

industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated these indirect impacts would result in the gain of a further 7, 22 or 37 jobs and a further increase in wages and salaries of \$0.479 million, \$1.466 million or \$2.468 million in Value-added would be generated from related intermediate industries. This represents a Type 1 Wages and Salaries multiplier of 2.27 for each of the project options.

4.2.3.2 The increase in direct and indirect output and the corresponding creation of jobs in the economy are expected to result in an increase in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spend on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further boost employment in sectors such as retail therefore increasing wages and salaries by \$0.163 million, \$0.500 million or \$0.842 million.

4.2.3.3 Total wages and salaries, including all direct, industrial and consumption effects is estimated to increase by up to \$1.019 million, \$3.119 million or \$5.249 million in the Holdfast Bay economy, representing a Type 2 Wages and Salaries of 2.71 for each of the project options.

#### 4.2.4 Impact on value-added

4.2.4.1 The Project in the Holdfast Bay economy would lead to a corresponding direct increase in Value-added of \$0.732 million, \$2.239 million or \$3.769 million. A further \$0.832 million, \$2.548 million or \$4.288 million in Value-added would be generated from related intermediate industries. These indirect industrial impacts represent a Type 1 Value-added multiplier of 2.14 for each of the project options.

4.2.4.2 There would be an additional contribution to the Holdfast Bay economy through consumption effects as correspondingly more wages and salaries are spent in the local economy. It is estimated that this would result in a further increase in Value-added of \$0.398 million, \$1.218 million or \$2.050 million.

4.2.4.3 The combination of all direct, industrial and consumption effects would result in an estimated addition in Value-added of \$1.962 million, \$6.005 million or \$10.107 million in the Holdfast Bay economy, representing a Type 2 Value-added multiplier of 2.68 for each of the project options.

4.2.4.4 The total estimated impact on economic activity of each of the three project options is summarised in Table Five.



**Table Five: Estimated Economic Activity Generated by each of the project options**

Summary	Direct Effect	Industrial Effect	Consumption Effect	Total Effect	Type Multiplier 1	Type Multiplier 2
<b>Output (\$m)</b>						
Minimum	3.300	2.230	0.662	6.192	1.68	1.88
Moderate	10.100	6.825	2.026	18.952	1.68	1.88
Maximum	17.000	11.488	3.410	31.899	1.68	1.88
<b>Employment (jobs)</b>						
Minimum	4	7	3	14	2.75	3.5
Moderate	14	22	9	45	2.57	3.21
Maximum	23	37	16	76	2.61	3.3
<b>Wages and Salaries (\$m)</b>						
Minimum	0.376	0.479	0.163	1.019	2.72	2.71
Moderate	1.152	1.466	0.500	3.119	2.272	2.707
Maximum	1.939	2.468	0.842	5.249	2.272	2.707
<b>Value-added (\$m)</b>						
Minimum	0.732	0.832	0.398	1.962	2.14	2.68
Moderate	2.239	2.548	1.218	6.005	2.138	2.682
Maximum	3.769	4.288	2.050	10.107	2.14	2.68

### 4.3 Impact on Business in the Proximity

- 4.3.1 Any increase in patronage at the Brighton Oval Complex following the upgrade may provide additional custom and trade for businesses in the proximity but any benefit is considered to be minor and not a key driver for progression of the Project.
- 4.3.2 Should the Project proceed, a plan to ensure the continuation of sporting activities at the complex or at another facility will need to be developed in conjunction with the clubs.

### 4.4 Fair Competition

- 4.4.1 The Project involves Holdfast Bay upgrading existing community assets.
- 4.4.2 Holdfast Bay will continue to lease these community assets and will not enter the local market as an operator. Thus it will not provide services which are also provided by the private sector or not-for-profit sector.
- 4.4.3 The activities of Holdfast Bay in leasing the community would not constitute a “significant business activity” in accordance with the Clause 7 Statement of the Competition Principles Agreement and the Government Business Enterprises

(Competition) Act 1996 which provides the framework for implementing National Competition Policy by local government entities in South Australia.

- 4.4.4 As the Holdfast Bay activities will not constitute a significant business activity, deemed to be significant within the definitions of Clause 7, Holdfast Bay will not need to give consideration to whether competitive neutrality principles will need to be applied to their activities, or not. Competitive neutrality is about ensuring that the significant business activities of publicly owned entities compete fairly in a market.
- 4.4.5 Given the nature of activities undertaken by Holdfast Bay at the Brighton Oval Complex we do not consider that they constitute a 'significant business activity' and do not consider that there are any material competition issues arising from the proposed Project.

## 5. COMMUNITY CONSULTATION

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (d) *the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;*

### 5.1 Level of consultation

5.1.1 The objectives of the Holdfast Bay Community Consultation and Engagement Policy issued on 22 June 2010 are to:

5.1.1.1 Promote positive relations between the Council and the community;

5.1.1.2 Guide effective engagement between the Council and the community;

5.1.1.3 Enable the community to be informed about and participate in Council planning and decision making;

5.1.1.4 Provide the framework for appropriately structured, targeted and delivered community engagement as part of Council's decision making; and

5.1.1.5 Support Council decision making which is open, transparent, responsive, inclusive and accountable to the community.

5.1.2 The Policy states that the principles of the International Association for Public Participation (IAP2) will be applied in all of its community engagement practices, both in those areas affected by legislation and in those areas where employees or Council have determined, as a matter of good practice, to consult with the community.

