AGENDA

CITY OF HOLDFAST BAY

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 17 August 2022 at 5.30pm

Roberto Bria
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 Presiding Member, Councillor Smedley will declare the meeting open at 5.30 pm.

2. APOLOGIES

2.1 Apologies received - Ms P Davies

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 1 June 2022 be taken as read and confirmed.

Moved _____, Seconded _____ **Carried**

5. ACTION ITEMS

5.1 Action Item List – 17 August 2022

6. PRESENTATIONS

6.1 Nil

7. REPORTS BY OFFICERS

7.1 Standing Items (Report No: 341/22)
7.2 Internal Audit Program Report (Report No: 343/22)
7.3 Risk Report (Report No: 344/22)
7.4 Carbon Neutral Plan (Report No: 340/22)
7.5 Annual Review of Investments (Report No: 342/22)

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

9. CONFIDENTIAL ITEMS

9.1 Alwyndor Investment Portfolio (Report No: 347/22)

Pursuant to Section 87(10) 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 the 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.

9.2 Cyber Threats (Report No: 346/22)

Pursuant to Section 87(10) 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 the Audit Committee will receive, discuss or consider:

e. matters affecting the security of the council, members or employees of the council, or council property, or the safety of any person.

9.3 Loan Receivables (Report No: 345/22)

Pursuant to Section 87(10) 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 the 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 12 October 2022 in the Kingston Room, Civic Centre, 24 Jetty Road, Brighton.

11. CLOSURE

ROBERTO BRIA
CHIEF EXECUTIVE OFFICER

CITY OF HOLDFAST BAY

AUDIT COMMITTEE - ACTION ITEMS

as at 17 August 2022

Meeting	Agenda Item	Action Required	Responsibility	Estimated Completion Date	Current Status
7 October 2020	7.2 Asset Management Plan (AMP) Review	Record risk within organisational risk process and report.	GM Strategy & Corporate	February 2022	Refer to Risk Report (Report No: 349/21).
16 December 2020	9.1 CONFIDENTIAL – Internal Audit – Cyber Security Report	Progress from recommendations to be monitored at each meeting via the Standing Items Report.	GM Strategy & Corporate	June 2022	To be tabled at each meeting until finalised.
16 December 2020	7.1 Standing Items	Develop framework for Governance relationship between Alywndor, Audit Committee and Council.	GMs Alywndor and Strategy & Corporate	June 2022	Delayed due to other priorities.
16 March 2022	7.3 Risk Report	How does Southern Materials Recovery Facility fit into the governance structure of SRWRA and Council?	Chief Executive Officer	1 June 2022	Action completed. Discussion occurred at the June 2022 meeting.

Item No: 7.1

Subject: **STANDING ITEMS – AUGUST 2022**

Date: 17 August 2022

Written By: Manager Financial Services

General Manager: Strategy and Corporate, Ms P Jackson

SUMMARY

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

RECOMMENDATION

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

- **Monthly Financial Statements**
- **Audit – External**
- **Public Interest Disclosures**
- **Economy and Efficiency Audits**
- **Essential Services Commission of South Australia Framework and Approach**
- **Council Recommendations**
- **Audit Committee Meeting Schedule**

STRATEGIC PLAN

Statutory Requirement

COUNCIL POLICY

Not applicable

STATUTORY PROVISIONS

Local Government Act 1999, Sections 41 and 126
Public Interest Disclosure Act 2018

BACKGROUND

The Audit Committee has previously resolved that a report be included in the agenda of each meeting of the Committee addressing the following standing items:

- Monthly financial statements
- Audit – External
- Public Interest Disclosures
- 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 Statements

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

Audit - External

Council's external auditor, Dean Newbery & Partners, has completed the interim 2021/22 transaction audit of Council and Alwyndor activities. They will attend Council offices in September 2022 to complete the 2021/22 audit. An audit completion report will be provided to the Audit Committee in October 2022.

Public Interest Disclosures

There have been no public interest disclosures made to Council since the previous standing items report on 1 June 2022.

Section 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 1 June 2022.

Essential Services Commission of South Australia (ESCOSA) Framework and Approach

The Audit Committee previously considered a response by Administration to an ESCOSA consultation on a Local Government Advice Scheme Proposed Framework and Approach.

The Scheme's Framework and Approach has now been finalised and is attached for your information.

Refer Attachment 1

Council Recommendations

At its meeting on 14 June 2022 Council received the minutes and endorsed the recommendations of the meeting of the Audit Committee held on 1 June 2022.

2022 Meeting Schedule

The Audit Committee's terms of reference require it to meet at least four times each year and at least once each quarter. During 2022 meetings have been set to align with the two important financial programs in which the Audit Committee plays important roles:

- Development of the annual business plan and budget; and
- Completion of the annual financial statements, external audit and annual report.

In order to accommodate the above reporting requirements the following ordinary meeting schedule is proposed for the remainder of 2022:

- Wednesday 12 October 2022.

Attachment 1

Advice

Local Government Advice

Framework and Approach

August 2022

Enquiries concerning this Framework and Approach should be addressed to:

Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: escosa@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

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Glossary of terms

Commission	Essential Services Commission, established under the *Essential Services Commission Act 2002*
CPI	Consumer Price Index
Draft F&A	Local Government Rates Oversight Scheme: Draft Framework and Approach
F&A	Local Government Advice: Framework and Approach (this document)
LG Act	*Local Government Act 1999*
LGA	Local Government Association
LGFMG	Local Government Financial Management Group
LGGC	Local Government Grants Commission
LGPI	Local Government Price Index
LTFP	Long-term financial plans
IAMP	Infrastructure and asset management plan
The Scheme	Local Government Advice Scheme
SMP	Strategic Management Plan

1 Executive summary

On 30 April 2022, amendments to the *Local Government Act 1999* (the LG Act) came into operation (the amendments). Those amendments introduced an advisory scheme aiming to give ratepayers confidence that the rates they pay are set at the level necessary for their council to provide the services they value. The Essential Services Commission (Commission) is the advisory body. The State's 68 councils are subject to the scheme.

The amendments gave the Commission discretion in relation to scheme design and implementation. The Commission consulted on a proposed framework and approach and, after taking into account comments received, has resolved a final Framework and Approach as set out in this document.

The Framework and Approach builds on documents that councils are already required to have under the LG Act: their long-term financial plans (LTFP) and their infrastructure and asset management plans (IAMP). The focus of the scheme is that the Commission must advise on material changes made or proposed to be made to councils' LTFPs and IAMPs (and a council's reasons for those changes), if any, and revenue sources outlined in the LTFPs. These are referred to in the LG Act as '*Relevant Matters*'. The Commission also has discretion to advise on other issues concerning LTFPs or IAMPs.

The legislation provides for two methods for the Commission to receive the information on which its advice will be based. The first method is by way of a schedule determined and published by the Commission under which councils are required to provide information on *Relevant Matters*. The other is a power to require a council to provide information that the Commission reasonably requires to provide the advice.

It is an advisory scheme, rather than a compulsive one. The scheme provides advice only, with decision making in the hands of the councils. This means that the Commission cannot require councils to follow the advice. However, the scheme requires both the Commission and councils to publish the advice and, if a council wishes to respond to the advice, that council must publish that response in its annual business plan.

Advice provided under the scheme therefore has broad benefits: it will inform councils' decision making and will also provide to ratepayers and other interested stakeholders an independent consideration of a council's plans, thereby adding value across local communities. In this way the scheme will achieve its purpose of giving confidence to ratepayers about the setting of their rates.

1.1 Scheme design principles and concepts

Seven principles guided the Commission in the Framework and Approach design:

Table 1: Principles

Principle	Reason
Principle 1: Monitoring, not regulating	The scheme relates to monitoring, not economic regulation. As such, the design focuses on providing evidence-based and useful advice. The objective being, through time, to develop a record of a council's performance, relative to its long-term planning, and its response to advice, as the basis for changing behaviours and outcomes over time. The scheme does not provide the Commission with powers to enforce compliance measures, set service standards or regulate any council's rates. In those respects, it differs from other States' council rates regulation frameworks, such as those in Victoria and New South Wales.

Principle	Reason
Principle 2: Long-term planning focus	While councils can provide a diverse range of services, they are generally delivered through infrastructure and operations that require long-term planning. In relation to existing infrastructure assets, in the absence of significant shocks outside of a council's control, its long-term plans would not be expected to exhibit significant variation through time (replacement/renewal expenditure should not materially vary due to political cycles, or short-term transient operational or financial concerns). For new assets, it is important that these are planned for, implemented and managed on that same long-term basis.
Principle 3: Materiality	Focus will be given to key overarching targets and measures. Otherwise, the underlying analysis may become unduly complex/disaggregated, with key observations diluted through unnecessary detail.
Principle 4: Simplicity	The scheme will be as simple as it practically can be and be capable of being applied across the diverse range of councils within South Australia.
Principle 5: Leveraging existing information and evidence	The Local Government Grants Commission (**LGGC**) collects data and the Local Government Association (**LGA**) provides guidance material regarding financial and service sustainability. As such, a significant amount of underlying information and a standard accounting framework exists - this will underpin the analytical framework. In accordance with the legislative framework, if demonstrable gaps in information become apparent that are of relevance to the operation of the scheme, it may be necessary to collect further information in relation to this.
Principle 6: Consistency of application	The scheme will be applied consistently across councils in terms of the underlying processes and analytical framework. Advice across councils will only be similar if all the inputs into the analytical framework (both quantitative and qualitative) result in similar advice being warranted.
Principle 7: Transparency	The implementation of the scheme requires transparency in processes and approach. Each council will be provided with the information and calculations upon which the advice relating to it has been based.

In addition to the design criteria, the core concept is that councils should operate on a long-term financially sustainable basis, for the benefit of ratepayers. The Commission will apply the nationally agreed definition of financial sustainability for the local government sector, which is:

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

The Commission considered that concept in the context of three elements (the sustainability elements), developed by the local government sector, which are:

Program stability: This relates to the provision of reliable quality services over time, and requires a stable and consistent set of actions, from the perspective of day-to-day operations and infrastructure management.

Rate stability: This relates to charging ratepayers reasonably to fund the services, underpinned by the program of works noted previously (program stability). Rates should be stable, noting that stable does not mean fixed but rather the absence of large or unplanned year-on-year variances.

Intergenerational equity: This relates to fairly sharing services and the associated cost between current and future ratepayers. It requires adopting sound long-term financial management principles, particularly in relation to the balance between debt and cash in financing service delivery.

The sustainability elements should already be applied in practice. They encapsulate financial and service sustainability, cost control and affordability in a way which can be measured consistently on both a forward- and backward-looking basis, given their connection with the model accounting framework adopted. This provides a picture of how a council proposes to manage its ongoing financial and service sustainability, in the context of its past decisions, and the role that general rates, affordability and cost control will play.

1.1.1 The advice

In a four-yearly cycle for each council, the Commission will address the *Relevant Matters*, which are:

- material amendments made or proposed to be made to the council's LTFP and IAMP and the council's reasons for those amendments
- revenue sources outlined in the funding plan (being a component of the LTFP) and
- any other matter prescribed by the regulations.

This will be informed by each council's own performance and financial trends, producing trend-based advice that will:

- support councils to make decisions relating to their annual business plans and budgets in the context of their LTFP and IAMPs, which together are foundational documents that set out how councils propose to manage their financial position and performance over the longer term, and
- assist councils to make appropriate decisions on the level of financial contributions to be made by ratepayers for the provision of services and infrastructure within the context of their LTFPs and the financing options available to councils (such as the use of borrowings or reserves).

In preparing this trend-based advice, the Commission will inform itself by reference to historical information (from 2011-12 onwards) that councils are already required to have under the Act, and to existing practices, procedures and protocols. In particular, it will have regard to three financial indicators specified in the *Local Government (Financial Management) Regulations 2011*: the operating surplus ratio, the net financial liabilities ratio and the asset renewal funding ratio. Since 2011, councils have been required to refer to these three indicators in their plans, annual budget, mid-year budget review and annual financial statements.

2 Introduction

Through amendments to the *Local Government Act 1999* (the LG Act), which came into operation on 30 April 2022, the South Australian Government has enacted a Local Government Advice Scheme (the scheme). The scheme involves the provision by the Commission of advice to councils in relation to their strategic management plans.

The scheme will benefit ratepayers by supporting councils' decision-making processes, affording ratepayers increased transparency and greater confidence that council operations are being undertaken on a long-term financially sustainable basis.

Importantly, the scheme implicitly recognises the ability of councils and their ratepayers to make decisions on the level and scope of services that the community might desire and for which it may be willing to pay. The advice to be provided under the scheme will provide independent and transparent information on matters which will be key to those discussions and decisions. The advice will also provide to ratepayers and other interested stakeholders an independent consideration of a council's plans, thereby adding value across local communities.

Equally importantly, the scheme and the advice under it are not in the nature of an 'audit' or any similar concept. Those are distinct activities for different and distinct purposes, with a backwards-looking focus; this scheme is for the purposes outlined above and, as explained in this document, is forward-looking in nature. Nor is the scheme regulatory in nature: it is an advisory scheme, rather than a compulsive one; councils are not required to follow the advice.

Under the LG Act, the Commission is responsible for developing and administering the scheme. In March 2022, the Commission commenced public consultation, through a Draft Framework and Approach document (Draft F&A), on how it proposed to undertake those statutory tasks. The Draft F&A focussed on explaining how the Commission proposed to understand and analyse strategic management plans so it can give the advice.

This paper sets out the Commission's final Framework and Approach (F&A) (refer Chapter 5), including responses to the submissions received through the consultation process and an explanation of any amendments made to its approach to developing and administering the scheme (refer Chapters 3 and 4).

2.1 Scheme overview

Under the scheme set out in section 122 of the LG Act, a council must, on or before 30 September in the relevant financial year for the council, provide to the Commission all relevant information on the following matters (the *Relevant Matters*) in accordance with guidelines determined by the Commission (if any):

- material amendments made or proposed to be made to the council's long-term financial plan (LTFP) and infrastructure and asset management plan (IAMP) and the council's reasons for those amendments
- revenue sources outlined in the funding plan (being a component of the LTFP) and
- any other matter prescribed by the regulations.

Following the provision of information by a council, the Commission, on or before 28 February in the relevant financial year for the council:

- *must* provide advice to the council on the appropriateness of the *Relevant Matters* (as defined above) in the context of the council's long-term financial plan and infrastructure and asset management plan (as this is a mandatory requirement it may be seen as the Commission's primary scheme statutory function under section 122(1f)(a) of the LG Act), and
- *may*, if the Commission considers it appropriate having regard to the circumstances of a particular council, provide advice in relation to any other aspect of the council's long-term financial plan and infrastructure and asset management plan (as this is a discretionary requirement it may be seen as the Commission's secondary scheme statutory function under section 122(1f)(b) of the LG Act).

In providing advice under section 122(1f)(a), the Commission:

- *must* have regard to the following objectives:
  - the objective of councils maintaining and implementing long-term financial plans and infrastructure and asset management plans, and
  - the objective of ensuring that:
    - the financial contributions proposed to be made by ratepayers under the council's long-term financial plan and infrastructure and asset management plan are appropriate, and
    - any material amendments made or proposed to be made to these plans by the council are appropriate.
- *may* have regard to any information or matter the Commission considers relevant (whether or not such information or matter falls within the ambit of the matters defined as *Relevant Matters*).

A council must ensure that the advice provided by the Commission under the scheme, and any response of the council to that advice, is published in the council's annual business plan (both the draft and adopted annual business plan) in the relevant financial year and each subsequent financial year (until the next relevant financial year for that council).

The *Relevant Financial Year* is the year in which a council goes through the scheme. The first cycle of the scheme is four years long, with around 17 councils going through the scheme annually, based on the current Schedule.

The scheme also provides two methods for the Commission to obtain information it requires.

First, under section 122(1e) of the LG Act, a council must provide to the Commission all relevant information on *Relevant Matters* on or before the end of September in a year when it goes through the scheme (and, if the Commission has made guidelines, then the council must follow those guidelines in doing so).

Second, under section 122(1j), the Commission can require a council to provide information in that council's possession, where the Commission reasonably requires that information for the performance of its functions.

In both instances, whether making guidelines or requiring other information, the Commission will give careful consideration to whether the information concerned is reasonable in terms of its primary and secondary scheme statutory functions.

2.2 Financial sustainability – LTFPs and IAMPs

The nationally agreed definition of financial sustainability for the local government sector is:

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

The Commission considered that concept in the context of three elements (the sustainability elements), have been developed by the local government sector, which are:

Program stability: This relates to the provision of reliable quality services over time, and requires a stable and consistent set of actions, from the perspective of day-to-day operations and infrastructure management.

Rate stability: This relates to charging ratepayers reasonably to fund the services, underpinned by the program of works noted previously (program stability). Rates should be stable, noting that stable does not mean fixed but rather the absence of large or unplanned year-on-year variances.

Intergenerational equity: This relates to fairly sharing services and the associated cost between current and future ratepayers. It requires adopting sound long-term financial management principles, particularly in relation to the balance between debt and cash in financing service delivery.

The sustainability elements should already be applied in practice. They encapsulate financial and service sustainability, cost control and affordability in a way which can be measured consistently on both a forward- and backward-looking basis, given their connection with the model accounting framework adopted. This provides a picture of how a council proposes to manage its ongoing financial and service sustainability, in the context of its past decisions, and the role that general rates, affordability and cost control will play.

The LG Act provides for a cycle of planning, aimed at embedding financial sustainability into a council's planning processes. It requires that a council must ensure the sustainability of its long-term financial performance and position.[1] Councils also need to have a Strategic Management Plan (SMP), including a LTFP and an IAMP, with both covering a period of at least ten years.[2] A council's Audit Committee must provide input to any review of SMPs.

Regulation 5(1) of the *Local Government (Financial Management) Regulations 2011* requires that a LTFP must include:

- a summary of proposed operating and capital investment activities presented in a manner consistent with the note in the Model Financial Statements entitled *Uniform Presentation of Finances*, and
- estimates and target ranges adopted by the council in each year of the LTFP, with respect to an operating surplus ratio, a net financial liabilities ratio, and an asset renewal funding ratio, presented in a manner consistent with the note in the Model Financial Accounts entitled *Financial Indicators*.

Further, the LTFP must include a statement[3] setting out the purpose of the LTFP, the basis on which it has been prepared (including key assumptions) and the key conclusions which may be drawn from the estimates, proposals and other information in the LTFP.

[1] Section 8.
[2] Section 122 (1a)
[3] This statement must be expressed in plain English and must avoid unnecessary technicality and excessive detail.

The LG Act requires an annual review of LTFPs.[4] As part of that review, a council's Chief Executive Officer must prepare a report on the council's financial sustainability.[5]

IAMPs are to be updated within two years after each general election of the council.[6]

2.3 Draft Framework and Approach

On 31 March 2022, the Commission published a *Local Government Rates Oversight Scheme: Draft Framework and Approach* (Draft F&A) for an eight-week consultation period, ending 27 May 2022. That document set out the Commission's:

- understanding and interpretation of the legislative framework enacting the scheme
- proposed analytical framework and approach for implementing the scheme
- proposed approach to information collection and information provision guidelines, and
- indicative cost estimates for administering the scheme, and options for recovering those costs.

The Commission also published a Schedule, which identified the year that each council would go through the first four-year cycle of the scheme (the *Relevant Financial Year* for each council).

Elements of the Draft F&A have already been updated during the process of preparing this F&A, reflecting the Commission's own work during that time. This includes having itself accessed historical financial and operational data (rather than requiring councils to do so) where that is available on the public record (e.g., council and other public websites) and commencing work with individual councils in anticipation of the scheme's commencement.

One further change, discussed with councils during the consultation process, is the name of the scheme. During the development of the scheme, it was generally referred to as a 'rates oversight' regime – and the Commission adopted that term for the Draft F&A.

It was noted during consultation that this term does not reflect the provisions of the scheme as set out in the LG Act. The Commission has therefore decided to change the term for its new role to 'Local Government Advice'. This change is reflected in this F&A and in the Commission's communication materials.[7]

2.4 Submissions

The Commission received 27 submissions to the consultation: one from the Local Government Association (LGA), one from the Local Government Financial Management Group (LGFMG), 24 from individual councils and one from a private individual.

Submissions expressed concerns that:

- the proposals in the Draft F&A are beyond the scope of that envisaged for the scheme under the LG Act
- the proposals are onerous on councils in terms of information provision and the use of council resources

[4] Section 122 (4)(a)
[5] Section 122 (4a)(a)
[6] Section 122 (4)(b)
[7] See, for example, the local government advice page on the Commission's website, which, along with information on the Commission's other advisory role (to Government), can be accessed via the 'Advice' tab on the home page of the Commission's website at www.escosa.sa.gov.au

- the proposals do not add any value to existing requirements and processes, and
- the Commission's proposed costs under the scheme are greater than expected.

These, and other specific concerns regarding the Draft F&A's proposals are discussed in detail in Chapter 4.

In summary, many of the matters raised focussed on a particular view of the legal operation and effect of the scheme and the Commission's powers under it. The Commission has considered the reasoning underpinning that view and, for the reasons set out in Chapter 4, it does not accept it.

2.5 Next steps

Having considered submissions and finalised the F&A, the Commission's focus moves to practical implementation of the scheme. Since the commencement of the relevant section of the LG Act in April 2022 (after the release of the Draft F&A), the Commission has collected much, but not all, of the historical quantitative information from 2011-12 onwards that it needs from councils' websites and other public sources, collating those for use in analysis for the preparation of advice.

It has also commenced discussions with individual councils, focussing on those for whom 2022-23 is the *Relevant Financial Year*, and it will continue to do so. The Commission thanks councils for the practical and pragmatic approach demonstrated in those discussions to date. Having obtained much relevant data and information already, the Commission will now work with individual councils on scheme implementation issues, including identifying any data or information gaps and verifying the data already obtained.

3 Background

This Chapter outlines the proposals and methodology set out in the Draft F&A, to provide context for the discussion of stakeholder submissions and the Commission's response to these in Chapter 4. In developing the proposed framework, the Commission had regard to a set of seven principles.[8]

3.1 Identifying risks, behaviours and establishing the baseline

The Draft F&A proposed that, in forming its advice, the Commission would assess the LTFP and IAMP, and any material changes proposed, with respect to cost control, affordability and sustainability risk. This is because any council will find it challenging to develop a robust long-term financial and service sustainability strategy if the costs associated with the services it delivers, given the infrastructure used to deliver them, do not reflect its ratepayers' financial capacity.

This notion of risk relates to a council's behaviour. The LTFP and IAMP forecast a council's intentions, which is its planned behaviour, while historical information provides evidence of actual behaviour. Further, historical behaviour directly influences the LTFP and IAMP because it affects their respective starting points. Given this, to advise on the *Relevant Matters* as required under the scheme, the Commission explained how it would establish and interpret a set of baseline information, which would allow it to understand the origins of a council's current LTFP and IAMP and any material changes it might propose to those.

3.2 Existing financial indicators

The draft proposals and methodology built upon existing practices and information. It was noted that the LGA considers that performance, relative to the definition of financial sustainability, is encapsulated in the operating surplus, net financial liabilities, and asset renewal funding ratios, as specified in the *Local Government (Financial Management) Regulations 2011* (see Appendix 1 for a summary description of each ratio). These financial indicators were proposed to be used as the starting point in understanding a council's performance.

3.3 The Model Financial Statements

These financial indicators are specific to the local government sector. Adoption of the Model Financial Statements since 2007-08 results in the financial statements of South Australian councils being prepared in a consistent manner, from both a definitional and detail perspective, allowing tracking of the calculation of the financial indicators through the three principal financial statements (the statements of comprehensive income, financial position, and cash flows). This applies to both historical information and to each council's forward-looking LTFP,[9] allowing linkage of a council's forward-looking projections to its historical performance and position.

[8] Those principles are set out in the Executive Summary and Chapter 5. There were slight amendments to Principles 2 and 5 based on submissions. For Principle 2, the amendments separated out the consideration of existing and new assets. For Principle 5, the amendments clarify that the LGA does not collect data but provides guidance materials.

[9] The Commission notes that the regulation 5(1) of the *Local Government (Financial Management) Regulations 2011* specifies that the LTFP must include a summary of proposed operating and capital investment activities (regulation 5(1)(b)) and estimates and target ranges for all three key financial indicators (regulation 5(1)(c)). To prepare these forecasts, information must be drawn from all three principal financial statements - the statement of comprehensive income, statement of financial position, and statement of cash flows.

3.4 The overarching analytical framework

The existing financial indicators and the Model Financial Statements were proposed as the basis for an overarching analytical framework for the first cycle of the scheme. The Commission noted that the three financial indicators encapsulate each council's approach to its LTFP and IAMP – and hence to financial and service sustainability, cost control and affordability.

Measurement of the financial indicators is consistent on both a forward- and backward-looking basis, given their connection with the Model Financial Statements. It captures a council's actual practical business operations historically and its expected future business operations on the same basis. This provides a picture of how a council seeks to manage its ongoing financial and service sustainability, in the context of its past decisions and the role that general rates, affordability and cost control will play.

The Commission noted that, if future business operations are underpinned by robust, transparent LTFPs and IAMPs that are:

- consistent with each other
- that focus on financial sustainability, cost control and affordability, and
- implemented and appropriately monitored,

then a council will likely exhibit strong future performance with respect to all three financial indicators. The further a council might deviate from those practices, the less likely those outcomes, and the greater the risk to long-term financial and service sustainability, and for ratepayers.

3.5 Implementing the overarching analytical framework

The overarching analytical framework is conceptual. In practice, the Commission proposed bringing together a set of relevant information and an analytical process applied consistently across councils, assisting it to consider the following questions in the context of the statutory provisions of the scheme:

- Are a council's LTFP and IAMP robust, consistent with each other and successfully implemented, with actual performance relative to plans monitored?
- Does the LTFP and IAMP, and the implementation of those plans, ensure the sustainability of the council's long-term financial performance and position?
- What are the implications of the above for a council's long-term financial sustainability and service risk profile, and the consequent appropriateness of the path projected for general rates?

3.5.1 Information used in applying the analytical framework

The Commission proposed to use the following information in applying the analytical framework. Existing information relates to that already in a council's possession, that the Commission reasonably requires under section 122(1j) of the LG Act, or information available from other sources. Revised information relates to information provided under section 122(1e) of the LG Act where a council has made or proposes to make material revisions to its LTFP and IAMP, or other information that the Commission reasonably requires under section 122(1j) of the LG Act.

Table 2: Information requirements for the Draft F&A

Existing information	Revised information
From councils *Quantitative* ▶ Annual Model Financial Statements from 2007-08 ▶ Annual FTEs from 2007-08 ▶ Annual rateable properties from 2007-08 *For the year prior to the Relevant Financial Year (or most current)* ▶ LTFP and IAMP empirical information *Qualitative* *For the year prior to the Relevant Financial Year (or most current)* ▶ LTFP documentation/explanation ▶ IAMP documentation/explanation ▶ CEO financial sustainability report ▶ Audit committee reports on the LTFP and IAMP ▶ How a council measures performance to plans ▶ How a council accounts for affordability ▶ A council's consultation process for its LTFP Other sources ▶ LGFA information on a council's ability to use debt ▶ Historic and forecast CPI ▶ The SEIFA index of economic resources	From councils *Quantitative* ▶ Revised LTFP and IAMP empirical information ▶ Revised FTEs ▶ Revised annual rateable properties *Qualitative* ▶ Revised LTFP documentation/explanation ▶ Revised IAMP documentation/explanation ▶ Council's explanation for material variations ▶ Any other material a council considers relevant

An Information Provision Guideline, which followed the structure of the Model Financial Statements, including a proforma to structure empirical information provision, was provided.[10] The Commission proposed the provision by a council to it of **existing** information by end-August of its Relevant Financial Year, with the **revised** information required by end-September of the Relevant Financial Year.

3.5.2 Questions for the Commission to ask itself in applying the analytical framework

The Commission set out, for information and transparency, 29 key questions that it intended to ask itself in preparing advice. These related to the operating surplus, net financial liabilities, and asset renewal funding ratios, to help the Commission understand any risks or behavioural patterns that might be of use in forming advice to councils, in the context of the statutory terms of the scheme.

[10] The Guideline covered (and will cover) the requirements under section 122(1e), dealing with the manner and form in which the *Relevant Matters* are to be provided by councils, and section 122(1j), dealing with other relevant information that the Commission requires for the performance of its scheme functions.

Table 3: Objectives of the key questions

Financial ratio	Objective
Operating surplus ratio	To understand what is driving a council's operating surplus ratio and the extent to which this indicates potential concerns regarding affordability and cost control risk.
Net financial liabilities ratio	To understand what is driving a council's net financial liabilities ratio and the extent to which this indicates potential concerns regarding financial and service sustainability risk.
Asset renewal funding ratio	To understand what is driving a council's asset renewal funding ratio. This relates to assessing the consistency of the LTFP and IAMP, and the extent to which these appropriately reflect actual asset condition. This has implications for financial and service sustainability, as well as affordability and cost control risk.

3.5.3 The analytical process

The analytical process explained how the Commission would address the 29 key questions, using graphs and accompanying commentary, based upon the existing information.

This approach is, in the Commission's experience, more accessible to stakeholders. It makes clear any trends in a council's actual and expected behavioural patterns, based upon the council's own information and evidence, providing a pictorial baseline representation. This then informs the consideration of the appropriateness of any material changes to a council's LTFP and IAMP, as envisaged under the LG Act.

A worked example of the Commission's internal analytical process and how it links back to the key questions and financial indicators was provided. It included graphs that scale/normalise aggregate information by the number of rateable properties to provide average per rateable property figures. It also included graphs comparing actual and forecast information relative to the rate of change in the Consumer Price Index (CPI).

3.6 Provision of advice

The Commission noted that, for the first cycle, its advice will set out trend information (the baseline), to give context to councils' forward-looking plans, and identify areas that may benefit from further consideration by a council, focussing on:

- the appropriateness of a council's LTFP and IAMP, any material amendments to it, and the proposed path for general rates and other revenue sources
- the long-term financial and service sustainability, cost control and affordability risk considered to exist, based on implementing the analytical framework,[11] and
- any other factors the Commission might consider relevant.

[11] The quantitative long-term trend analysis enables the advice to provide an overarching picture of any potential cost control, affordability, and sustainability risk, based upon actual performance and forecast performance. Further, the advice can use available qualitative information regarding a council's SMP, its current CEO sustainability assessment and its approach to setting rates to identify how any risks identified in the quantitative assessment are managed/mitigated, creating opportunity for councils to consider those matters as needed.

This approach will identify the extent to which there are potential issues with the council's approach to managing cost control, affordability, and sustainability risk. This, in turn, allows the advice to reference the extent to which a council's price path for general rates might be appropriate in that council's overall context.

The Commission also noted that the advice may provide its view on the potential actions a council might take to mitigate/manage any identified risk. At the same time, the Commission observed that the advice cannot require councils to take specific action, nor would the advice approve (or otherwise) specific expenditure, programs, or projects: those being matters for councils' own decision-making processes.

3.6.1 Process

The Commission proposed publishing all advice in full, as anticipated by the LG Act.[12] It also noted that a council provides services subject to limited or no competition to ratepayers in its region. Ratepayers directly contribute to the financing of those services, generally with no other choice of supplier. Their financial contributions are based directly upon the plans developed and implemented by the council.

In those circumstances, the Commission out the view that publication of the advice in full would be in the public interest and not constitute commercially sensitive information. The Commission also noted that, under section 122(1h), a council may, if it chooses to, respond to the advice, with that response also published.

3.7 Scheme costs

Indicative cost estimates for the first four-year cycle of the scheme were provided. The indicative total cost per council over the first four-year cycle was $52,133.

The Commission noted that delivering the proposed analytical framework and the scheme in the manner envisaged in the legislative reforms requires skilled resources. This assures ratepayers, councils and the South Australian Government that the advice provided is based upon an appropriate level of expertise.

It was noted that the costs were indicative, as the cost involved in implementing the scheme will become clearer after the completion of the first cycle of the scheme.

3.7.1 Allocating costs and billing

Two options were proposed for the billing and allocating of cost across councils.

- Option 1: The Commission bills each council directly its share of the costs at the end of the first quarter of the financial year, with one month within which to pay the outstanding bill. Costs are split equally across the 68 councils, given there is no evidence to indicate that it will not take the same amount of effort per council to implement the scheme, regardless of a council's size.
- Option 2: The Commission bills the LGA its yearly total cost, the LGA pays this on behalf of councils, with the LGA splitting the cost between councils on a basis agreed between the LGA and the councils.

[12] Refer sections 122(1h) and 122(1i).

4 Discussion of submission themes

Common themes in submissions were that the Commission's proposed methodological approach went beyond the scope of that envisaged by the LG Act, would be onerous on councils in terms of information provision and resources, would not add any value to existing requirements and processes and would increase the per council costs of the scheme to a level beyond that expected by those who made submissions.

These matters are discussed below on a thematic basis, along with the Commission's response.

The Commission has given consideration to and acknowledges all arguments and submissions made through the consultation process. While it has not adopted all positions put, all submissions have assisted the Commission to consider each of the relevant issues under consideration and to understand the competing viewpoints held.

4.1 Summary of Commission's final position

After consideration of the responses to the consultation, the F&A in its final form broadly aligns with the Draft F&A, with the main changes being:

- The evidence base to be used in the preparation of advice for each council will be developed by the Commission accessing readily available material on the public record, such as via websites, rather than by requiring councils to submit that information (albeit it may ask individual councils for historical information where there are 'gaps' in the public record).
- The Commission will utilise historical information from 2011-12, rather than 2006-07 as proposed in the Draft F&A, in that evidence base.
- The Commission will distribute the annual costs of the scheme amongst councils based on the LGA Membership Fee split, rather than equally distributed across councils, with the Commission annually billing each council separately.

4.2 The scope of the legal framework

Submissions provided views on the legal framework, its evolution and how the Commission should interpret the legislation.

In summary, the Commission's understanding of the central argument put forward is that the Commission can only consider a council's LTFP and IAMP, as they stand and any material variations thereof, when formulating its advice on the *Relevant Matters*. This implies the Commission is constrained to only using the LTFP, IAMP and any identified material variations provided by the council as its information sources, and that the advice can only relate to the *Relevant Matters*.

4.2.1 Consideration

The Commission considers that the legislative framework, as enacted by Parliament on 22 June 2021, is the source of the Commission's powers and functions for undertaking its advisory function. The interpretation put forward in submissions does not account for the following aspects of the legislative scheme:

- In addition to its primary purpose of providing advice to a council on the appropriateness of the *Relevant Matters* in the context of the council's LTFP and IAMP, the Commission also has a discretion to provide advice on any other aspect of the LTFP and IAMP, if it considers doing so to be appropriate having regard to the circumstances of the council (section 122(1f)).