5.1.3 Consistent with the Council Policy and IAP2 principles, Holdfast Bay developed a community engagement plan for the 2016 revised Master Plan, with the level of engagement set at "Consult."

5.1.3.1 The purpose of the "Consult" engagement process is to obtain community feedback on projects, issues, proposals or/and options.

5.1.3.2 The definition applied is a 'Two-way relationship with the community where the views of individuals and communities are sought on a range of matters that may affect them directly and/or interest them, and 'Consultation can occur at various points in the process and can be used to help frame an issue and identify and assess options.'

5.1.4 The engagement plan identified the following external stakeholder as local residents; general community members; neighbouring Councils; and local sporting and recreation clubs. Internal stakeholders were Active Communities; City Assets and Services; and City Activation.

- 5.1.5 The community engagement ran for a 21 day period from 9 August 2016 to 30 August 2016 and involved collecting the views of the community via:
  - 5.1.5.1 Council's website;
  - 5.1.5.2 Drop-in session held at the Brighton Sports and Social Club on 17 August 2016; and
  - 5.1.5.3 Email submissions.
- 5.1.6 Consistent with the Council Policy, the engagement was promoted through the following:
  - 5.1.6.1 The Guardian Messenger on 2 and 16 August 2016 in the council fortnightly column;
  - 5.1.6.2 600 residents within 450m radius of the precinct received hard copy consultation flyer;
  - 5.1.6.3 Registered user update - via email to a 1,500 database;
  - 5.1.6.4 Flyers were available at Brighton Civic Centre, Brighton Civic Centre notice board and the Brighton and Glenelg Libraries; and
  - 5.1.6.5 City of Holdfast Bay Twitter Account in each week for the duration of the engagement.
- 5.1.7 The engagement report dated September 2016 stated that a total of 55 submissions were received during the engagement period (40 online, 12 drop in session and 3 emails that only provided comment).
- 5.1.8 In response to the question "Are you satisfied with the Brighton Oval Draft Master Plan?"
  - 5.1.8.1 46 (88%) of participants voted in favour of the draft Brighton Oval Draft Master Plan;
  - 5.1.8.2 6 (12%) participants voted against the draft Brighton Oval Draft Master Plan; and
  - 5.1.8.3 3 participants did not vote (only comments were provided by email).
- 5.1.9 It is evident that the Project has been the subject of public consultation and engagement process in accordance with the objectives and requirements of the Council Policy.

## 5.2 Community Influence and Contribution

- 5.2.1 The community has been afforded the opportunity to contribute and influence the Project through the extensive consultation process undertaken for both the 2012 and 2016 Master Plans.
- 5.2.2 The community influence on the Project is shown in the significant differences between the 2012 and 2016 Master Plans to meet the requirements of the sporting clubs who occupy the complex.
- 5.2.3 The development application process for the construction of the buildings will also provide further consultation opportunities for the community to influence or contribute specifically to the Project.

## 6. FINANCIAL ASSESSMENT

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (e) *if the project is intended to produce revenue, revenue projections and potential financial risks;*
- (f) *the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;*
- (g) *the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;*
- (j) *if the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994.*

### 6.1 Revenue Production, Revenue Projections and Potential Financial Risks

#### 6.1.1 Revenue Production and Projections

- 6.1.1.1 The Brighton Oval complex currently generates revenue from lease and licence fees associated with the Brighton Oval tenant clubs.
- 6.1.1.2 While the KPMG business case identifies that there may be minor increases in rental receipts to Council if the moderate or maximum options are progressed, the business case assumes lease and licence fees remain the same for all Project options.
- 6.1.1.3 The current rental fees for the clubs that occupy Brighton Oval are shown in Table Six.

**Table Six: Brighton Oval Complex Current Lease Fees**

Club	Annual Fees
Brighton Rugby Club	\$3,077
Brighton Sports and Social Club (Football and Cricket)	\$12,345
Brighton Lacrosse Club	\$4,593
<b>Total</b>	<b>\$17,245</b>

*All fees are ex-GST and relate to the lease of building and not grounds maintenance*

- 6.1.1.4 The Council Administration is currently preparing a new Sporting and Community Leasing Policy which is expected to guide the setting of lease charges moving forward.
- 6.1.1.5 We understand that the intent of this Policy is to have an increase in rental for buildings and also a fee structure for on-charging grounds maintenance

which is undertaken by Council staff (currently, there is no on-charging of grounds maintenance).

6.1.1.6 The extent of these increases in charges are not set yet, and it is intended that the Clubs will be consulted on these costs once a draft Policy is endorsed by Council. We understand also that the intention will be to phase in this Policy over a number of years to ensure the Clubs are financially sustainable, while at the same time reflecting the costs to Council in building and maintaining the facilities.

6.1.1.7 If the Project is to proceed it is also expected to generate revenue in the form of grants from the State and Commonwealth governments, or State Sporting bodies. At this stage, the availability and quantum of any grant funding for the Project is not yet known.

## 6.1.2 Potential Financial Risks

6.1.2.1 An assessment of the financial risks relating to the Project has not yet been undertaken by Holdfast Bay, however we have identified the following financial risks relating to the Project:

- (a) Grant funding is either not available or is not available in the quantum required by Council to meet the Project objectives;
- (b) Council's contribution to Project costs negatively impacts Council's financial sustainability and/or financial indicators;
- (c) The Project construction cost exceeds the budget allocation;
- (d) Undertaking this Project impacts on Council's ability to deliver on other planned capital projects;
- (e) Any proposed staging of the Project increases the overall cost; and
- (f) Life-cycle and operational and preventative maintenance costs are not adequately provided for.