- In providing advice, the Commission must have regard to the objective of councils maintaining and implementing LTFPs and IAMPs (section 122(1g(a)). It must also have regard to the appropriateness of the financial contributions proposed to be made by ratepayers under the LTFP and IAMP and any amendments to those plans (section 122(1g(b)).
- A council must provide all relevant information on the *Relevant Matters* on or before 30 September in the year in which it is to go through the scheme and must do so in accordance with any guidelines determined by the Commission (section 122(1e)).
- Further, having regard to its statutory functions and the circumstances of the relevant council, the Commission may by written notice require a council to submit to it any information in the council's possession that the Commission reasonably considers relevant to the performance of its scheme function, regardless of whether it falls within the ambit of the *Relevant Matters* (section 122(1j)).

The above aspects are important in identifying the actual scope of the Commission's legislative functions, the advice it must (and may) provide and the information upon which that advice can be based. This is broader than the interpretation suggested in submissions. When providing its advice, the Commission will have regard to the importance/value of specific information and its overall relevance and will be mindful of the potential impost on Councils in providing that information.

4.3 Disproportionate focus on rates

Submissions put the view that the Draft F&A had a disproportionate focus on rates, at the expense of other revenue sources.

4.3.1 Consideration

The Commission considers that the methodology places appropriate weight on general rates in the context of the LTFP and IAMP. The legal framework requires the Commission, in providing advice, to have regard to the appropriateness of the financial contributions proposed to be required of ratepayers (which comprises rates and specific service charges).[13]

Under section 122(1g) of the LG Act:

> *(1g) In providing advice under this section, the designated authority—*
>
> *(a) must have regard to the following objectives:*
>
> *(i) the objective of councils maintaining and implementing long-term financial plans and infrastructure and asset management plans;*
>
> *(ii) the objective of ensuring that the financial contributions proposed to be made by ratepayers under the council's long-term financial plan and infrastructure and asset management plan are appropriate and any material amendments made or proposed to be made to these plans by the council are appropriate; and*
>
> (emphasis added)

Bearing that in mind, and to give context to the submissions, it is noted that the Draft F&A set out 29 questions the Commission proposed to use to assess an LTFP and IAMP; of those, five directly relate to operating income sources.[14]

[13] The Commission notes a council can use a range of charging structures. The Commission's advice relates to all financial contributions made by ratepayers, not just rates.
[14] Refer Chapter 5, section 5.3

The presentation of the analytical framework in the Draft F&A included 25 graphs proposed to be used by the Commission to assist *it* in identifying any long-term trends and behavioural patterns in the drivers of the operating surplus, net financial liabilities and asset renewal funding ratios, and a council's asset stock and borrowings.[15] Of those, only two specifically considered rates: one to identify long-term trends in the proportion of rates with respect to total operating income and one relating to long-term trends in average rates per rateable property.

The Commission's focus is on seeking to understand the role that rates have played and are expected to play in councils' plans, which is consistent with the statutory terms of the scheme.

4.4 The use of historical information

Submissions expressed various concerns with the proposed use by the Commission of historical information, such as:

- The information required is beyond the scope of the legislative requirements.
- Requiring that historical information be provided before end-September is beyond the scope of the legislation (councils have until end-September to provide the relevant information).
- Model Financial Statements dating back to 2007-08 are of limited relevance and completing the Excel proforma represents a significant cost to councils and the recreation of information. This contradicts Principle 5 (as set out in the Draft F&A). Further, councils are only required to keep information for seven years.
- If historical data is to be used it should only go back for a shorter period, somewhere between one and ten years, with many submissions suggesting four, on that basis that this is more reflective of existing practices, with the information being of better quality.
- Providing information from 2007-08 in relation to CEO financial sustainability and audit committee reports, and the council's approach to consulting with its constituents, is not relevant.

4.4.1 Consideration

The Commission will use Model Financial Statements dating back to 2011-12 rather than 2007-08, noting that timing is broadly consistent with the commencement of the three financial indicators specified in the *Local Government (Financial Management) Regulations 2011*. In doing so it will explore the data to understand any anomalies, statistical departures, and the reasons for them. This establishes an historical baseline from which to observe any behavioural patterns in a council's historical approach to managing and maintaining services delivered using long-lived assets, when assessing and advising on LTFPs, IAMPs and any material variations proposed.[16]

Since the release of the Draft F&A and the commencement of the relevant section of the LG Act, the Commission has commenced collecting historical information, primarily relating to historical Model Financial Statements, from councils' websites and other public sources, reducing the burden on councils.

As a result, in relation to historical data, the Commission will limit requests to specific councils to address any information 'gaps' in the record from 2011-12 onwards, that the Commission considers relevant when undertaking its function under the LG Act. The Commission will work with councils to verify the information it has collected.

[15] Refer Appendix 2 for details of the graphs.
[16] Refer section 4.7 below for a detailed discussion on the issue in the context addressing submissions on the asset renewal funding ratio.

This is consistent with the approach adopted by the Commission for councils over the past year in relation to historical operational and performance data for their water and wastewater regulatory activities. That process, which covered much more detailed information sets (financial, operational, usage, and pricing information) than those under consideration in this scheme, provided greater visibility of long-term trends to council staff.

Once the historical information is collected, collated, and verified that task is not required again – the Commission will simply update the relevant information each year as that information becomes available.

The Commission's responses to specific issues raised regarding the provision and use of historical data are set out in the table below.

Table 4: Historical information

Issue	Commission consideration
Requiring historical information be provided before end-September is beyond the scope of the legislation. Councils have until end-September to provide the relevant information.	The end-September date relates to when councils are required under section 122(1e) of the LG Act to provide to the Commission information on *Relevant Matters*, noting that a council can provide this information earlier. The Commission has no discretion to vary this timing. In accordance with section 122(1j), the Commission considers that historical information is required for the performance of its functions under the scheme. This information should be able to be provided earlier by councils (given it is historical in nature) albeit it may be stored or archived. Given the Commission's revised approach to obtaining historical information, the level of effort for councils in providing the information is reduced.
Completing the Excel proforma represents a significant cost to councils. Councils are only required to keep information for seven years.	The Commission now intends to complete this work using its own resources. The Commission will collate this information and liaise with each council to see if any missing information can be obtained (or if there are reasons why it is not available). As noted above, this process has already started. Each Council will be provided with the complete set of its historical information and an opportunity to check and verify it, if it so wishes.
Information from the Model Financial Statements from 2007-08 is of limited relevance. More recent information reflects existing practices, with the information being of better quality.	The Commission will use information from 2011-12 because: ▶ That timeframe is broadly consistent with the commencement of the three financial indicators specified in the *Local Government (Financial Management) Regulations 2011*. ▶ Time series information provides insights into behaviours and practices. This is particularly relevant in the context of operating, maintaining, and renewing long-lived asset stocks, which councils do. ▶ The Commission will take the quality of information into account, noting that all Model Financial Statements have been formally audited and signed-off.

Issue	Commission consideration
CEO financial sustainability and audit committee reports from 2007-08 are not relevant.	For clarification: the Draft F&A proposed to use the *current* CEO financial sustainability and audit committee reports to inform the Commission's understanding of the extent to which the objective of councils maintaining and implementing LTFPs and IAMPs is or will be met (LG Act, section 122(1g)(a)(i)). No historical information on those matters is required. This will be clarified further in any revised information provision guidelines.
Historical information from 2007-08 regarding the council's approach to consulting with its constituents, is not relevant.	For clarification: the Draft F&A proposed using the most current information to inform the Commission's understanding of the extent to which the objective of ensuring that ratepayers' financial contributions are reasonable is or will be met (LG Act, section 122(1g)(a)(ii)). No historical information on those matters is required. This will be clarified further in any revised information provision guidelines.

4.5 Forward-looking information

Submissions put the view that forward-looking information should reflect the information contained in the Uniform Presentation of Finances and the ratios, not that contained within the Model Financial Statements and the ratios.

The LGA, the LGFMG and most councils submitted that the Commission can meet the intent of the scheme through councils' compliance with regulation 5(1) of the *Local Government (Financial Management) Regulations 2011*.[17]

4.5.1 Consideration

The Commission has carefully considered the submissions made and, for the reasons set out below, has decided to largely maintain the approach to the LTFP as set out in the Draft F&A. That is, councils should provide the forward-looking information in a manner consistent with the Model Financial Statements and include forecasts of the number of rateable properties and council FTE. The relevant information relates to information provided under section 122(1e) of the LG Act where a council has made or proposes to make material revisions to its LTFP and IAMP, or other information that the Commission reasonably requires under section 122(1j) of the LG Act for the performance of its functions.

The Commission has accepted that the information relating to the Note 2 breakdown of income, which breaks income down to a lower level of detail than that included in the Statement of Comprehensive Income in the Model Financial Statements, can be removed.

For subsequent cycles of the scheme, forward-looking information requirements will be assessed to identify if they can be changed; however, it remains relevant and appropriate to establish a robust baseline of evidence and information at scheme commencement.

In terms of the submissions urging reliance on the Uniform Presentation of Finances (Note 16 of the Model Financial Statements), the Commission observes that this would result in it assessing information on the following basis.

17 Refer section 2.2 above.

Table 5: Uniform Presentation of Finances

	Category
	Operating surplus/(deficit)
a	Income
b	Expenses
c	**Operating surplus/(deficit)** (c = a – b)
	Net outlays on existing assets
d	Capital expenditure on renewal and replacement of existing assets
e	Depreciation, amortisation, and impairment
f	Proceeds from sale of replaced assets
g	**Net outlays on existing assets** (g = d – e - f)
	Net outlays on new and upgraded assets
h	Capital expenditure on new and upgraded assets
i	Amounts received specifically for new and upgraded assets
j	Proceeds from the sale of surplus assets
k	**Net outlays on new and upgraded assets** (k = h – i - j)
l	**Net lending/borrowing for the financial year** (l = c + g + k)

This is a simplified form of a cash flow statement, providing a high-level summary only of a council's finances. Were the Commission to adopt it, it is of the view that the following difficulties would arise:

- The Statement of Comprehensive Income in Model Financial Statements splits income into the following sources: Rates; Statutory Charges; User Charges; Grants, Subsidies and Contributions; Investment Income, Reimbursements; Other Income; Net Gain-Equity Accounted Council Businesses.

  Under the Uniform Presentation of Finances, that split would not be known. As such, there would not be sight of the split between general rates and other revenue sources over the terms of an LTFP (which presents difficulties in terms of the statutory objective of ensuring that ratepayers' financial contributions are reasonable (LG Act, section 122(1g)(a)(ii))).

  This, in combination with no information on how the number of rateable properties will change over the LTFP, means the Commission would not be in a position to understand how average general rates per rateable property was expected to evolve.

- The Statement of Comprehensive Income in the Model Financial Statements splits expenses into the following cost categories: Employee Costs; Materials, Contracts and Other Expenses; Depreciation, Amortisation and Impairment; Finance Costs; Net Loss-Equity Accounted Council Businesses.

  Again, under the Uniform Presentation of Finances, that split between the expense categories would not be known, excepting depreciation. As such, there would be no visibility of what is driving any changes in the cost base. Further, it would not be possible to identify how expenses per rateable property was expected to evolve, either in aggregate or by cost category.

- The projected value of the asset stock is not known, nor is the forecast of number of rateable properties. So, it would also not be possible to identify growth in the asset stock value per rateable property that ratepayers will be required to replace/renew over the 10-year horizon of the LTFP and beyond.

- There is no information regarding the role of borrowing in financing the LTFP, nor the extent to which the council will, or will not, hold cash and cash equivalents. This may, however, be partially resolved if the components of the net financial liabilities ratio[18] and borrowings are forecast and accessible.

Overall, the Commission is of the view that, were the approach urged by submissions to be adopted, it would not have access to relevant information which it considers appropriate to rely upon in preparing suitably evidenced-based advice for the purposes of the scheme. The Uniform Presentation of Finances is too narrow to provide a comprehensive picture of any potential sustainability, cost control and affordability risks.[19]

When undertaking this analysis, and relevant to the statutory objective of ensuring that ratepayers' financial contributions are reasonable (LG Act, section 122(1g)(a)(ii)), the Commission noted that *not all* councils identify the implications of the LTFP for general rates per rateable property. The work also suggested that the level of detail provided in LTFPs across councils varies, with ratepayers of different councils having access to differing degrees of information.

The Commission notes that it may well be considered a backwards step if, for the purposes of the scheme, a lesser standard of information provision than that currently attained by some councils be used. Instead, it would be more beneficial to work with those councils whose LTFPs are not based upon the required level of detail for the purposes of the scheme. This will assist ratepayers throughout South Australia having access (over time) to the same level of information (a matter which the Commission considers relevant under section 122(1g)(b) of the LG Act), subject to its relevance for a particular council.

In terms of the target ranges of key financial indicators, while regulation 5(1)(c) of the *Local Government (Financial Management) Regulations 2011* allows councils to set their own target ranges, the Commission has adopted the LGA target ranges as a basis for its analysis. These were established/agreed during the development of the LGA Financial Sustainability Papers (2006-2011). At the same time, the Commission notes that the targets for individual councils may differ for good reason and, when preparing advice for a council, will have regard to any information submitted by a council in that regard.

Finally, the Commission again notes that, for subsequent cycles of the scheme, forward-looking information requirements can be reassessed to identify if they can be changed.

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[18] The net financial liabilities ratio is defined as follows: *Net Financial Liabilities* divided by *Total Operating Income*. Where *Net Financial Liabilities* is *Total Liabilities* less *Current Assets (Cash and Cash Equivalents)* less *Current Assets (Trade and Other Receivables)* less *Current Assets (Other Financial Assets)* less *Non-Current Assets (Financial Assets, excluding equity accounted investments in council businesses)*.

[19] The Commission notes the LGA provided an alternative approach to implementing the scheme based upon adopting the Uniform Presentation of Finances (with a more detailed income breakdown) and the three ratios. For the reasons outlined in Section 4.5.1of this document, the Commission considers this proposal too narrow.

4.6 Removal of council's discretion, indexation, and scaling

The Draft F&A proposed use of the number of rateable properties to provide averages per rateable property for general rates revenue, expenses and the value of the asset stock. It also proposed use of the CPI for real and nominal dollar terms comparisons on a per rateable property basis, in a way that seeks to be accessible and meaningful to stakeholders external to a council, such as ratepayers. While the Commission considered the Local Government Price Index (LGPI), it noted that index was less meaningful for ratepayers.

Submissions put the following views:

- That the use of CPI in the Draft F&A would have the effect of removing council discretion. That is, it has been interpreted that this would require a council to use CPI for its LTFP assumptions. It was submitted that this is inappropriate, as councils might use the LGPI, a Wage Price Index, CPI, or some other assumptions in an LTFP.
- Objection to the use of the phrase 'CPI-constrained' in various graphs within the Draft F&A, again taking this to suggest that the Draft F&A was imposing the use of CPI. This was considered, by some, to effectively be rate-capping, as councils would have to justify proposed increases above CPI.
- That the notion of average rates per rateable property would be confusing to ratepayers. This is because it would not directly correlate to the specific rates charged, as these are based on property valuations and type. As a result, they put the view that excluding this from analysis should be considered.
- That the Adelaide CPI be adopted rather than the Australian CPI.

4.6.1 Consideration

It is critical to note, as explained at the outset, that the Commission's role under the scheme is not regulatory. It cannot define or require any assumptions to be used within a council's LTFP, nor does the Commission's advice endorse any assumptions that a council adopts in its LTFP. The Commission's view therefore is that the use of CPI for reference purposes does not erode council discretion. The approach proposed provides greater transparency for ratepayers and aligns with councils explaining why their plans are in the long-term interests of ratepayers.

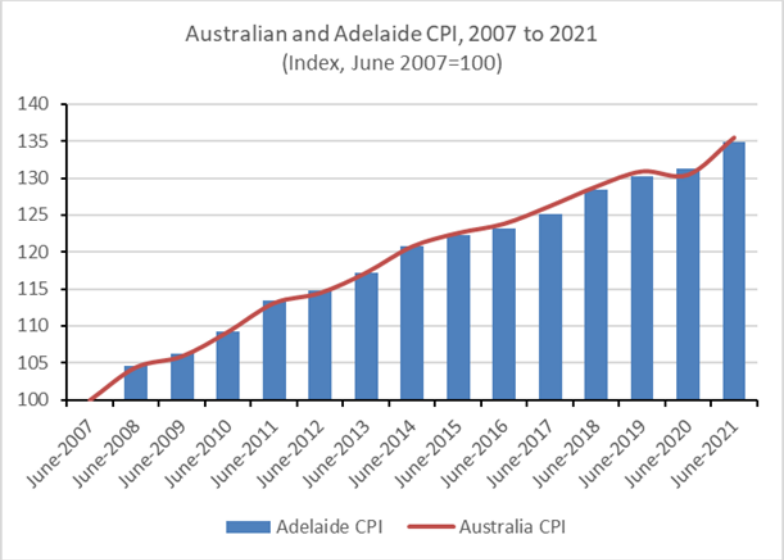
To the extent that there is concern over the use of the term 'CPI-constrained', the Commission will use a different term in the advice, reflecting the CPI path and noting that the CPI metric is of use to ratepayers in considering information.

In relation to the LGPI generally, the Commission will consider using that metric alongside the CPI metric in the advice, where relevant. In doing so the Commission acknowledges that the LPGI seeks to reflect the sector's rate of change in input costs, while noting further investigation would be necessary to assess whether it reflects prudent and efficient costs. Putting both indices on certain charts and graphs within advice may provide a more comprehensive and balanced picture from a council's perspective, while also providing ratepayers with an indication of the extent to which changes in South Australian local government sector costs deviate from CPI, which remains the measure most relevant to their circumstances. This may encourage more transparent and focused discussion on the trade-off between cost control and affordability, in the context of a council's LTFP and IAMP.

In relation to the submissions suggesting the use of average rates per rateable property may be confusing to ratepayers, the Commission agrees that any commentary in the advice should highlight that an average does not reflect any specific ratepayer's actual or forecast charges. In the Commission's experience, the use of averages is well-understood within the community (in relation to costs such as energy and water).

Finally, the Commission intends to use the Australian CPI from a historical and forecast perspective, noting that historically the difference between it and the Adelaide CPI is immaterial and there is no reason suggesting this will change. Also, the Commission considers that Australian CPI is based upon a broader database, undergoes greater scrutiny and there is more forecasting available.

Figure 1: Historical Australian and Adelaide CPI[20]



4.7 Asset renewal funding ratio

The Draft F&A adopted two definitions of the asset renewal funding ratio:[21]

- Depreciation based definition: The asset renewal funding ratio is net asset renewal expenditure divided by depreciation.

Councils used this definition until 2012, at which time they replaced it with the following:

- IAMP based definition: The asset renewal funding ratio is asset renewal expenditure divided by IAMP renewal expenditure.

The Draft F&A proposed utilising both ratios on an annual and cumulative basis.

Submissions put the view that it is not appropriate to use the definition based upon depreciation. This is because councils have moved away from using it and annual depreciation charges need not align with annual renewal/replacement capital expenditure and, cumulatively, they need not align over the LTFP.

[20] Based on the ABS all groups CPI for Australia and Adelaide.
[21] Prior to 2018 this was the asset sustainability ratio.

4.7.1 Consideration

The Commission agrees that annual renewal/replacement capital expenditure does not have to match the annual depreciation charge and that cumulatively they need not align over the LTFP, given the LTFP only covers a ten-year period. The purpose of considering the ratio in both forms over the long term is to obtain an understanding of a council's behavioural approach with respect to:

- the long-term trade-off between capital expenditure on the renewal/replacement of existing assets, capital expenditure on new/upgraded assets and depreciation, and its relationship with sustainability, cost control and affordability risk, and
- aligning the asset lives used in the Model Financial Statements with those used in the IAMP (refer to Box 1 below).

Looking at long-term trends from a historical and forward-looking perspective, develops a picture of a council's behavioural type, both actual and forecast. There are two hypothetical extremes.

- Type 1: A Council primarily focuses on new/upgrade capital expenditure, with depreciation charges used in the financing of this.
- Type 2: A Council primarily focuses on renewal/replacement capital expenditure, with depreciation charges used in the financing of this.

These provide a way of characterising whether a council's behaviour trends towards Type 1 or 2 based on the evidence available. The two approaches to measuring the asset renewal ratio are relevant to informing this.

Type 1 behaviour may provide more or improved services often via new facilities. It channels cash inflows associated with depreciation into financing new/upgrade capital expenditure along with a combination of grants, loan financing and reserves. Cash inflows associated with depreciation otherwise available to manage future renewal/replacement capital expenditure are diverted.

This results in the physical asset stock increasing, so the future replacement/renewal capital expenditure and depreciation charge is increasing. All else equal, to obtain an operating surplus ratio of zero (the breakeven point, given the definition of the ratio used) revenue will have to rise, causing rates and charges to increase, if no other income source is available. Also, for the reasons set out in Box 1 below, an amplification of this may occur if the depreciation charge collected reflects shorter asset lives than those used in the IAMP.

If this behaviour persists it can create a cycle of financing increasing costs through increasing rates and charges.[22] Further, to limit increasing rates and charges, postponing renewal/replacement capital expenditure may occur. Overall, such a cycle may not be in the long-term interests of ratepayers or a council.

Type 2 behaviour focuses on renewal/replacement capital expenditure, rather than upgrades/new assets. This does not result in the same cycle as described for Type 1 behaviour. The existing asset stock does not increase to the same level, with existing service levels maintained. There is less pressure to increase rates and charges to cover rising costs.

[22] South Australian councils do not face the same constraints on revenue generation as companies operating in competitive markets, or revenue/price-controlled companies.

Box 1: Depreciation and IAMP replacement/renewals costs

Considering the asset renewal funding ratio using both approaches is useful because:

- Using both depreciation and the IAMP replacement/renewal capital expenditure approaches for the asset renewal funding ratio, provides a way of considering the difference between the cumulative depreciation allowance collected and cumulative capital renewal/replacement expenditure.
- If this difference widens over the long-term time series constructed, this may suggest the underlying asset lives assumed for calculating depreciation and asset renewal are misaligned. That is, the asset lives used in compiling the detailed breakdown of the asset stock in the asset register do not match those in the IAMP. Why they should differ is not clear, so whether this is the case needs consideration.
- From an asset management perspective, the Commission considers that replacement/renewal capital expenditure in an IAMP should be based on an asset condition assessment (that reflects the size of the council and need not be complex). Asset life alignment means reflecting this in the asset register and the depreciation calculations. Then the asset lives within the asset register feed into the depreciation calculations and match those used in the IAMP. This links the IAMP to financial performance.
- If, for a given asset, the asset life in the asset register is half that used for the IAMP, depreciation will be twice as high, relative to using the asset life associated with the actual asset condition. Other things equal, to obtain an operating surplus ratio of zero, general rates and charges will be higher because they need to cover twice the depreciation than would otherwise be the case. If this persists over time, the gap between cumulative depreciation and cumulative renewal expenditure can widen.

What happens to this additional depreciation-related cash inflow relates to the Type 1 and 2 behaviours outlined and the relative risks associated with each.

So, relating this to the two measures of the asset renewal funding ratio:

- Depreciation-based definition: This provides an indication, through time, of the difference between depreciation and capital renewal/replacement expenditure. This difference can flow into the balance sheet as cash/cash equivalents held, or into the cash flow as capital expenditure patterns across renewal/replacement and upgrade/new capital; or absorbed into operating expenses in the statement of comprehensive income. This relates back to trends in Type 1 and 2 behaviour.
- IAMP-based definition: This compares actual or forecast renewal/replacement capital expenditure with that in the IAMP. Historically, this provides evidence regarding the extent to which a councils' past behaviour meets, or otherwise, its own assessment of the replacement/renewal needs of its asset stock. Going forward, this provides a baseline forecast for the level of IAMP renewal expenditure and forecast renewal/replacement capital expenditure. This allows comparison with actual outcomes. This starts to build up a picture of whether renewal/replacement capital expenditure differs relative to that planned, and the reasons why this might be. Again, this may relate back to Type 1 and 2 behaviour.

4.8 Advice and timing

The LG Act stipulates the following dates within the scheme:

- By end-September of the relevant financial year, councils are required to provide to the Commission all information regarding the *Relevant Matters* (section 122(1e)).
- By end-February of the relevant financial year, the Commission is required to publish its advice for each council (section 122(1i)(a)).

The Draft F&A proposed that the advice is published, in full, with councils provided with the advice relevant to them by end-February. Under the LG Act (section 122(1h)), councils must publish the advice and any response in their annual business plan (in both the draft and the adopted versions).

Some submissions objected to those timings and process. Some put the view that the end of September is too early in their processes to provide information on material changes to a LTFP. Some suggested they should have sight of a draft of the advice for comment on errors of fact, prior to it being published.

Some also suggested that only an Executive Summary of the advice be published in a council's annual business plan, with the entirety of the advice being accessed via a link on the council's website. This submission was made on the basis that it would reduce the size of a council's annual business plan while allowing stakeholders access to the advice.

4.8.1 Consideration

While the Commission notes the submissions made, the dates and requirements are specified under the LG Act and the Commission has no discretion. For example, the suggestion that only an Executive Summary be published by a council appears to the Commission to be inconsistent with both section 122(1h) and section 122(1i) of the LG Act.

The Commission supports actions by councils which simplify annual business plans for ratepayers and, in that light, will make its advice as easy to understand and use as possible. This will include the use of graphical information and clear and simple language and expression.

In relation to the suggestion that a draft be available to councils for comment, given that the scheme is new for all parties, the Commission intends to work collaboratively with individual councils across the five-month period between end-September and end-February. This will support quick resolution of simple queries and provide councils with opportunities to provide feedback and input throughout the advice preparation process.

This approach will also provide Commission and council staff the opportunity to establish or strengthen working relationships – including education in both directions on matters relevant to the scheme's operation. This may have the effect of increasing the efficiency of operations over time and hence a positive impact on the costs of the scheme.

Finally, in terms of the opportunity to respond to the advice, the Commission notes that this is already provided for under the LG Act (section 122(1h)), under which councils must publish any response to the advice in their annual business plan.

4.9 Using the first cycle as a pilot and developing baselines

Some submissions put the view that the first cycle (or first year) of the scheme should be treated as 'pilot' in nature. It was submitted that the Commission should develop baselines and identify issues surrounding a council's LTFP and IAMP that could be considered for the subsequent cycle.

4.9.1 Consideration

The Commission agrees that it is important to establish a baseline for understanding, reviewing, and advising on a council's LTFP and IAMP. In that sense, the first cycle of advice will set a baseline, with advice in subsequent cycles able to draw on that baseline. However, the Commission has a legal obligation to give advice which meets the scheme's requirements, including in the first cycle.

4.10 Commission costs and approach to billing

In the Draft F&A, the indicative cost per council of the Commission administering the scheme was $52,133 across the first four-year cycle of the scheme.[23] This was based upon the total costs being allocated equally across 68 councils. Various issues were raised regarding this in submissions.

Some submissions did not consider it appropriate to transfer the costs of the scheme to ratepayers and that the Commission was not required to do this based upon the legislation. Other submissions considered it more appropriate that the State Government cover the costs of the function.

If the costs are to be passed on, submissions considered the cost per council excessive and driven by the fact that the Draft F&A over-scopes the Commission's role, thereby attracting greater costs than necessary on an ongoing basis. Submissions also considered that the development and set-up costs should not be passed on to councils, nor should the indirect costs. Only the direct costs associated with applying the scheme to a specific council could be passed on to that council. Submissions also stated that the cost should be in the region of $20,000 per council (a figure it attributed to the former Minister for Local Government); most councils were of similar views.

Submissions from smaller councils also focused on the fact that the cost per council disproportionately impacted them, relative to larger councils with more ratepayers. Meanwhile, submissions from some larger councils were more supportive of an equal split of the costs across councils. Various councils suggested costs might be split more equitably using a per rateable property basis, or some measure of the size of the council.

In terms of billing, the preference was for the Commission to bill each council separately. Some submissions also considered that a council should only be invoiced after being provided with the advice and the invoice should detail the charges (this related back to the position that a council should only be charged the direct costs relating to developing that council's advice).

4.10.1 Consideration

The Commission's costs in performing its functions under the scheme fall into two categories, which are covered by the broad term 'costs' in section 122(1k):

- Set-up and development costs: These relate primarily to the upfront and ongoing work taking place in 2021-22 and 2022-23 to develop the analytical framework used and the systems and capability to support it.
- Operational costs: These relate primarily to the annual costs of implementing the scheme. These primarily comprise staff and Commissioners costs but also include an allocation of overheads and other operating expenses.

The various matters raised in submissions are addressed below.

Councils bearing the Commission's scheme costs

Under section 122(1k) of the LG Act, the Commission may recover from a council (as a debt due from the council) the costs reasonably incurred by the Commission in performing its scheme functions in

[23] Refer Chapter 3, Table 4.

relation to that council. In performing those functions, the Commission necessarily incurs costs, both direct and indirect (including scheme establishment costs).

While the decision to recover costs from a council is, under the LG Act, discretionary on the part of the Commission, absent any other funding source it will need to exercise that discretion. At this time, the Government has not indicated that it proposes to otherwise fund the Commission's scheme role and functions.

Whether a council chooses to pass its allocation of the Commission's costs on to ratepayers, either in part or all, is ultimately a decision for that council.

Quantum of costs

In terms of the quantum of costs, the Commission has reviewed the indicative cost estimates in the Draft F&A, based upon a greater understanding of the ongoing requirements of operating the scheme. Estimated indicative costs for each of the first four years of the scheme, is now as follows:

Table 6: Commission's indicative costs for the first cycle to the scheme

2021-22 prices	2022-23	2023-24	2024-25	2025-26
Draft F&A				
Set-up and development costs	$157,667	$157,667	$157,667	
Operational costs	$768,000	$768,000	$768,000	$768,000
Draft total yearly costs	**$925,667**	**$925,667**	**$925,667**	**$768,000**
Draft total yearly cost per council	**$13,613**	**$13,613**	**$13,613**	**$11,294**
Draft total cost per council				**$52,133**
F&A				
Set-up and development costs	$157,667	$157,667	$157,667	
Operational costs	$688,674	$688,674	$688,674	$688,674
Total yearly costs	**$846,341**	**$846,341**	**$846,341**	**$688,674**
Total yearly cost per council	**$12,446**	**$12,446**	**$12,446**	**$10,128**
Total cost per council				**$47,466**

Indicative cost estimates for set-up and development costs remain unchanged, while estimates of operational costs have reduced by approximately $79,000 per year.

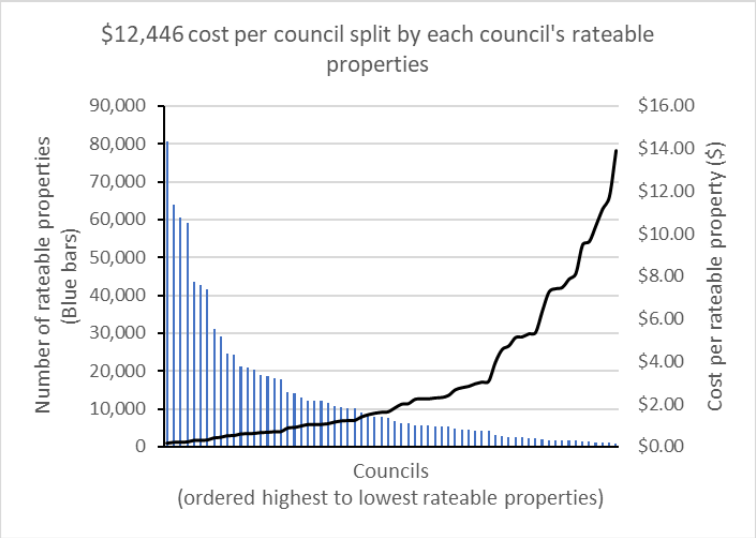
At this stage, the Commission can only proceed based on its best estimates of expected effort and cost. In particular, the degree of interaction with each council is unknown.

Cost distribution amongst councils

The Commission has considered the submissions addressing the proposed distribution of costs across councils as set out in the Draft F&A, which was on an equal basis, given that neither the Commission nor councils currently understand the regulatory effort which will be required for each council.

The Commission acknowledges that this approach results in smaller councils being disproportionately impacted, because of the scale effect resulting from the distribution of rateable properties across South Australia, as shown in the graph below.

Figure 2: Cost per rateable property based on the Draft F&A proposal[24]



Given the focus on this matter in submissions, the Commission has further considered the cost distribution methodologies below.

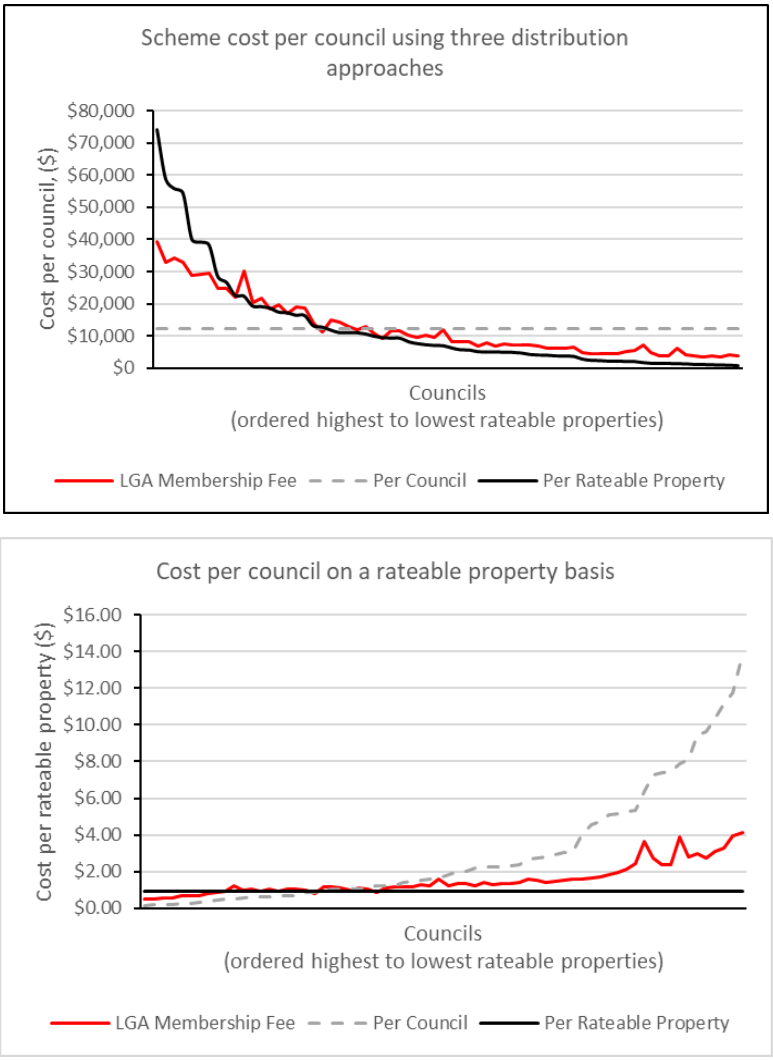
Table 8: Cost distribution methodologies

Option	Description
Option 1: Equal split of the costs	Each council would contribute an equal amount to recovering the cost of the scheme. This reflects the proposal in the Draft F&A.
Option 2: Split based upon number of rateable properties	Each council would contribute an amount to recovering the cost of the scheme in proportion to its number of rateable properties.
Option 3: Split based on LGA Membership Fee allocation[25]	Each council would contribute an amount to recovering the cost of the scheme in proportion to its share of the LGA Membership Fee. The LGA Membership Fee is split between councils based upon an agreed methodological approach that accounts for each council's population size and operating income.