6.1.2.2 Before proceeding with the Project, we recommend these financial risks are assessed and appropriate financial mitigation strategies are identified and implemented.

## 6.2 Recurrent and Whole of Life Costs, Financial Arrangements

### 6.2.1 Recurrent Costs

6.2.1.1 The recurrent costs associated with the Project are:

- (a) maintenance and outgoings;
- (b) interest on debt used to fund the Holdfast Bay contribution to the Project; and



(c) depreciation on new building infrastructure.

6.2.1.2 The level of these recurrent costs will be dependent on the final scope of the redevelopment i.e. whether Council adopts the minimum, moderate or maximum intervention and the final designs and costings under the chosen scenario.

## 6.2.2 Whole of Life Costs

6.2.2.1 The KPMG business case outlines the forecast total financial deficit of the Project as a result of the three project options on a Net Present Value (NPV) basis. The analysis is based on the following key assumptions:

(a) Life cycle costs include major capital replacement initiatives which are lumpy and occur over the life of the asset to replace failing infrastructure. In assessing the life cycle costs in relation to various options, KPMG have applied an increasing percentage cost per annum of the asset value based on the age of the assets under consideration to reflect that life cycle costs are higher as an asset ages.

(b) Operating costs are based on repairs and maintenance levels assumed to be 2/3rds of lifecycle costs;

(c) Capital expenditure has been informed by estimates for the three project options prepared by RLB. These estimates include contingencies, fees and preliminaries and are based on staging assumptions to reduce the impact on the existing clubs of the redevelopment.

(d) A range of discount rates have been provided for indicative purposes.

6.2.2.2 Based on these assumptions, Table Seven quantifies the net present value of the various Project options.

**Table Seven: Project Net Present Value Analysis**

	Redevelopment Options		
	Minimum Intervention (\$'000)	Moderate Intervention (\$'000)	Maximum Intervention (\$'000)
<b>Operating Result</b>			
- Total net operating result	(5.570)	(3.126)	(5.130)
- Total life-cycle costs	(9.154)	(5.515)	(8.521)
<b>Total Operating Result</b>	<b>(14.724)</b>	<b>(8.641)</b>	<b>(13.651)</b>
<b>Capital Expenditure</b>	<b>(3.329)</b>	<b>(10.663)</b>	<b>(18.041)</b>
<b>Operating Result</b>	<b>(18.053)</b>	<b>(19.305)</b>	<b>(31.692)</b>
<b>Net Present Value</b>			
- Low discount rate (3%)	(3.322)	(6.752)	(13.888)
- Base discount rate (7%)	(2.636)	(6.044)	(11.448)
- High discount rate (10%)	(2.336)	(5.486)	(10.038)

6.2.2.3 The financial assessment prepared by KPMG and reproduced in Table Seven is indicative and based on building designs which are preliminary in nature and cost estimates based on industry averages rather than detailed cost budgets.

6.2.2.4 While the assumptions are not unreasonable and considered appropriate for decision making purposes regarding the preferred option to progress, value management initiatives or modifications to the scope of the proposed development options for some or all of the buildings could result in material changes to the capital and operational costs disclosed in Table Seven.

6.2.2.5 We note that the KPMG cost estimates do not include a cost of finance. Indicatively the finance costs to borrow \$3 million over a 20 year loan period at a rate of 4% per annum are \$1.363 million over the life of the loan (average of \$68k per annum). If Holdfast Bay's contribution was to increase to say 50% of the \$18.041 million estimated capital cost of the Maximum Intervention option, the total finance costs would be \$4.098 million (\$205k per annum).

6.2.2.6 The cost estimates also do not include a provision for a potential asset write-down on existing facilities, however, given the age of existing infrastructure it is not expected that any asset write-downs would be significant.

### 6.2.3 Financial Arrangements

6.2.3.1 The financial arrangements for the Project include Council making a minimum \$3.0 million contribution to the Project (based on 17 June 2017 Council Resolution) and seeking external funding for the remaining capital cost of the Project.

- 6.2.3.2 The council contribution is not currently provided for in the Holdfast Bay LTFP however we note that \$2.536 million of asset renewal funding is included in the LTFP in relation to the Brighton Oval, part of which could be reallocated into the Project budget if a full scale redevelopment is undertaken.
- 6.2.3.3 The options for external funding include State and Commonwealth Government grants and State sporting organisations, such as the SANFL who have indicated some interest in providing funding towards the Project.
- (a) The SANFL has agreed to support the Project with a contribution of \$75,000.
- (b) The Project meets the funding program criteria for the South Australian Office for Recreation and Sport Community Recreation and Sport Facilities Program. This funding program is offered to organisations for the planning and development of sustainable, inclusive, functional and fit for purpose active recreation and sport facilities that meet the current and future needs of the South Australian community. Holdfast Bay could apply under Category 3 of the program for up to 50% of the project to a maximum of \$1 million dollars. Category 3 projects are outlined as Facility Development projects that include the upgrade or development of a single use active recreation and sport facility or multi use sports hub.
- 6.2.3.4 Based on a \$3 million Council contribution, the Project will require a further \$14 million of funding from alternate sources to proceed with the preferred 'Maximum Intervention' option.
- 6.2.3.5 We note that typically State and Federal government grant funding is provided on a 'dollar for dollar' matching basis. Accordingly, it will be difficult to secure \$14 million in grant funds required to progress the Maximum Intervention option if the Council contribution is in the vicinity of \$3 million.
- 6.2.3.6 Holdfast Bay should ensure that stakeholder expectations regarding the scope of the Project are appropriately managed in accordance with the financial arrangements and the limitations around funding that currently exist.
- 6.2.3.7 Holdfast Bay does not intend to proceed with the Project until sufficient funding has been secured or alternative options/designs are agreed upon with reduced capital costs.