The graphs below summarise the implications of each of these cost distribution options for each council, with councils in descending order based on their number of rateable properties.

[24] Rateable property information obtained from the LGGC database for 2019-20.
[25] Allocations obtained from the LGA Draft Annual Business Plan 2021-22, obtained from the LGA website.

Figure 3: Assessing alternative cost distribution methodologies



The first graph in Figure 3 shows that splitting the costs equally across councils gives a constant cost per council (the grey dotted line on the first graph in Figure 3). The second graph in Figure 3 identifies the scale effect of each cost distribution approach on a cost per rateable property basis. If costs are split equally across councils, smaller councils bear more cost on a rateable property basis than larger ones (the grey dotted line on the second graph in Figure 3).

In contrast, splitting costs based upon the number of rateable properties (Option 2) results in a constant per rateable property cost, with larger councils bearing a significantly higher overall cost, relative to splitting costs equally across councils.

Option 3, splitting the costs based upon each council's proportion of the LGA Membership Fee, provides a balanced option between these two extremes that is based upon an already agreed methodological approach between councils.

Given this, the Commission will adopt Option 3.

Billing

The Commission notes differing preferences were expressed through submissions. The Commission will adopt annual billing and will bill each council directly.

5 Framework and Approach

The Framework and Approach that the Commission will adopt for the preparation of advice under section 122 of the Local Government Act 1999 comprises the following elements.

5.1 Scheme overview

Under the scheme, a council must, on or before 30 September in the relevant financial year for the council, provide to the Commission all relevant information on the following matters (the *Relevant Matters*) in accordance with guidelines determined by the Commission (if any):

- material amendments made or proposed to be made to the council's long-term financial plan (LTFP) and infrastructure and asset management plan (IAMP) and the council's reasons for those amendments
- revenue sources outlined in the funding plan (being a component of the LTFP), and
- any other matter prescribed by the regulations.

Following the provision of information by a council, the Commission, on or before 28 February in the relevant financial year for the council:

- *must* provide advice to the council on the appropriateness of the *Relevant Matters* (as defined above) in the context of the council's long-term financial plan and infrastructure and asset management plan, and
- *may*, if the Commission considers it appropriate having regard to the circumstances of a particular council, provide advice in relation to any other aspect of the council's long-term financial plan and infrastructure and asset management plan.

In providing advice under this section, the Commission:

- *must* have regard to the following objectives:
  - the objective of councils maintaining and implementing long-term financial plans and infrastructure and asset management plans, and
  - the objective of ensuring that:
    - the financial contributions proposed to be made by ratepayers under the council's long-term financial plan and infrastructure and asset management plan are appropriate, and
    - any material amendments made or proposed to be made to these plans by the council are appropriate.
- *may* have regard to any information or matter the Commission considers relevant (whether or not such information or matter falls within the ambit of the matters defined as *Relevant Matters*).

A council must ensure that the advice provided by the Commission under the scheme, and any response of the council to that advice, is published in the council's annual business plan (both the draft and adopted annual business plan) in the relevant financial year and each subsequent financial year (until the next relevant financial year for that council).

The *Relevant Financial Year* is the year in which a council goes through the scheme. The first cycle of the scheme is four years long, with 17 councils going through the scheme annually, based on the current Schedule.

5.2 Principles

In undertaking its functions under the scheme, the Commission will comply with the statutory requirements and, in doing so, will have regard to the following principles:

Principle	Reason
Principle 1: Monitoring, not regulating	The scheme relates to monitoring, not economic regulation. As such, the design focuses on providing evidence-based and useful advice. The objective being, through time, to develop a record of a council's performance, relative to its long-term planning, and its response to advice, as the basis for changing behaviours and outcomes over time. The scheme does not provide the Commission with powers to enforce compliance measures, set service standards or regulate any council's rates. In those respects, it differs from other States' council rates regulation frameworks, such as those in Victoria and New South Wales.
Principle 2: Long-term planning focus	While councils can provide a diverse range of services, they are generally delivered through infrastructure and operations that require long-term planning. In relation to existing infrastructure assets, in the absence of significant shocks outside of a council's control, its long-term plans would not be expected to exhibit significant variation through time (replacement/renewal expenditure should not materially vary due to political cycles, or short-term transient operational or financial concerns). For new assets, it is important that these are planned for, implemented, and managed on that same long-term basis.
Principle 3: Materiality	Focus will be given to key overarching targets and measures. Otherwise, the underlying analysis may become unduly complex/disaggregated, with key observations diluted through unnecessary detail.
Principle 4: Simplicity	The scheme will be as simple as it practically can be and be capable of being applied across the diverse range of councils within South Australia.
Principle 5: Leveraging existing information and evidence	The Local Government Grants Commission (**LGGC**) collects data and the Local Government Association (**LGA**) provides guidance material regarding financial and service sustainability. As such, a significant amount of underlying information and a standard accounting framework exists - this will underpin the analytical framework. In accordance with the legislative framework, if demonstrable gaps in information become apparent that are of relevance to the operation of the scheme, it may be necessary to collect further information in relation to this.
Principle 6: Consistency of application	The scheme will be applied consistently across councils in terms of the underlying processes and analytical framework. Advice across councils will only be similar if all the inputs into the analytical framework (both quantitative and qualitative) result in similar advice being warranted.
Principle 7: Transparency	The implementation of the scheme requires transparency in processes and approach. Each council will be provided with the information and calculations upon which the advice relating to it has been based.

5.3 The Commission's analytic questions for itself

In preparing advice for the purposes of the scheme, the Commission will have regard to the following base set of questions, noting that further questions may arise as the scheme commences practical operation.

Area	Key questions
Operating Surplus Ratio	To understand what is driving a council's operating surplus ratio and the extent to which this indicates potential concerns regarding affordability and cost control risk. Operating surplus ratio ▶ *Question 1: How has the council's operating surplus ratio performed historically?* ▶ *Question 2: How is the council's operating surplus ratio projected to perform?* Underlying variables: Total operating income and total operating expenses ▶ *Question 3: What trends in total operating expenses and total operating income are contributing to this performance?* Underlying variables: Total operating income ▶ *Question 4: What are the trends in the sources of operating income?* ▶ *Question 5: What are the trends in operating income per rateable property?* ▶ *Question 6: How do the trends in operating income per property compare to CPI growth?* ▶ *Question 7: Is there any indication of affordability risk existing or emerging?* Underlying variables: Total operating expenses ▶ *Question 8: What are the trends across operating expenses categories?* ▶ *Question 9: What are the trends in operating expenses per rateable property?* ▶ *Question 10: How do the trends in operating expenses per property compare to CPI growth?* ▶ *Question 11: Is there any indication of cost control risk developing or emerging?*
Net financial liabilities ratio	To understand what is driving a council's net financial liabilities ratio and the extent to which this indicates potential concerns regarding financial and service sustainability risk. Net financial liabilities ratio ▶ *Question 12: How has the council's net financial liabilities ratio performed historically?* ▶ *Question 13: How is the council's net financial liabilities ratio projected to perform?* Underlying variables: Net financial liabilities and total operating income ▶ *Question 14: What trends in net financial liabilities and total operating income are contributing to this performance?*

Area	Key questions
	Underlying variables: Net financial liabilities ▶ *Question 15: What trends in total borrowings relative to total liabilities are contributing to this performance?* ▶ *Question 16: What trends in cash and cash equivalents are contributing to this performance?* ▶ *Question 17: Is there any indication of financial sustainability risk developing or emerging?* The more detailed trends in total operating income are considered as part of the analysis of the operating surplus ratio.
Asset renewal funding ratio	To understand what is driving a council's asset renewal funding ratio. This relates to assessing the consistency of the LTFP and IAMP, and the extent to which these appropriately reflect actual asset condition. This has implications for financial and service sustainability, as well as affordability and cost control risk. Asset renewal funding ratio ▶ *Question 18: How has the council's asset renewal funding ratio performed, and how is it projected to perform, based on the IAMP expenditure approach?* ▶ *Question 19: How has the council's asset renewal funding ratio performed, and how is it projected to perform, based on the depreciation approach?* ▶ *Question 20: To what extent do the two approaches result in an alignment of the asset renewal funding ratio calculated?* Underlying variables: Asset renewal/replacement expenditure, IAMP renewal/replacement expenditure and depreciation ▶ *Question 21: What trends in asset renewal/replacement expenditure and IAMP renewal/replacement expenditure are contributing to the performance of the asset renewal funding ratio, based on the IAMP expenditure approach?* ▶ *Question 22: What trends in asset renewal/replacement expenditure and depreciation are contributing to the performance of the asset renewal funding ratio, based on the depreciation approach?* ▶ *Question 23: How is any difference explained within the council's LTFP and IAMP?* Underlying variables: Asset renewal/replacement expenditure ▶ *Question 24: What are the trends contributing to the asset renewal expenditure?* ▶ *Question 25: What are the trends in renewal/replacement expenditure relative to new/enhancement expenditure?* Underlying variables: IAMP renewal/replacement expenditure ▶ *Question 26: To what extent does the IAMP renewal/replacement expenditure relate to an up-to-date assessment of actual asset condition?* Underlying variables: Depreciation ▶ *Question 27: What is contributing to the trend in depreciation?*

Area	Key questions
	▶ *Question 28: Is IAMP renewal/replacement expenditure reasonable given the trend in depreciation and the response to Question 26?* ▶ *Question 29: Overall, based on the assessment of the asset renewal funding ratio, is there any indication of financial and service sustainability, cost control or affordability risk developing or emerging?*

5.4 Information requirements

The Commission has formed the view that, until otherwise advised, the initial information requirements which it considers reasonably necessary for the performance of its functions under the scheme are as follows.

5.4.1 Guidelines relating to submission by councils of information on *Relevant Matters* – section 122(1e)

For the purposes of section 122(1e), the Commission will issue a guideline explaining how the following matters must be provided by a council on or before 30 September in the year in which the council goes through the scheme:

- material amendments made or proposed to be made to the council's long-term financial plan and infrastructure and asset management plan and the council's reasons for those amendments
- revenue sources outlined in the funding plan (being a component of the LTFP), and
- any other matter prescribed by the regulations.

The guidelines will require the following explanations relating to those matters, to inform the Commission's understanding of them (where available):

- Quantitative
  - Revised LTFP and IAMP empirical information and explanation
- Qualitative
  - Revised LTFP documentation/explanation
  - Revised IAMP documentation/explanation
  - Council's explanation for material variations
  - Any other material a council considers relevant to assist the Commission to perform its statutory scheme functions

5.4.2 Other information reasonably required for the performance of the Commission's statutory scheme function – section 122(1j)

The Commission will require the following in terms of other information to support its statutory scheme functions:

- By no later than 15 August in the year in which a council is to go through the scheme, unless otherwise advised in writing by the Commission (eg, in cases where the Commission already has the relevant information in its possession) the council must provide to the Commission a copy of its current long-term financial plan, infrastructure and asset management plan, CEO financial sustainability report and audit committee report.
  - This will be used by the Commission to understand the nature, scope and form of a council's current plans, to assist it to understand the *Relevant Matters* (once submitted on or before 30 September) and therefore to prepare the advice.
  - The 15 August date is consistent with the timing by which a council must adopt new plans (if it proposes to do so).[26] If a new plan is not proposed for adoption, a council should still submit current plans unless those have otherwise been provided to the Commission.
- Where advised in writing by the Commission, a council may be required to provide other supporting or clarifying information at any time to assist it in the performance of its scheme functions. For example:
  - Where there are gaps in the public availability of historical information to be used by the Commission to form a baseline for the purposes of preparing advice, the Commission may seek that information directly from a council.
  - Where further qualitative and quantitative information is required in relation to assessing revised LTFPs and IAMPs, such as, but not limited to, information on the implications of the revisions across the line items of the Model Financial Statements, information on forecasts of the number of rateable properties and forecasts of FTEs.

5.4.3 Billing

The Commission will bill individual councils a proportion of the Commission's scheme costs based on the outcomes of the methodology adopted by the Local Government Association in respect of its membership fees. It will adopt annual billing and will bill each council directly.

[26] The Commission notes a council must adopt a new LTFP annually but can do so anytime in that period. Similarly, a council needs to update their IAMP once every 4 years.

Appendix 1: The financial indicators

The table provides details of the operating surplus, net financial liabilities and asset renewal funding ratio.

Overarching financial indicators specified by the LGA

Financial Indicator	Description
Operating surplus ratio	**Explanation:** The operating surplus ratio relates to a council's financial performance. **Definition:** The *Operating Surplus (Deficit)* is defined as: *Total Operating Income*[27] *less* *Total Operating Expenses*[28] The *Operating Surplus Ratio* is defined as: *Operating Surplus (Deficit) ÷ Total Operating Income* **Application:** Applied historically in the context of audited financial statements, and to forward-looking LTFPs. **Target:**[29] The LGA considers that, on average, over time, an operating surplus ratio of between zero and ten percent is appropriate. **Interpretation:** A positive ratio indicates the percentage of operating income available to help fund proposed capital expenditure, or to reduce debt (if this represents an appropriate long-term strategy).

[27] Total Operating Income comprises: Rates; Statutory Charges; User Charges; Grants, subsidies and contributions; Investment income; Reimbursements; Other income; Net gain – equity accounted Council businesses.

[28] Total Operating Expenses comprises: Employee costs; Materials, contracts & other expenses; Depreciation, amortisation & impairment; Finance costs; Net loss – equity accounted Council businesses. An Operating Surplus Ratio of zero would, therefore, cover all of these costs.

[29] While regulation 5(1)(c) of the *Local Government (Financial Management) Regulations 2011* allows councils to set their own target ranges for each of the key financial indicators, the Commission has adopted the LGA target ranges as a basis for its analysis. These were established/agreed during the development of the LGA Financial Sustainability Papers (2006-2011).

Financial Indicator	Description
Net financial liabilities ratio	**Explanation**: The net financial liabilities ratio relates to a council's financial position. **Definition**: *Net Financial Liabilities* are defined as: *Total Liabilities* *less* *Current Assets (Cash and Cash Equivalents)* *less* *Current Assets (Trade and Other Receivables)* *less* *Current Assets (Other Financial Assets)* *less* *Non-Current Assets (Financial Assets - excluding equity accounted investments in council businesses)* The net financial liabilities ratio is: *Net financial liabilities ÷ Total Operating Income* **Application:** Applied historically in the context of audited financial statements, and to forward-looking LTFPs. **Target**: The LGA considers a ratio of between zero and 100%, but possibly higher in some circumstances, is appropriate. Also, councils that provide Community Wastewater Management Services (**CWMS**) are likely to need to have a higher level of net financial liabilities.[30] **Interpretation:** A reducing ratio over time indicates that a council's capacity to meet its financial obligations from operating income is increasing, but this can be at the expense of intergenerational equity.

[30] Paper 9, p.8.

Financial Indicator	Description
Asset renewal funding ratio[31]	**Explanation**: The asset renewal funding ratio relates to a council's asset management performance. **Definition**: Since 2013, the asset renewal funding ratio has been defined as: *Asset Renewal Expenditure ÷ IAMP Renewal Expenditure* Where *IAMP Renewal Expenditure* is that required according to the IAMP. Prior to 2013, the asset renewal funding ratio (then known as the asset sustainability ratio), was defined as: *Net Asset Renewal Expenditure ÷ Depreciation* Where: *Net Asset Renewal Expenditure* = *Expenditure on Renewal/Replacement of Assets* *less* *Sale of Replaced Assets* **Application:** Applied historically in the context of audited financial statements and relevant IAMP, and to forward-looking LTFPs and the current IAMP. **Target**: The LGA considers a ratio greater than 90% but less than 110% appropriate. **Interpretation:** A ratio in line with the target indicates that existing assets are being renewed and replaced in line with a council's IAMP. A ratio outside of these bounds conveys the converse.

[31] While the definition of this ratio changed in 2013, it continued to be known as the asset sustainability ratio until 2018.

Appendix 2: List of the Draft F&A graphs

The Draft F&A included the following graphs.

Financial indicator	Draft F&A graphs
Operating surplus ratio	▶ Operating surplus ratio, including LGA target bands *(Yearly and cumulatively, on council actuals/forecast basis)* ▶ Total income and total expenses *(Yearly and cumulatively, on council actuals/forecast basis)* ▶ Total income *(Yearly, on council actuals/forecast and a 'CPI constrained' basis)* ▶ Income proportions *(Yearly, split by rates and other income, on council actuals/forecast basis)* ▶ Average rates income per rateable property *(Yearly, on council actuals/forecast and a 'CPI constrained' basis)* ▶ Total expenses *(Yearly, on council actuals/forecast basis and a 'CPI constrained' basis)* ▶ Expenses by expenditure category[32] *(Yearly, on a council actuals/forecast basis)* ▶ Average expenses per rateable property *(Yearly, on council actuals/forecast and a 'CPI constrained' basis)*
Net financial liabilities ratio	▶ Net financial liabilities ratio, including LGA target bands *(Yearly, on council actuals/forecast basis)* ▶ Total income and net financial liabilities *(Yearly, on council actuals/forecast basis)* ▶ Total liabilities and total borrowings *(Yearly, on council actuals/forecast basis)* ▶ Cash and cash equivalents at year-end *(Yearly, on council actuals/forecast basis)*

[32] Categories as per the Model Financial Statements.

Financial indicator	Draft F&A graphs
Asset renewal funding ratio	▶ IAMP based asset renewal funding ratio, including LGA target bands *(Yearly, on council actuals/forecast basis)* ▶ Net asset renewals and IAMP expenditure *(Yearly, on council actuals/forecast basis)* ▶ Depreciation based asset renewal funding ratio, including LGA target bands *(Yearly, on council actuals/forecast basis)* ▶ Net asset renewals expenditure and depreciation *(Yearly, on council actuals/forecast basis)* ▶ IAMP based renewal/replacement gap *(Cumulatively, on council actuals/forecast basis)* ▶ Depreciation based renewal/replacement gap *(Cumulatively, on council actuals/forecast basis)* ▶ Total capital expenditure *(Yearly, on council actuals/forecast basis)* ▶ Total capital expenditure by category[33] *(Yearly, on council actuals/forecast basis)* ▶ Total capital expenditure proportion by category[34] *(Yearly, on council actuals/forecast basis)* ▶ Value of the asset stock *(Yearly, on council actuals/forecast basis)* ▶ Value of the asset stock per rateable property *(Yearly, on council actuals/forecast basis)*

[33] Categories as per the Model Financial Statements.
[34] Categories as per the Model Financial Statements.

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Item No: 7.2

Subject: **INTERNAL AUDIT PROGRAM REPORT**

Date: 17 August 2022

Written By: Risk and Improvement Officer

General Manager: Strategy and Corporate, Ms P Jackson

SUMMARY

Of the six risk-based audits outlined for 2021/22, all have now been completed, with the Asset Management and Financial Control Reviews for Council and Alwyndor having recently been finalised. Copies of these audit reports are provided as Attachments 2,3 and 4, respectively.

A proposed internal audit program for 2022/23 is provided as Attachment 5.

RECOMMENDATION

That the Audit Committee:

1. notes this report, and

2. endorses the 2022-23 Internal Audit Program as provided in Attachment 5.

STRATEGIC PLAN
Statutory compliance

COUNCIL POLICY
Risk Management Policy

STATUTORY PROVISIONS
Local Government Act 1999

BACKGROUND

Section 125 of the *Local Government Act 1999* requires Council to implement and maintain appropriate internal control policies and procedures. A risk-based Internal Audit Plan is produced annually to guide internal audit activities throughout the year.

The Internal Audit Plan for the 2021/22 financial year was drafted with Galpins and endorsed by Audit Committee (AC277/21), and is provided as Attachment 1 for reference.

Refer Attachment 1

REPORT

The final two internal audits of the 2021/22 Internal Audit Plan have been completed, as follows:

Asset Management	Audit completed, actions to be implemented
Financial Controls	Audit completed for both CoHB and Alwyndor, actions to be implemented

Asset Management Internal Audit

The Asset Management Internal Audit was undertaken in May 2022. The final report has been received and implementation of recommended actions will be progressed. The report is provided as Attachment 2.

Refer Attachment 2

Financial Controls Reviews – for City of Holdfast Bay and Alwyndor

The Financial Control Reviews for both City of Holdfast Bay and Alwyndor were undertaken in June/July 2022. These reports are provided as Attachment 3 and Attachment 4, respectively.

Refer Attachments 3 and 4

Internal Audit Services Contract

The tender evaluation and review process for a new Internal Audit Services contract concluded in early June with the contract being awarded to Galpins.

New Internal Audit Work Plan

A proposed three-year work plan has been drafted (Attachment 5), with reference to key audit and risk related sources such as:

- the Internal Audit work plan for FY2017-19 (Bentleys),
- the Internal Audit work plan for FY2019-21 (Galpins),
- the high risks identified in the current Strategic Risk register,
- any new and emerging risks identified in the Environmental Scan,
- any areas requiring further review as identified by senior management.

In line with the organisational value of simplicity, the work plan, and specifically the first year, has been considered to either focus on further consolidation of processes recently audited or to provide post implementation review, assurance and guidance.

For example, Asset Management, although audited last year across the Transport asset class, is listed again in 2022/23, as there's scope to either consolidate further asset classifications into a related audit brief, or alternatively to assess overarching elements of this area via a more holistic service delivery and outputs review.

In addition, recognising that the Customer Experience Strategy is scheduled for implementation during 2022/23, a post implementation review has been included to provide a review of the process. This will provide assurances on areas well implemented and further evaluate areas that require further attention. Post implementation reviews are invaluable for process embedding, following the introduction of new practices and procedures.

As the successful contractor Galpins were also requested to provide feedback on the draft work plan, given their insight into both our Council operations and the Local Government sector as well as oversight from the audit service sector in general.

Feedback was positive and resulted in an additional suggestion to include Flood Mitigation, given that a similar audit had been undertaken in a neighbouring council area. As a result, this has been included into the work plan for the first year, given the high strategic rating in our risk register for the impacts of climate change, as well as our geographical position as a coastal location.

Refer Attachment 5

BUDGET
There are no budget implications associated with this report.

LIFE CYCLE COSTS
There are no life cycle costs associated with this report.

Attachment 1

Internal Audit Program 2021 - 22

Attachment 1

#	Audit Type	Timing	Project Short Name	Indicative Internal Audit Project Scope	Status	Risk Coverage	Project Sponsor
5	**Initial**	**Oct/Nov**	**Environmental Management Strategy**	Assessment of: Environmental analysis and information - as an input to Council Strategy development	**Complete**	1	**Michael deHuis**
1	**Initial**	**Jan/Feb**	**Budget Management**	Financial Sustainability review Business Planning and Budget Processes	**Complete**	16	**John Newton**
2	**Follow Up**	**Jan/Feb**	**Cyber Security**	A follow up review of progress in implementing recommendations from the 2020 internal audit on cyber security.	**Complete**	6,10	**Pam Jackson**
3	**Initial**	**Jan/Feb**	**Implementation of Planning Reform**	Post implementation review of PDI Act Regulations (planning reform), including: - adequacy of Council's processes to align to new regime - legislative compliance - including in relation to required supporting frameworks such as delegations, authorisation - review of clarity of internal policies, procedures and plans and identify opportunities for improvement - training/development for staff - customer feedback/complaints regarding the new process. - peer review for input/feedback about opportunities for improvement.	**Complete**	7	**Michael deHuis**
4	**Initial**	**Mar/April**	**Asset Management** *(This audit was originally scheduled for 2020-21, now planned for 2021-22).*	Audit to be targeted based on results from a maturity assessment exercise. - Potential areas of focus to be determined but may include: - Short-term Asset Management: - Focus on largest classes of assets - for example transport - Assurance on compliance with asset management legislative requirements, • clarity and accuracy of interrelationships and linkages between the strategic plan, • asset management plans, maintenance plans/procedures, asset management policy • and the long term financial plan - Reasonableness of useful life estimates, depreciation rates and management of significant assets - Review of asset management systems used to ensure working effectively.	**Complete**	3	**Michael deHuis**
6	**EOFY**	**May/Jun**	**Financial Controls**	The audit will include a sample-based assessment of the rigour and accuracy of control self-assessment activities conducted by CHB staff.	**Complete**	All	**John Newton**

Attachment 2

Galpins

Accountants, Auditors & Business Consultants

City of Holdfast Bay

Internal Audit Report – Transport Asset Management

May 2022

CITY OF HOLDFAST BAY

Table of contents

Document Control

Entry meeting	17/03/2022
Fieldwork commenced and completed	06/04/2022 - 24/05/2022
Draft report issued	24/05/2022
Exit meeting	29/06/2022
Revised draft report issued	30/06/2022
Final report issued	08/08/2022

1. Executive Summary

1.1 Background

The 2020-21 Internal Audit Plan provided for a review of the City of Holdfast Bay's (CHB's) asset management. This was delayed to 2021-22 due to turnover of key staff. As at June 2020, CHB managed an infrastructure asset portfolio of approximately $720 million. Skilled management of the portfolio, together with established governance structure, will assist CHB to meet the requirements of national sustainability framework, the *Local Government (SA) Act 1999*, *Local Government (Financial Management) Regulations 2011* and to provide the services needed by the community in a financially sustainable manner.

The effective management of assets is integral to the long-term financial sustainability of CHB. Transport infrastructure assets are the largest class of assets within CHB.

Internal audit has facilitated of a maturity assessment of all asset management classes to assist in targeting the audit effort to areas of most need. Based on the results of this maturity assessment, it was determined that the audit would focus on the Transport asset class.

1.2 Objectives

This audit aims to provide assurance that the established processes and controls in relation to transport asset management are robust.

1.3 Relevant Strategic Risks

This audit aligns with CHB's strategic risk:

- Insufficient or ineffective Asset Management Planning.

1.4 Good Practices Observed

- ✓ Asset Management Plans are in place for all major asset classes, and are of a high standard, with clear linkage to CHB's *Our Holdfast 2050+* Strategic Plan, Annual Business Plan, Long Term Financial Plan and Budget.
- ✓ The majority of asset management effectiveness criteria reviewed by audit, describing what is expected to be a good asset management practice per the IPWEA International Infrastructure Management Manual (IIMM), were assessed as 'effective' or 'majority effective' (36 of 41 criteria assessed).

1.5 Key Findings and Recommendations

This internal audit project aimed to assess the controls established to address the strategic risk '*insufficient or ineffective Asset Management Planning'*, with a focus on transport assets. Based on the work undertaken, and when considering the design and/or effectiveness of controls collectively, we conclude that the control environment is: **Majority Effective.**[1]

The majority effective assessment of the control environment reflects the fact that most of the key elements of asset management are in place and operating effectively, with some aspects identified as being below management's target maturity level, and some clear opportunities to strengthen asset management practices. It is important to acknowledge that for all councils, asset management is a journey that requires ongoing attention and investment over time. Without judgement, Internal Audit is of the view that current asset management practices are not at the level they need to be to sustainably deliver on CHB's strategic objectives and target service levels over the long term, and there is a need to commit to further investment in continuous improvement to asset management maturity.

As is expected for an asset intensive business managing large, complex portfolios of infrastructure, there are many opportunities to incrementally improve asset management practices across all classes of assets. Consistent with good practice, many of these opportunities have been captured within the various Asset Management Plans (AMPs), and this report does not seek to duplicate recommendations related to these self-identified initiatives[2]. It was noted that Council resources allocated to asset management are on the lean side and to achieve necessary improvements within a reasonable time additional resources may be required.

Rather, this report focussed on the structural and strategic changes needed to ensure that the various identified improvements are undertaken in a planned, coordinated fashion, with appropriate support from council and incorporation into long term planning. In particular:

- development of a strategic asset management plan to inform prioritisation of continuous improvement strategies and optimal resourcing across all asset classes
- implementation of a medium term (3-4 year) asset management improvement program
- more accurate future costings based on up-to-date unit rates and realistic assumptions of future replacement strategies
- refining measurement of KPIs to monitor strategic success of asset management, particularly achievement of service level expectations
- annual updates to select components of AMPs (with comprehensive updates every 4 years), and
- utilisation of forward modelling, scenario analysis and thematic GIS mapping to inform sustainable service level decisions and required levels of investment (longer term goal).

[1] Detail of ratings definitions are included in **Appendix 2**.

[2] **Appendix 5** provides an overview of identified improvement opportunities within the AMPs.

Assessment of Asset Management Effectiveness

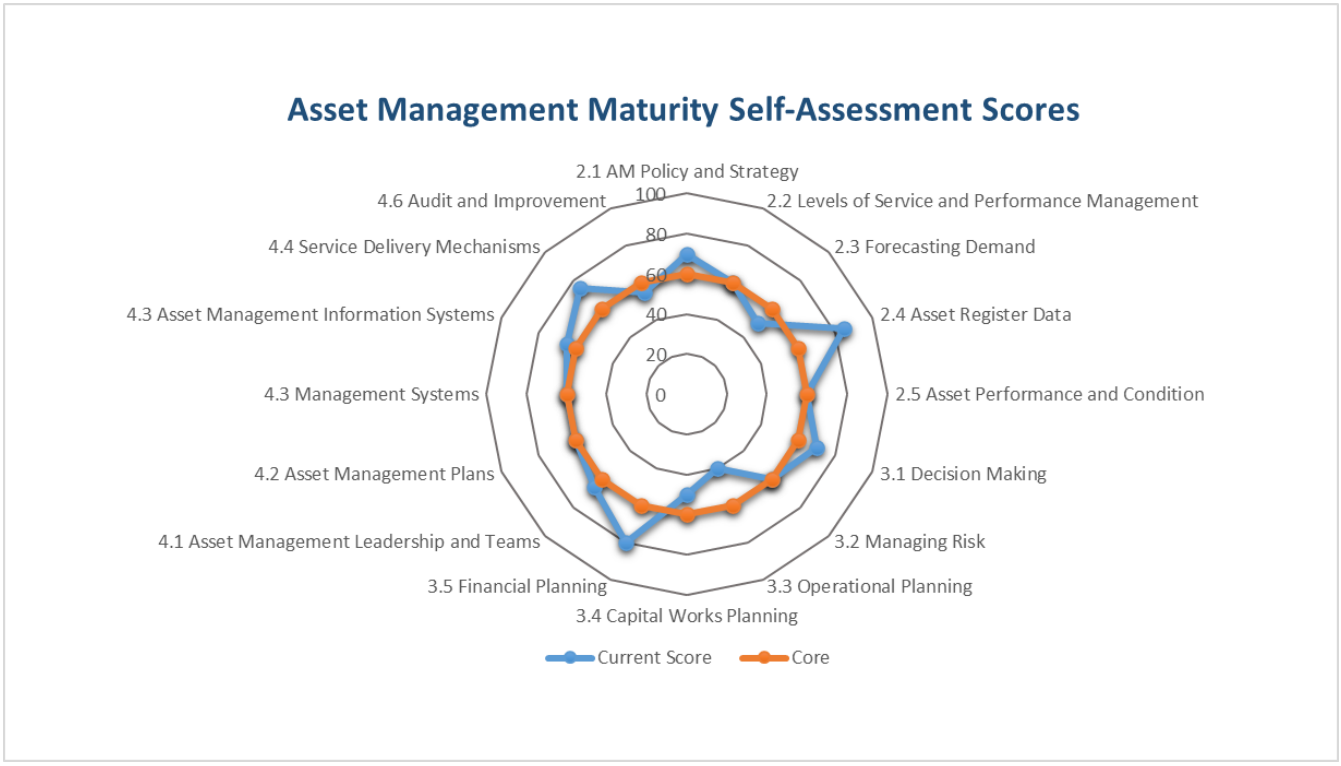
A total of 41 Effectiveness Criteria Descriptors (ECDs)[3] were chosen in order to assess the processes and controls in place in relation to Asset Management. ECDs are statements describing the expected level of services for each of the key areas of asset management.

The following table summarises the results of our review for each key area of asset management:

Asset Management Area	ECDs	Ratings[3]					
		E	ME	PE	RI	I	N/A
Governance and Risk Management Framework	9	7	1	1	-	-	-
AM Policy, AM Strategy, Asset Management Plan	4	3	-	-	-	1	-
Capital Investment Planning	4	3	1	-	-	-	-
Asset Register	8	7	-	-	-	-	1
Asset Valuation	5	4	-	1	-	-	-
Management of Level of Services	3	2	1	-	-	-	-
Asset Condition Monitoring	3	3	-	-	-	-	-
Operational / Maintenance / Outsourcing	3	3	-	-	-	-	-
Asset Management Performance Monitoring	2	-	1	1	-	-	-
Total	**41**	**32**	**4**	**3**	**-**	**1**	**1**

Transport Asset Management Maturity Self-Assessment results (April 2021)

As a precursor to the audit, in April 2021 Galpins facilitated a self-assessment of asset maturity for all asset classes. The following diagram summarises the results of the self-assessment for transport assets:



[3] Details of ratings used to determine Council's asset management performance against the relevant ECDs for each key asset management area are provided in **Section 3.2**. N/A rating relates to 1 criteria for which effectiveness could not be determined (see section 3.2 for details)

The self-assessment demonstrates that there are some arears of strength (financial planning, service delivery mechanisms, asset register data), and some areas requiring improvement. The areas of asset management where staff consider maturity to be below target level, and key reasons for this, were:

- Forecasting Demand – the Integrated Transport Strategy has not been completed and integrated with Asset Management Planning.
- Operational Planning – Proactive maintenance planning and automation has been started, but not yet fully actioned. *Note: Staff have reported an improvement in proactive maintenance planning since the maturity assessment was performed.*
- Capital Works Planning – There is a 3-year renewal program planned, but only the first year fully scoped. Years 2 and 3 are estimates based on replacement cost. There is a desire to fully scope all 3 years, and develop a 3-year delivery process for major capital projects (i.e. year 1 Scope, year 2 Design, year 3 Construction).
- Audit and Improvement – Risk actions are not yet added to the corporate reporting system. *Note: Risks identified in the AMPs have now been considered and rolled up into higher-level risks within the corporate risk register.*

Findings and Recommendations are summarised over page.