### 6.3 Financial Viability

- 6.3.1 The LTFP lists the financial indicators that Council uses in assessing financial sustainability. Council's key performance measures and targets include the following:
- 6.3.1.1 Operating result as a percentage of rate revenue between 0% -10% over a rolling 5 year period.

6.3.1.2 Net Financial Liabilities as a percentage of operating revenue less than 75%.

6.3.1.3 Net interest expense as a percentage of operating revenue less than 5%.

6.3.2 For indicative purposes, the financial impact of progressing with the various redevelopment options on the net financial liabilities ratio is shown in Table Eight. Table Eight has been developed based on the following assumptions:

6.3.2.1 Each redevelopment option is 100% debt funded;

6.3.2.2 Each redevelopment option is assumed to have a three year construction timeframe with 1/3 of the capital costs being incurred in FY2018, FY2019 and FY2020.

**Table Eight: Impact of Various Project Options on Net Financial Liabilities Ratio**

	Year		
	FY2018	FY2019	FY2020
<b>No project progression (based on current LTFP):</b>			
LTFP Forecast Liabilities (\$m)	22.4	18.4	14.4
Net Financial Liabilities Ratio	49.6%	39.9%	30.4%
<b>Minimum intervention:</b>			
Capital expenditure (\$m)	1.11	1.11	1.11
Revised debt position (\$m)	23.5	20.6	17.7
<i>Net Financial Liabilities Ratio</i>	<i>52.1%</i>	<i>44.6%</i>	<i>37.4%</i>
<b>Moderate intervention:</b>			
Capital expenditure (\$m)	3.55	3.55	3.55
Revised debt position (\$m)	25.9	25.5	25.1
<i>Net Financial Liabilities Ratio</i>	<i>57.4%</i>	<i>55.1%</i>	<i>53.0%</i>
<b>Maximum intervention:</b>			
Capital expenditure (\$m)	6.01	6.01	6.01
Revised debt position (\$m)	28.4	30.4	32.4
<i>Net Financial Liabilities Ratio</i>	<i>62.9%</i>	<i>65.8%</i>	<i>68.4%</i>

6.3.3 Table Eight demonstrates that without any grant funding, the Maximum Intervention Option could be financed by Holdfast Bay while still maintaining debt levels below the 75% threshold net financial liabilities ratio. However, progressing the Maximum Intervention Option, without external funding, would limit Holdfast Bay's capacity to undertake other capital projects in the future while still remaining within the 75% threshold.

6.3.4 Attracting additional funding sources for the Project will limit the impact progressing the Project will have on Holdfast Bay's financial indicators.

#### 6.4 **Sale of Land**

6.4.1 The Project does not involve the sale or disposition of land.

## 7. PROJECT RISKS AND MITIGATION STRATEGIES

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (h) *any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);*

### 7.1 Risk Management

- 7.1.1 This report assesses the risk management actions taken or being considered by Holdfast Bay for the Project. It is not the purpose of the report to prepare a comprehensive risk management plan, however a level of assessment has been undertaken on the risk management activities to date.
- 7.1.2 Holdfast Bay adopts an integrated and proactive approach to Risk Management, based on current Australian Standards and industry best practice. This approach integrates the management of risk and opportunity into the organisation's governance, strategic planning, reporting and policy development functions as well as its values and culture. This is outlined in the Risk Management Policy adopted on 14 July 2015.
- 7.1.3 The base case and three project options as presented in the KPMG business case will have differing levels of risk. The base case and 'Minimum Intervention' will have less financial and construction risks and likely higher reputational risks resulting from community expectations about the desired standard of facilities not being met. Whereas the 'Moderate Intervention' and Maximum Intervention' options will have increasingly higher financial and construction risks with a likely corresponding decreased reputational risk as the facilities increasingly meet the community's expectations.
- 7.1.4 On 24 May 2017 an internal Project meeting was held to discuss the identified risks relating to the Project. The Administration has advised that it will include these risks in a detailed risk assessment to be prepared in accordance with the Risk Management Policy once funding for the Project has been secured.
- 7.1.5 In addition to the financial risks previously identified, we have identified a number of other risks which this risk assessment should include.
- 7.1.5.1 Procurement – Project scope creep, cost over-runs, delay in delivery and quality issues result in an increase in costs above budget;
- 7.1.5.2 Reputational – A decreased Project scope to meet budget allocations means the Project no longer meets community needs and expectations; and
- 7.1.5.3 Reputational – Any proposed increase in lease fees for the Brighton Oval Complex sporting and community clubs is perceived negatively.

- 7.1.6 If the Project is to proceed then a detailed risk assessment performed on Council's Risk Management Plan template should be performed to meet the requirements of Council's Risk Management Policy.

## 7.2 Risk Mitigation

- 7.2.1 A risk assessment in accordance with Council's Risk Management Policy has not yet been undertaken for the Project. Accordingly, the level of inherent and residual risk relating to the Project has not yet been identified nor has a comprehensive list of risk mitigation strategies been prepared.
- 7.2.2 If the Project is to proceed then a detailed risk assessment will need to be undertaken in accordance with Council's Risk Management Policy and Holdfast Bay should then ensure that the mitigation strategies identified for the risks associated with the Project are implemented and that these are progressively updated in a risk register as the Project is implemented
- 7.2.3 The risk register should be reported to the Holdfast Bay Executive at regular intervals during the Project.
- 7.2.4 Consistent with good project management practice, risk management should be a standing agenda item at any Project management meetings during the Project.
- 7.2.5 Reporting protocols should also be established for the Project to ensure the Chief Executive Officer or his delegate and, where appropriate, Council are apprised of areas of risk.