Finding	Recommendation	Audit Risk Rating	CHB Risk Rating	Expected Completion Date
2.1 Forward-planning processes and use of asset management information in strategic decision making	**Recommendation 1:** Develop an overarching Asset Management Strategy as an internal management document to provide guidance for asset management principles and prioritisation of asset management improvement strategies across all asset classes in line with the strategy.	High[4]	Moderate	June 2023 to complete the internal AMS to inform the AMP approach.
	Recommendation 2: Review and reconfirm / refine the KPIs in the AMPs to ensure they are measurable and provide useful insights to support decision making. Measure and monitor all selected KPIs, implementing any necessary data collection mechanisms (such as additional questions in the 'Quality of Life Community Survey').	Moderate	Moderate	November 2024
	Recommendation 3: A review timetable is introduced for all AMPs, scheduling: • annual updates to the 10-year replacement schedule, associated costings and financial summary based on current asset management data • annual updates to the tables within the Risk and Improvement Plan Appendices (including status of treatment plans) • 4-yearly comprehensive AMP updates within 2 years of each general election. *Note: it may not be necessary to annually update all AMPs – the transport AMP is highly material and therefore the most beneficial to update. Updates for other asset classes should be considered on the basis of materiality / effort vs benefit.*	Moderate	Moderate	November 2024

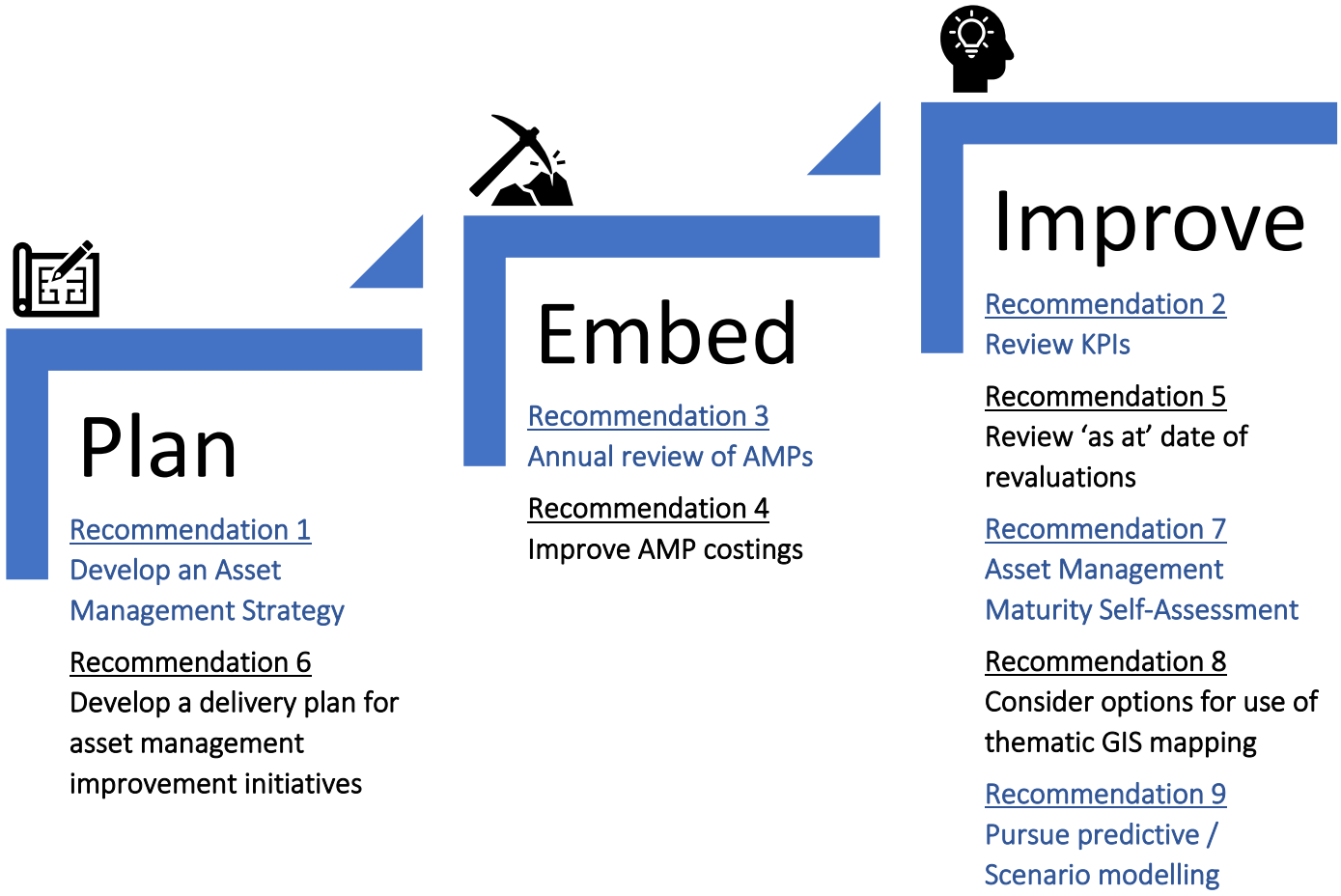
[4] The 'High' audit rating reflects the long-term importance of implementing an Asset Management Strategy. Audit acknowledges that short term risks are lower.

Finding	Recommendation	Audit Risk Rating	CHB Risk Rating	Expected Completion Date
2.1 Forward-planning processes and use of asset management information in strategic decision making	**Recommendation 4:** Asset replacement cost estimates within the AMPs are costed on the basis of the most likely actual replacement design (which may constitute an upgrade), rather than an assumption of like-for-like. *Note: costings within the AMP for future planning purposes do not impact on asset revaluations or depreciation calculations for financial reporting purposes. These calculations continue to be based on modern equivalent, like-for-like replacement to ensure that depreciation expense captures the current value of consumption of existing services, not future upgrades).*	Moderate	Moderate	July 2023 and annually there after
2.2 Methodology and mechanisms in place for managing key asset details	**Recommendation 5:** Consider revising the 'as at' date of future revaluations from 30 June to 1 July.	Better Practice	Better Practice	June 2023
2.3 Governance and risk management frameworks	**Recommendation 6:** Develop a costed delivery plan for asset management improvement initiatives identified within the Asset Management Plans. *Note: the prioritisation of initiatives should be guided by the principals of the Asset Management Strategy.*	High	High	June 2024
	Recommendation 7: Implement a 4-yearly Asset Management Maturity Self-Assessment process.	Better Practice	Better Practice	June 2024 (with AMS)
2.4 Asset Management Systems	**Recommendation 8:** Investigate the use of thematic GIS mapping to support decision making. *Note: This is considered a longer-term improvement opportunity, with priority to be considered in the context of other asset management improvement initiatives determined via recommendations 1 and 7.*	Better Practice	Better Practice	Ongoing

Finding	Recommendation	Audit Risk Rating	CHB Risk Rating	Expected Completion Date
2.4 Asset Management Systems	**Recommendation 9:** Pursue the use of Predictive / Scenario modelling to support long term strategic asset management decisions. *Note: This is considered a longer-term improvement opportunity, with priority to be considered in the context of other asset management improvement initiatives determined via recommendations 1 and 7.*	Better Practice	Better Practice	Long term Begin improvement in next Transport AMP November 2024
2.5 Compliance with legislation	*There are no recommendations for this section.*	n/a	n/a	

Suggested implementation of recommendations

A staged implementation of the findings is recommended, with a focus on strategic planning recommendations as being the highest priority, as follows (in order of priority):



2. Detailed Findings and Recommendations

2.1 Forward planning processes and use of asset management information in strategic decision making

Audit Risk Rating	CHB Risk Rating
High	Moderate

Key Findings

- There is a clear link between long term financial forecasts included in the AMPs and the budget, annual business plan and long term financial plan (LTFP).
- A key gap in the asset management framework for CHB is the absence of an Asset Management Strategy.
- CHB has recently had a comprehensive condition assessment undertaken of road assets, which identified average conditions as lower than assumed in the current AMP, indicating a need to increase spending on renewals and maintenance.
- There is a focus on increasing the level of proactive maintenance of assets.
- Service levels are generally defined quite well, though there are improvement opportunities in the ongoing measurement and tracking of service levels.

Discussion

The audit scope called for a review of the use of asset management information in strategic decision making and forward-planning processes related to the management of transport assets. To achieve this, Audit reviewed key documents and interviewed responsible staff to understand consideration of forward planning within asset management plans, and the use of asset management information to inform the annual business plan, budget and long-term financial planning process.

Strategic Asset Management Planning

An Asset Management Policy is in place, stating CHB's commitment to "implementing a best practice approach to its asset management, ensuring that assets are planned, created, operated, maintained, renewed and disposed of in accordance with the Council's priorities for service delivery as defined in its Strategic Plan".

The policy commits to the preparation of AMPs in accordance with legislative requirements, and defined Council and Community needs. Good quality AMPs for individual asset classes are in place as stand alone documents. There are many identified opportunities for asset management improvement initiatives within these documents, but no cohesive guidance as to how these should be prioritised, resourced and delivered to best achieve CHB's overall strategic goals. This reduces management ability to effectively demonstrate the business case for investing in the continuous improvement of asset management, beyond piecemeal projects approved via the new initiative budget process.

The Asset Management Policy also commits to the development of asset management strategy to facilitate integration of asset management principles into existing planning and operational processes.

CHB has not yet prepared an Asset Management Strategy. The Institute of Asset Management defines the Asset Management Strategy as a "long-term optimised approach to management of the assets, derived from, and consistent with, the organisational strategic plan and the asset management policy". There is no one-size-fits-all format for asset management strategies, and they come in different shapes and sizes depending on asset management needs and maturity levels. In CHB's context, an overarching Asset Management Strategy can be an effective mechanism to determine target asset management maturity levels and guide prioritisation of asset management improvement plans. It has the potential to provide wholistic guidance for the management of assets across all classes, including consideration of resource and budget optimisation across asset classes and wholistic prioritisation of asset management plan actions. **See Recommendation 1**

Service Levels

Setting appropriate levels of service is a key strategic decision of council. The AMPs and the asset management data informing them is critical for understanding the affordability of, and capacity for council to achieve, various levels of service and to provide a basis for their measurement.

The Transport AMP details current and desired levels of service at both a customer (community) level and technical level. It is common for AMPs to detail only technical level of service, so the inclusion of customer focused service levels represents a higher level of maturity. The stated levels of service are clearly and explicitly linked to strategic goals per CHB's *Our Holdfast 2050+* Strategic Plan, with defined performance measures and KPIs. This provides a basis for measuring whether the AMP is meeting strategic objectives, allowing for operational adjustments to be made if required. In practice, not all identified KPIs are monitored and reported on an ongoing basis and the AMPs do not provide a baseline KPI result to indicate whether KPIs were being met at the time the plans were developed to allow for measurement of improvements. For some KPIs identified in the AMP, insufficient data is collected (for example in relation to community perceptions of service levels) or data is not readily available to properly measure the outcome in relation to some technical aspects of service level, and/or the manner in which the KPI is currently monitored differs to the description in the AMP (example monitoring volume of customer requests, rather than a numeric function score or average number of defects). **See Recommendation 2.**

Budget, Annual Business Plan and LTFP

There is a clear link between long term financial forecasts included in the AMPs and the budget, annual business plan and LTFP. Unlike the budget, annual business plan and LTFP, AMPs are not updated annually, and values in the AMP are not indexed to reflect changes in costs over time. Changes in asset replacement priorities, for example resulting from inspections, are not captured as AMP updates outside of the 4-year cycle. These factors can result in budget shortfalls, at times managed sub-optimally by making internal adjustments and budget transfers between projects, or utilising budgets from delayed projects (e.g. due to opportunistic grant funding).

The *Local Government Act 1999* requires only 4-yearly updates to AMPs. This timeframe is sufficient and appropriate for a comprehensive review of the AMPs, and reconsideration of the more strategic elements of the plans. However, annual updates of the 10-year replacement schedule, associated costings and financial summary sourced from current asset management data is an achievable action that would greatly improve the accuracy of values informing the budget, annual business plan and

LTFP[5]. In addition, regular updates to the tables within the Risk and Improvement Plan Appendices will ensure these remain up to date to inform continuous improvement, and progress of treatment plans is monitored. **See Recommendation 3.**

Planning Renewal Works

Consistent with good practice, the transport AMP describes an asset renewal program based on the useful lives of assets, their conditions and asset hierarchy and other data relevant for prioritisation. Appendix 1 of the transport AMP details renewal thresholds for transport assets based on asset hierarchy, condition rating, safety, functionality and amenity. The thresholds described are well articulated, consistent with good practice and provide clear guidance for the priority of renewal works. Road renewals are based on a 3 year program developed by an external consultant who is familiar with the methodology within the plans (having assisted in their development). Whilst a 3 year renewal programmes is planned, only the first year is fully scoped, with the second and third years being estimates based on current replacement cost. There is a desire to move to a model of fully scoping all 3 years and operating a cyclical 3 year delivery process for major capital projects – i.e. Year 1 Scope, Year 2 Design, Year 3 Build.

Future trends

Future demand is considered within the transport AMP, recognising future trends such as population growth resulting in increased demand on traffic load, and climate/environmental change resulting in higher costs associated with construction methods that are environmentally sustainable. Notably, a 'Coastal Protection Infrastructure Assessment' was undertaken in 2020.

The capital renewal / replacement program within the AMPs, which informs the annual business plan, budget and LTFP, assumes 'like-for-like' modern equivalent replacement of assets. In practice, this is not always the case as a result of future demand increases, and changes in social and environmental trends (such as use of environmentally sustainable, but more costly, construction materials or techniques or changes in service level expectations). This fact, combined with the use of historic costings (discussed above), can contribute to insufficient budgets and an underestimation of future costs within the LTFP. **Recommendation 4.**

Maintenance planning

Preventive maintenance aims to slow down asset deterioration and reactive maintenance aims to restore the serviceability of the asset by reacting to failures. Determining the optimal balance of these activities is a key asset management decision. As more investment is made in preventive maintenance, reactive costs (and in many cases, whole of life costs) typically decrease.

CHB is working towards increasing the level of proactive maintenance. The transport AMP identifies the establishment of maintenance standards and plans as a key improvement plan, and staff have reported improvement in this area over the last 12-18 months. The need for more proactive maintenance, such as crack sealing, was also identified in the latest road condition assessment. A number of reactive and preventive maintenance works are performed, though operational intervention is still largely at failure of asset for some classes of asset. Formal maintenance and/or operation plans and procedures are in development to outline the types of maintenance required for

[5] *Note: The use of indexation is also strongly recommended, and was a recent recommendation in the Budget Management Internal Audit (March 2022), and as such is not included as a separate recommendation in this report.*

each type of asset, the frequency of maintenance based on a criticality assessment and any special issue that might vary the standard maintenance practice.

Maintenance works on assets are recorded in the TechOne system through work orders, allowing Council to effectively monitor maintenance history of assets. Maintenance wages are not currently costed to budget lines, understating the true cost of maintenance, however the benefits of more accurate budget line allocations are not considered to justify the administrative cost of capturing this information at this time.

Risk Exposure

- Poor forward planning and/or failure to properly utilise asset management information in strategic decision making can result in infrastructure replacement backlogs, insufficient budgets, and failure to achieve required service levels.

Recommendation 1	Develop an overarching Asset Management Strategy as an internal management document to provide guidance for asset management principles and prioritisation of asset management improvement strategies across all asset classes in line with the strategy.
Agreed Actions	Develop an internal AMS to inform AMPs.
Action Officer	Asset Management Lead
Completion Date	June 2023

Recommendation 2	Review and reconfirm / refine the KPIs in the AMPs to ensure they are measurable and provide useful insights to support decision making. Measure and monitor all selected KPIs, implementing any necessary data collection mechanisms (such as additional questions in the 'Quality of Life Community Survey').
Agreed Actions	Review survey to inform community LOS as required to inform next AMP
Action Officer	Asset Management Lead
Completion Date	November 2024

Recommendation 3	A review timetable is introduced for all AMPs, scheduling: • annual updates to the 10-year replacement schedule, associated costings and financial summary based on current asset management data

	• annual updates to the tables within the Risk and Improvement Plan Appendices (including status of treatment plans) • 4-yearly comprehensive AMP updates within 2 years of each general election. *Note: it may not be necessary to annually update all AMPs – the transport AMP is highly material and therefore the most beneficial to update. Updates for other asset classes should be considered on the basis of materiality / effort vs benefit.*
Agreed Actions	Introduce this review timetable as an improvement action. Annual updates to begin following the development of the new AMPs. Begin with annual updates internally and external update every 4 years.
Action Officer	Asset Management Lead
Completion Date	November 2024

Recommendation 4	Asset replacement cost estimates within the AMPs are costed on the basis of the most likely actual replacement design (which may constitute an upgrade), rather than an assumption of like-for-like. *Note: costings within the AMP for future planning purposes do not impact on asset revaluations or depreciation calculations for financial reporting purposes. These calculations continue to be based on modern equivalent, like-for-like replacement to ensure that depreciation expense captures the current value of consumption of existing services, not future upgrades).*
Agreed Actions	Update each asset category unit rates via revaluation cycle. Update replacement costs at the next AMP update with documented differences between valuations.
Action Officer	Asset Management Lead / Management Accountant
Completion Date	July 2023 and annually there after

2.2 Methodology and mechanisms in place for managing key asset details

Audit Risk Rating	Council Risk Rating
Better Practice	Better Practice

Key Findings

- There are appropriate methodologies and mechanisms in place for determining useful life estimates, valuations, condition inspections, depreciation rates and management of significant assets.
- There is an opportunity to consider the merits of a 1 July valuation date for financial reporting purposes to reduce workload pressures during the end of year process.