## 8. PROJECT DELIVERY

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (i) *the most appropriate mechanisms or arrangements for carrying out the project.*

### 8.1 Delivery Mechanism

8.1.1 There are several options available for carrying out the construction phase of the Project, each of which has different advantages and disadvantages depending on the circumstances of a particular project, the most relevant appear to be:

8.1.1.1 Construct only;

8.1.1.2 Design and Construct; and

8.1.1.3 Managing Contractor or Early Contractor Involvement.

8.1.2 In determining the most appropriate delivery option, Holdfast Bay will need to consider a range of factors including:

8.1.2.1 the Project timeframes;

8.1.2.2 the internal capabilities and availability of Holdfast Bay staff; and

8.1.2.3 the complexity of the Project in terms of managing sub-contractors and stakeholders.

8.1.3 The delivery mechanism for the Project is yet to be determined. However, Holdfast Bay has indicated that given the value of the works involved they are intending to proceed using an Open Tender process, which is consistent with the Holdfast Bay Procurement (Contracts and Tendering) Policy.

8.1.4 Should the Project proceed a Project Management Plan using Council's Project Plan template should be developed to document the project management strategy for the Project.

### 8.2 Procurement Implications

8.2.1 The Holdfast Bay Procurement (Contracts and Tendering) Policy, last reviewed 24 January 2017, applies to all contracts and tenders organised by Council and associates on behalf of Council.

8.2.2 The Policy outlines five core principles that should form the basis of making a supplier selection for all purchasing methods, as follows:

8.2.2.1 Value for Money;

8.2.2.2 Transparent, Accountable, Fair and Ethical;

8.2.2.3 Social and Environmental Sustainability;

- 8.2.2.4 Local Economic Development; and
- 8.2.2.5 Work Health and Safety.
- 8.2.3 The Procurement Policy identifies that Council will select an approach best suited to the particular requirement. The underlying principle is to balance the transaction costs associated with each transaction method, with risk and probity requirements. The different transacting methods include:
- Direct Purchasing;
  - Request for Quote;
  - Request for Tender (Select or Open Market);
  - Panel Contracts; and
  - Strategic Procurement.
- 8.2.4 Although there are circumstances where exemptions may apply, the Procurement Policy establishes the following thresholds for individual engagements.
- 8.2.4.1 Purchases under \$5,000 do not require a Purchase Order and can be by direct purchasing.
- 8.2.4.2 Purchases between \$5,000 and \$20,000 require a minimum of three quotes or panel contract.
- 8.2.4.3 Purchases between \$20,000 and \$50,000 require a minimum of three written quotations or panel contract.
- 8.2.4.4 Purchases greater than \$50,000 require a tender process.
- 8.2.5 However, in certain circumstances the Chief Executive Officer or Council may waive application of the Policy and pursue a method which will bring the best outcome for the Council. In this circumstance the Council must record its reason in writing for waiving application of the Policy.
- 8.2.6 For this Project, the Project team will need to ensure that the major procurements (being the design and construction contracts) are procured in accordance with the Procurement Policy.
- 8.2.7 We note that purchases greater than \$50,000, as will be the case with the construction contract, require a tender process. Therefore a request for tender (open) is the most appropriate procurement methodology for this Project.
- 8.2.8 Where there are smaller consultancies relating to the Project, the Project Manager should ensure that procurement is undertaken consistent with the provisions of the Procurement Policy.

## 9. CONCLUSION

- 9.1 This report has been prepared to meet the requirements of Section 48 of the Local Government Act and to provide Council with a comprehensive understanding of the prudential issues relating to the Brighton Oval Complex Project.
- 9.2 The Brighton Oval Complex Project involves the construction of a separate two storey facility for the Brighton Rugby Union Football Club, Brighton Cricket Club, Brighton Lacrosse Club and Brighton Football Club, with each building having integrated multi-use community facilities. The Project also includes upgrading the surrounding area with new community play spaces, public amenities, lighting, scoreboards, cricket nets, a youth area and car parking.
- 9.3 The Brighton Oval Complex Project is considered to be strongly aligned with the strategic direction and the desired outcomes as outlined within the City of Holdfast Bay's Strategic Plan - Our Place 2030. The Project would also assist to advance a number of the state and national priorities and targets.
- 9.4 Provision for capital and future operating costs have not been made in the 2017/18 Annual Plan, Budget and Long Term Financial Plan. If the Project is to proceed, these documents will need to be updated to reflect the financial impact of the Project. The Asset Management Plans for Buildings and Open Spaces will need to be amended to include the decommissioning of the existing assets and the construction of the new facilities.
- 9.5 The Brighton Oval Complex Project involves works which are defined as "development" under the Development Act 1993. Given the scale of the proposed works and the anticipated revenue stream to Council from the proposed leasing arrangements with the various sporting groups, it would be prudent to request that the Minister appoint the State Commission Assessment Panel (SCAP) to assess any development application arising from the Project. The proposed land use and development is consistent with the Objectives of the City of Holdfast Bay's Development Plan for the Community Zone (Recreation Policy Area 1).
- 9.6 The Project is expected to provide a positive contribution to economic development in the local area through the associated construction activity. The level of impact will be dependent on the final scope of building works selected. Based on the range of options presented by KPMG in the business case, the total economic impact of progressing the Project could range from \$6.192 million to \$31.899 million in economic activity and create between 14 and 76 jobs.
- 9.7 The Project is unlikely to have a material impact on businesses in the area nor will it hinder competition.
- 9.8 Consultation on the Project has been undertaken on the 2012 and the 2016 Master Plans relating to the area. The community is therefore considered to have been provided with the opportunity to influence the Project and will be afforded further opportunities to do so during the development assessment process.
- 9.9 Undertaking the Project is not likely to produce a material increase in revenue generated from the Brighton Oval lessees. As an upgrade of a community asset, revenue generation is not a key driver of progression of the Project.
- 9.10 A Business Case presenting the likely financial implications of progressing a minimum, moderate and maximum intervention at the Brighton Oval Sports Complex has been prepared

by KPMG. Given the limited opportunities to generate revenue from progressing the Project, the financial outcome under each level of intervention is negative.

- 9.11 Council has made an in-principle commitment to contribute a minimum of \$3.0 million in funding. The remaining \$12.5 million to progress the maximum intervention option will need to be obtained from other sources, or Council will need to increase its contribution for the Project. Alternatively, value management initiatives could be implemented to reduce the cost of construction.
- 9.12 The level of grant funding that can be attracted and the final scope of the Project will be key factors in determining the financial impact that progressing the Project will have on the Holdfast Bay LTFP.
- 9.13 A risk assessment in accordance with Council's Risk Management Policy has not yet been undertaken for the Project. If the Project is to proceed then a detailed risk assessment will need to be undertaken in accordance with Council's Risk Management Policy and Holdfast Bay should then ensure that the mitigation strategies identified for the risks associated with the Project are implemented and that these are progressively updated in a risk register as the Project is implemented and regularly reported to the Holdfast Bay Executive.
- 9.14 The project delivery and procurement methods for this Project have not yet been determined. Given the complexity, scale, value and significance of this Project, the adoption of a design and construct model would be considered prudent. Procurement should be conducted in accordance with Holdfast Bay's Procurement Policy.



## ATTACHMENT TWO: LOCAL GOVERNMENT ACT, 1999 – SECTION 48

### Section 48 – Prudential requirements for certain activities

- (aa1) A council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council—
- (a) acts with due care, diligence and foresight; and
  - (b) identifies and manages risks associated with a project; and
  - (c) makes informed decisions; and
  - (d) is accountable for the use of council and other public resources.
- (a1) The prudential management policies, practices and procedures developed by the council for the purposes of subsection (aa1) must be consistent with any regulations made for the purposes of this section.
- (1) Without limiting subsection (aa1), a council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council—
- (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—
    - (i) where the expected operating expenses calculated on an accrual basis of the council over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five financial years (as shown in the council's financial statements); or
    - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 000 000 (indexed); or
    - (iii) where the council considers that it is necessary or appropriate.
- (2) The following are prudential issues for the purposes of subsection (1):
- (a) the relationship between the project and relevant strategic management plans;
  - (b) the objectives of the Development Plan in the area where the project is to occur;
  - (c) the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;
  - (d) the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;



- (e) if the project is intended to produce revenue, revenue projections and potential financial risks;
  - (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
  - (g) the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;
  - (h) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);
  - (i) the most appropriate mechanisms or arrangements for carrying out the project;
  - (j) if the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994.
- (3) A report is not required under subsection (1) in relation to—
- (a) road construction or maintenance; or
  - (b) drainage works.
- (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2).
- (4a) A report under subsection (1) must not be prepared by a person who has an interest in the relevant project (but may be prepared by a person who is an employee of the council).
- (4b) A council must give reasonable consideration to a report under subsection (1) (and must not delegate the requirement to do so under this subsection).
- (5) A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).
- (6) However, a council may take steps to prevent the disclosure of specific information in order to protect its commercial value or to avoid disclosing the financial affairs of a person (other than the council).
- (6a) For the purposes of subsection (4a), a person has an interest in a project if the person, or a person with whom the person is closely associated, would receive or have a reasonable expectation of receiving a direct or indirect pecuniary benefit or a non-pecuniary benefit or suffer or have a reasonable expectation of suffering a direct or indirect detriment or a non-pecuniary detriment if the project were to proceed.
- (6b) A person is closely associated with another person (the relevant person)—
- (a) if that person is a body corporate of which the relevant person is a director or a member of the governing body; or



- (b) if that person is a proprietary company in which the relevant person is a shareholder; or
  - (c) if that person is a beneficiary under a trust or an object of a discretionary trust of which the relevant person is a trustee; or
  - (d) if that person is a partner of the relevant person; or
  - (e) if that person is the employer or an employee of the relevant person; or
  - (f) if that person is a person from whom the relevant person has received or might reasonably be expected to receive a fee, commission or other reward for providing professional or other services; or
  - (g) if that person is a relative of the relevant person.
- (6c) However, a person, or a person closely associated with another person, will not be regarded as having an interest in a matter—
- (a) by virtue only of the fact that the person—
    - (i) is a ratepayer, elector or resident in the area of the council; or
    - (ii) is a member of a non-profit association, other than where the person is a member of the governing body of the association or organisation; or
  - (b) in a prescribed circumstance.
- (6d) In this section, \$4 000 000 (indexed) means that that amount is to be adjusted for the purposes of this section on 1 January of each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter, 2009.
- (6e) In this section—
- employee** of a council includes a person working for the council on a temporary basis;
- non-profit association** means a body (whether corporate or unincorporate)—
- (a) that does not have as its principal object or 1 of its principal objects the carrying on of a trade or the making of a profit; and
  - (b) that is so constituted that its profits (if any) must be applied towards the purposes for which it is established and may not be distributed to its members.
- (7) The provisions of this section extend to subsidiaries as if a subsidiary were a council subject to any modifications, exclusions or additions prescribed by the regulations.

Item No: **14.7**

Subject: **PRUDENTIAL REPORT – BRIGHTON OVAL COMPLEX UPGRADE**

Date: 10 July 2018

Written By: Strategic Planner

General Manager: Business Services, Mr R Bria

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### **SUMMARY**

The Local Government Act 1999 requires that councils undertake a prudential review for projects with a value over \$4.713 million, for expenditure in the proceeding five years. BRM Holdich was engaged to provide a prudential report on the Brighton Oval Complex implementation project.

The attached report summarises the key findings in the prudential review and concludes that there has been a level of 'due diligence' followed for the project and should achieve the identified public benefits or needs.

Whilst the report was undertaken in January 2018, it provides findings that are still relevant with some of the key risks identified having already been mitigated, including securing \$2.075m of grant funding, staging the development (Stage 1 Buildings, Stage 2 Infrastructure works) to provide the opportunity to attract further grant funds to offset the remaining infrastructure works. Also the Long Term Financial Plan (LTFP) has been updated in June 2018 as part of the 2018/19 budget adoption to include proposed projects such as this one. The updated LTFP demonstrates that from 2018/19 Holdfast Bay is financially sustainable and has the capacity to borrow additional funds for new strategic projects and remain under the Council agreed Net Financial Liabilities Ratio (NFLR) threshold of 75%. Accordingly, progressing this Project is not expected to adversely impact on Holdfast Bay's financial viability.

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### **RECOMMENDATION**

**That Council receives and notes the prudential report for the Brighton Oval Complex Upgrade.**

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### **COMMUNITY PLAN**

Placemaking: Creating lively and safe places

Placemaking: Developing walkable connected neighbourhoods

Placemaking: Building character and celebrating history

Community: Providing welcoming and accessible facilities

Environment: Fostering an environmentally connected community

Culture: Being financially accountable

Culture: Supporting excellent, efficient operations

### **COUNCIL POLICY**

Prudential Management Policy & Procedure

### **STATUTORY PROVISIONS**

Section 48 of the Local Government Act 1999 requires councils to obtain and consider a report before it engages in any project (excluding road construction or maintenance; or drainage works);

- (i) where the expected expenditure of the council over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five financial years; or
- (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,713,000; (indexed since 30 September 2009) or
- (iii) where the council considers that it is necessary or appropriate.

### **BACKGROUND**

A Masterplan was developed for the upgrade of the Brighton Oval Complex in 2016. The maximum intervention option of the Project, consistent with the masterplan includes upgrades to include new two-storey facilities for the Brighton Rugby Union Football Club, the Brighton Lacrosse Club, the Brighton Cricket Club and the Brighton Football Club, with each of these buildings being available to the broader community. The project also includes upgrades to the function and amenity of the surrounding areas.

The prudential report was based on the maximum intervention option as outlined in the KPMG Business Case with an estimated total project cost \$17 million excluding GST, which is reliant of funding from multiple tiers of Government.

On 23 February 2016, Council resolved:

1. *“That Council approves expenditure up to \$20,000 in the 2015/16 financial year to prepare the detailed concept plan for the Brighton Oval Complex.*
2. *The clubs (Lacrosse Club, cricket club, dog club, croquet club, Brighton Sporting and Social Club and the Brighton Rugby Club) contribute 20% towards the cost of developing a detailed concept plan for the Brighton Oval Complex.”*

On 13 June 2017, Council resolved:

- “1. *Endorse the re-allocation of a portion of the \$100,000 allocated in the 2016/17 budget for detailed design, to develop a Social, Economic and Environmental Business Case for the Brighton Oval Complex Master Plan.*

2. *Provides an in-principle funding commitment of a minimum of \$3 million, contributing to the implementation of the Brighton Oval Complex Master Plan subject to receiving adequate funding from other bodies including state and federal government, sporting bodies and other organisations.”*

On January 23 2018, Council resolved:

- “1. *That Council commits a total of \$6 million across the 2018/19 and 2019/20 budgets as a contribution towards the construction of three (3) new clubroom facilities, in line with the endorsed masterplan and subject to other sources of funding of at least \$2 million.*
2. *That Council applies for grant funding through the Office for Recreation and Sport, and other State Government programs such as Fund My Neighbourhood and Places for People to assist in funding the remaining aspects of the masterplan.”*

As an outcome of the March State Election, the State Government have contributed \$2 million towards the construction of three new sports clubrooms on-site. This funding contribution is in addition to Council’s contribution of \$6 million towards the project. The remaining elements of the project remain unfunded.

## **REPORT**

The Brighton Oval Complex Project involves the construction of a separate two storey facility for the Brighton Rugby Union Football Club, Brighton Cricket Club, Brighton Lacrosse Club and Brighton Football Club, with each building having integrated multi-use community facilities. The Project also includes upgrading the surrounding area with new community play spaces, public amenities, lighting, scoreboards, cricket nets, a youth area and car parking.

The Maximum Intervention option of the Project, consistent with the 2016 Masterplan is an upgrade to the Brighton Oval Complex, includes new two storey facilities for the Brighton Rugby Union Football Club, the Brighton Lacrosse Club, the Brighton Cricket Club and the Brighton Football Club, with each of these buildings having integrated multi-use community facilities. The Project also includes upgrades to the function and amenity of the surrounding areas.

Key findings of the Brighton Oval Complex in the prudential review are as follows:

- The Brighton Oval Complex Project is considered to be strongly aligned with the strategic direction and the desired outcomes as outlined within the City of Holdfast Bay’s Strategic Plan Our Place 2030. The Project would also assist to advance a number of the state and national priorities and targets.
- Provision for capital and future operating costs have not been made in the 2017/18 Annual Plan, Budget and Long Term Financial Plan. If the Project is to proceed, these documents will need to be updated to reflect the financial impact of the Project. The Asset Management Plans for Buildings and Open Spaces will need to be amended to

include the decommissioning of the existing assets and the construction of the new facilities.

- It would be prudent to request that the Minister appoint the State Commission Assessment Panel (SCAP) to assess any development application arising from the Project. The proposed land use and development is consistent with the Objectives of the City of Holdfast Bay's Development Plan for the Community Zone (Recreation Policy Area 1).
- Based on the range of options presented by KPMG in the business case, the total economic impact of progressing the Project could range from \$6.192 million to \$31.899 million in economic activity and create between 14 and 76 jobs.
- The Project is unlikely to have a material impact on businesses in the area nor will it hinder competition.
- Consultation on the Project has been undertaken on the 2012 and the 2016 Master Plans relating to the area. The community is therefore considered to have been provided with the opportunity to influence the Project and will be afforded further opportunities to do so during the development assessment process.
- Undertaking the Project is not likely to produce a material increase in revenue generated from the Brighton Oval lessees. As an upgrade of a community asset, revenue generation is not a key driver of progression of the Project.
- A Business Case presenting the likely financial implications of progressing a minimum, moderate and maximum intervention at the Brighton Oval Sports Complex has been prepared by KPMG. Given the limited opportunities to generate revenue from progressing the Project, the financial outcome under each level of intervention is negative.
- Council has made an in-principle commitment to contribute a minimum of \$3.0 million in funding. The remaining \$12.5 million to progress the maximum intervention option will need to be obtained from other sources, or Council will need to increase its contribution for the Project. Alternatively, value management initiatives could be implemented to reduce the cost of construction.
- The level of grant funding that can be attracted and the final scope of the Project will be key factors in determining the financial impact that progressing the Project will have on the Holdfast Bay LTFP.
- A risk assessment in accordance with Council's Risk Management Policy has not yet been undertaken for the Project. If the Project is to proceed then a detailed risk assessment will need to be undertaken in accordance with Council's Risk Management Policy.

A copy of the Brighton Oval Complex Upgrade Prudential Report is attached.

*Refer Attachment 1*

### **Summary**

Council is required to undertake prudential reviews for these projects, however regardless of whether there exists a formal requirement for commissioning of a prudential review or not, such a course of action is a sound business procedure for major initiatives undertaken by a council.

The Brighton Oval review identified that a design and construct model would be prudent, given the complexity, scale, value and significance of this Project. The project management framework will be incorporated into the project implementation.

The report concludes that there has been a level of 'due diligence' followed for the project and should achieve the identified public benefits or needs.

Whilst the report was undertaken in January 2018, it provides findings that are still relevant with some of the risks identified having already been mitigated, including securing \$2.075m of grant funding, staging the development (Stage 1 Buildings, Stage 2 Infrastructure works) to provide the opportunity to attract further grant funds to offset the remaining infrastructure works. Also the Long Term Financial Plan (LTFP) has been updated in June 2018 as part of the 2018/19 budget adoption to include proposed projects such as this one. The updated LTFP demonstrates that from 2018/19 Holdfast Bay is financially sustainable and has the capacity to borrow additional funds for new strategic projects and remain under the Council agreed Net Financial Liabilities Ratio (NFLR) threshold of 75%. Accordingly, progressing this Project is not expected to adversely impact on Holdfast Bay's financial viability.

### **BUDGET**

These reviews are funded from the Project Budgets.

### **LIFE CYCLE COSTS**

The review does not generate any ongoing costs.

## AUDIT COMMITTEE FORWARD AGENDA – 2018/19

	2018-19		
	29 Aug 18	17 Oct 18	Jan 19
<b>ANNUAL BUSINESS PLAN AND LONG TERM FINANCIAL PLAN</b>			
Annual business Plan and Budget			
LTFP Update		✓	✓
<b>ANNUAL REPORT AND EXTERNAL AUDIT</b>			
Annual Report		✓	
External Auditor's Interim Report/Update	✓		
External Auditor's Report to Council for Year End		✓	
External Auditor Presentation		✓	
Independence of Council Auditor		✓	
<b>REGIONAL SUBSIDIARIES</b>			
Regional Subsidiary (SRWRA) Financial Results		✓	
<b>INTERNAL REVIEWS AND INTERNAL AUDIT</b>			
Human Resources Internal Audit	✓		
Control Trak Self-Assessment of internal controls	✓		
Alwyndor Finance System – Post Implementation Review		✓	
Review of Internal Audit Plan		✓	
Annual Report from Internal Auditor	✓		
<b>AUDIT COMMITTEE RELATED</b>			
Standing Items	✓	✓	✓
Audit Committee Terms of Reference Review	✓		
Loans Receivable Review	✓		
Audit Committee Self-Assessment of Performance	✓		
Update on WHS		✓	
Forward Agenda	✓	✓	✓