Discussion

The audit scope called for a review of the adequacy of CHB's methodology and mechanisms in place for determining useful life estimates, valuations, condition inspections, depreciation rates and management of significant assets.

To achieve this, Audit interviewed relevant CHB staff and reviewed key documentation including CHB's Asset Accounting policy and audited financial statements to compare CHB practices with good practice across the SA Local Government sector.

Useful Lives

The following table provides a comparison of useful life ranges per CHB's guidelines against useful life ranges published by a range of other SA councils in their financial statements. The useful lives applied by CHB are considered to be within expected ranges.

Comparison of SA Council useful life ranges per 2020/21 financial statements

	Road infrastructure		Stormwater infrastructure		Buildings		Plant / furniture / equip		Parks & reserve infrastructure		Land / formation	
	min	*max*	*min*	*max*	*min*	*max*	*min*	*max*	*min*	*max*	*min*	*max*
Adelaide Hills Council	15	180	50	100	10	100	5	10	5	100	0	0
City of Burnside	4	200	10	100	10	200	2	30	n/a	n/a	0	0
City of Campbelltown	10	500	15	100	20	100	2	22	10	100	0	0
City of Charles Sturt	15	150	50	190	5	125	2	10	10	80	0	0
City of Holdfast Bay	**15**	**300**	**15**	**150**	**20**	**170**	**3**	**25**	**20**	**100**	**0**	**0**
City of Marion	20	200	60	200	30	200	3	60	15	100	0	0
City of Mitcham	10	160	n/a	100	15	180	3	20	20	80	0	0
City of Mount Gambier	12	150	50	70	15	100	3	20	10	100	0	0
City of Norwood	10	150	80	100	10	100	3	20	10	100	0	0
City of Onkaparinga	18	100	80	100	n/a	n/a	5	10	15	50	0	0
City of Playford	10	100	10	120	10	100	2	15	10	100	0	0
City of Port Adelaide Enfield	20	300	60	120	10	160	2	24	n/a	n/a	0	0
City of Prospect	10	100	70	115	20	80	5	10	10	80	0	0
City of Salisbury	5	300	40	100	10	120	3	20	n/a	n/a	0	0
City of Tea Tree Gully	15	250	50	200	15	150	3	20	15	150	0	0
City of West Torrens	15	80	25	100	10	100	2	50	10	80	0	0
Mount Barker Council	15	270	80	120	20	300	5	20	5	200	0	0
Town of Gawler	10	150	25	100	10	250	5	20	7	100	0	0
Town of Walkerville	15	200	n/a	100	12	190	6	60	7	200	0	0
Average	**13**	**202**	**45**	**120**	**14**	**151**	**3**	**25**	**11**	**108**	**0**	**0**
City of Holdfast Bay	**15**	**300**	**15**	**150**	**20**	**170**	**3**	**25**	**20**	**100**	**0**	**0**

Note: the above ranges are estimates only, based on our best attempts to match asset classes between councils. An 'n/a' indicates that lives were either not published, or asset categories were too different to make a meaningful comparison.

As illustrated in the table above, there can be significant variance in the useful life ranges adopted by different councils. It is important to understand that whilst the ranges used by others can be useful as a general guide, they are not directly comparable as there are no standardised asset class definitions between councils. The type of individual assets comprising a class of assets may differ substantially. In addition, the appropriate useful life depends on many different factors that vary between councils, including asset management strategies adopted, target service levels, maintenance strategies applied, traffic volumes, soil conditions, levels of flooding, construction materials used, etc. There are some particularly high maximum useful lives used for long-life road components by some councils. The use of these rates often applies to only a small percentage of the total asset value, and is influenced by how councils have chosen to componentise their assets. There is some debate in the sector over the appropriateness of applying some of these larger useful life estimates, which are essentially a proxy for assets that do not have an infinite life, but are not expected to be replaced in the foreseeable future. The same can be said for the use of estimated lives closer to 100 years – they are simply a more conservative estimate.

Valuations

Leading practice for transport valuations across local government involves the use of a rolling 5 yearly external revaluation cycle, with revaluations performed by suitably qualified external valuers and indexation / internal replacement cost applied in non-revaluation years.

Revaluation of CHB's transport assets are carried out by an independent professionally qualified valuer. Per CHB's Asset Accounting Policy "the period between valuations will not exceed five years". Indexation is not currently applied in between valuations but currently is being considered.

Data confidence in relation to expenditure and valuation projections is described in CHB's transport asset management plan as follows:

> *"Data confidence is classified as 'C – Uncertain' based on the IPWEA data confidence scale. Data based on sound records, procedures, investigations, and analysis which is incomplete or unsupported, or extrapolated from a limited sample for which grade A or B data are available. Dataset is substantially complete but up to 50% is extrapolated data and accuracy estimated ±25%."*

It is noted that improvements in the road data has occurred since the completion of the transport Asset Management Plan.

The issue of indexation, and recommendation to implement a program of indexation, was included in the recent Budget Management Internal Audit report (March 2022), and as such is not included as a separate recommendation in this report.

Revaluations with effective dates as-at 1 July (as opposed to the historically popular 30 June) are gaining popularity as a simple yet greatly effective way to reduce the time pressures of reviewing, adopting and processing revaluation results during the peak year-end season. Transport assets are currently valued as at 30 June (with the most recent valuation being as at 30 June 2019 for roads, kerb and gutter, and 30 June 2021 for bridges, car parks and traffic control devices). There is an opportunity to consider a 1 July valuation date in future. **See Recommendation 5.**

Council has a rolling schedule of revaluations across each 5-year period. Revaluations can be costly, and involve significant time and effort by internal staff to scrutinise external valuation results, upload new valuations into the asset management system and prepare financial reporting disclosures. As such, having a rolling program of revaluations is sensible for minimising budget impacts, reducing peaks in workload and ensuring adequate resources to properly review, consider and implement external valuation results.

Condition inspections

Asset management staff generally expressed a high level of satisfaction in the quality of attribute and condition data for transport assets, and a lower, but still reasonable, level of satisfaction in the reliability of data for other classes of asset.

Condition auditing is regularly undertaken to inform the prioritisation of replacement and maintenance works. External condition and defect assessments have been recently undertaken for roads (2020/21), footpaths (2019), car parks (2021) and traffic control devices (2021). The latest condition assessment for roads, conducted by an external consultant, included a comprehensive review of all roads to a greater level of detail than previous assessments (which have focussed on surface level reviews of roads identified for replacement in the next three years of the AMP). This latest assessment found some road conditions to be lower than previously thought, indicating a need to increase spending on renewals and maintenance. A plan to address the findings of this latest assessment is currently being developed. The implications of this are not as yet modelled into the existing AMP, nor reflected in changes to useful lives for depreciation purposes (should this be required).

Various internal condition assessments are also undertaken, for example for signs and bus shelters, and rolling condition assessment work orders are in place. Visual inspection of assets identified as requiring renewal or replacement per the capital works schedule is performed to confirm the need for works to be undertaken. In addition to scheduled condition assessments, asset condition data is captured by field staff on an ongoing basis, with results recorded using mobile tablets.

Depreciation

Per CHB's Asset Accounting Policy "the straight-line depreciation method is adopted by Council to reflect patterns of consumption in a uniform manner over the useful life of an asset". The straight-line depreciation method is the most common methodology across local government. It is considered to be a reasonable estimate of consumption of service potential, and it supports intergenerational equality by charging consistently for the current value of available service levels embodied in each asset. The straight-line method also has the advantage of being less subject to sharp fluctuation on reassessment of condition ratings than condition based methodologies that can potentially result in material short term volatility in depreciation expense.

The Asset Accounting Policy requires that "depreciation parameters, useful lives, asset condition and residual values are to be reviewed with sufficient regularity to ensure that they are representative of current conditions and expectations at the end of each financial year". This is consistent with requirements of Australian accounting standard *AASB 116 Property, Plant and Equipment*[6].

[6] AASB 116.51 states that "the residual value and the useful life of an asset shall be reviewed at least at each financial year-end".

Management of significant assets

Management strategies within the AMP for transport assets, including determination of appropriate service levels, maintenance and replacement timeframes, is risk-based utilising an asset hierarchy framework. This framework identifies and classifies significant assets as "High (Premium)" (example Jetty Road [Glenelg], Moseley Square) or "High" (example Jetty Road [Brighton], Esplanade, Major Bus Routes). Assets classed as High (Premium) or High attract a higher service level and, greater maintenance and more frequent renewal.

Risk Exposure

- Methodologies and mechanisms for determining useful lives, valuations, condition, depreciation and management of significant assets influence important asset management decisions. Deficiencies in these methodologies and/or mechanisms can result in inaccurate asset management data and inappropriate decisions.

Recommendation 5	Consider revising the 'as at' date of future revaluations from 30 June to 1 July.
Agreed Actions	To commence with Open Space in 2022/23
Action Officer	Management Accountant
Completion Date	June 2023

2.3 Governance and risk management frameworks

Audit Risk Rating	Council Risk Rating
High	High

Key Findings

- The majority of effectiveness criteria per the IIMM standards have been met.
- There is a need to develop an Asset Management Strategy to provide greater cohesiveness of asset management across asset classes, and improve transparency over the prioritisation of strategies for continuous improvement of asset management maturity at an organisational level.
- Asset management risks captured within the AMPs would benefit from annual updates to implementation status of treatment plans.

Discussion

The audit scope called for a review of effectiveness of governance and risk management frameworks in place at CHB relating to asset management. To achieve this, Audit conducted interviews with staff and reviewed key documents including asset management plans to assess CHB's performance against applicable effectiveness criteria related to governance and risk management frameworks per the IIMM standards.

The audit found that the majority of effectiveness criteria per the IIMM standards are in place for CHB – see **section 3.2** for details. The following opportunities for improvement where identified.

Asset Management Strategy

The IIMM recommends that internal or external changes affecting assets, asset management or the asset management system are managed and actioned. One key control that assists in the effective management of such changes is an Asset Management Strategy. See **section 2.1** for discussion, and **Recommendation 1 (above)**.

Risk Management

The IIMM recommends that risks are documented in a risk register and treatment plans are actioned and monitored. The CHB Transport AMP includes a good quality, comprehensive risk register in Appendix 4, which identifies a range of risks including those not related to the risk of failure (as suggested by the IIMM). The appendix includes risk ratings, treatment plans, responsibility and due dates. Other asset management plans include similar risk assessments.

Asset management risks, including cross-reference to risks identified in the AMPs, are detailed in the operational risk register.

Annual updates to the risk tables within the AMPs would enhance the monitoring of detailed risks and the implementation of identified treatment plans. **See Recommendation 3 (above).**

Audit and Improvement

Maintaining an appropriate level of asset management capability, and capacity, is a journey that requires ongoing attention and investment over time. To maintain this focus, it is important that CHB ensures that mechanisms are in place to monitor and encourage development of asset management capability towards an appropriate level of maturity.

Improvement opportunities have been identified and recorded in an Appendix within each of the AMPs, including assignment of responsibilities and indicative due dates (year). There are many sensible, well thought out improvement ideas detailed within the AMPs. What is lacking is a consolidated, prioritised plan for the achievement (and funding) of these ideas. The development of an Asset Management Strategy (**see recommendation 1 above**) can provide a framework for the prioritisation of the various identified improvement opportunities. Further, there is a need to develop a costed delivery plan (which could be embedded within the AMP financial summary) to ensure the necessary improvements are delivered. **See Recommendation 6.**

Key Performance Indicators

Monitoring of Key Performance Indicators is discussed in **section 2.1** of this report.

Maturity Assessment

As a precursor to this review, Audit facilitated an Asset Management Maturity Self Assessment. Council does not have a regular, recurrent program of self-assessment for asset management. Conducting regular Asset Management Maturity Self Assessments can help to inform continuous improvement strategies and development / updates to the Asset Management Strategy. **See Recommendation 7.**

Risk Exposure

- Gaps in governance and risk management frameworks for asset management can result in sub-optimal asset management decisions and/or failure to appropriately manage risks.

Recommendation 6	Develop a costed delivery plan for asset management improvement initiatives identified within the Asset Management Plans. *Note: the prioritisation of initiatives should be guided by the principals of the Asset Management Strategy.*
Agreed Actions	Develop costed improvement plan with AMS.
Action Officer	Asset Management Lead
Completion Date	June 2023

Recommendation 7	Implement a 4-yearly Asset Management Maturity Self-Assessment process.
Agreed Actions	Undertake assessment with AMS and schedule every 4 years.
Action Officer	Asset Management Lead
Completion Date	June 2024

2.4 Asset Management Systems

Audit Risk Rating	Council Risk Rating
Better Practice	Better Practice

Key Findings

- Asset management systems used are fit for purpose.
- Opportunities exist to work towards use of advanced system functionality, including thematic GIS mapping and scenario / predictive modelling to guide future decision making.

Discussion

The audit scope called for a review of effectiveness of asset management systems used by CHB.

To achieve this, Audit interviewed a sample of six personnel involved in using the asset management systems and gained an understanding of the systems used.

CHB uses TechOne as its asset register, and Intramaps as its Geographic Information System (GIS). Both systems are widely used in local government and are considered fit-for-purpose.

Utilisation of GIS data in strategic decision making

At the time of our audit, the staff member responsible for managing the GIS system had left the council and interviews were being conducted for a replacement. Staff interviewed were unaware of there being use of thematic mapping within the GIS system to support strategic decision making. Intramaps has the capability to add numerous data layers, which can be used to present 'thematic mapping' to support decision making. For example, road hierarchy levels can be shown via colour highlights on a map of the council area, using visualisation to inform discussion over the appropriateness of individual road hierarchies. Data layers can be added for asset information such as condition, asset age, functionality. Non-asset data, such as rates information, traffic volume, population density, location of schools, etc can also be visualised in GIS, providing powerful data combinations to inform decisions. **See Recommendation 8.**

Predictive / Scenario modelling

CHB is investigating the implementation of the TechOne SAP module, allowing for scenario modelling. For example, exploring future average condition ratings at different levels of renewal expenditure. Setting up the assumptions to underpin appropriately accurate scenario modelling is a significant investment, but is an achievable longer term goal that should materially strengthen decision making around asset management. Higher levels of maturity in predictive modelling provide opportunities for planning long-term optimal renewal strategies, with the potential to find significant whole-of-life cost savings (particularly when combined with thematic GIS mapping to inform refinement of service levels). **See Recommendation 9.**

Risk Exposure

- Ineffective asset management systems may result in inefficiency or inability to optimally deliver asset management objectives.

Recommendation 8	Investigate the use of thematic GIS mapping to support decision making. *Note: This is considered a longer-term improvement opportunity, with priority to be considered in the context of other asset management improvement initiatives determined via recommendations 1 and 7.*
Agreed Actions	Already use some of these functions. Ongoing improvement.
Action Officer	Asset and GIS Officer
Completion Date	Ongoing

Recommendation 9	Pursue the use of Predictive / Scenario modelling to support long term strategic asset management decisions. *Note: This is considered a longer-term improvement opportunity, with priority to be considered in the context of other asset management improvement initiatives determined via recommendations 1 and 7.*
Agreed Actions	Long term goal, asset data maturity need to be in place to inform the strategic modelling. Aim to undertake some predictive / scenario modelling to inform the next Transport AMP.
Action Officer	Asset Management Lead / Asset and GIS Officer
Completion Date	November 2024

2.5 Compliance with legislation

Audit Risk Rating	Council Risk Rating
n/a	n/a

Key Findings

- No instances of non-compliance with legislation were identified.

Discussion

The audit scope called for a review of compliance with asset management legislative requirements. To achieve this Audit compared identified asset management practices against legislative requirement of the *Local Government Act 1999* and supplementary documents including the Australian Accounting Standards and the SA Local Government Better Practice Model – Internal Financial Controls. No instances of non-compliance were identified.

Risk Exposure

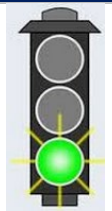
- Non-compliance with legislative requirements may result in reputational damage and penalties.

There are no recommendations for this section.

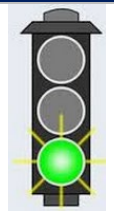
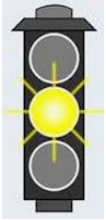
3.1 Traffic Light Assessment of AM Plans

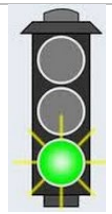
Better Practice Assessment

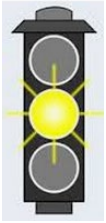
The following table identifies sections from the International Infrastructure Management Manual 2015[7] (the Standard) in relation to the elements that should be included in the AMPs. CHB AMPs were compared to the elements that are included in these standards to identify areas of compliance and gaps.

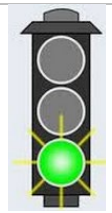
Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
1. Executive Summary	The standard states that, "*Executive Summary should emphasise the key issues contained in the body of the AMP and provide readers with a succinct and self-contained overview of the entire AM Plan. Many readers may only read the Executive Summary.*" The following are sections that should be covered: 1.1 The Purpose of the Plan 1.2 Asset Description 1.3 Level of Service 1.4 Future Demand 1.5 Lifecycle Management Plan 1.6 Financial Summary 1.7 Asset Management Practices 1.8 Monitoring and Improvement Programme		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans.	N/A

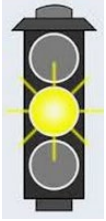
[7] *The standard "shows infrastructure managers how to achieve the ISO standards with the goal of getting the appropriate balance between cost, risk and performance from the assets in delivering the best service outcomes for all stakeholders. Improving the management of infrastructure can bring major benefits by ensuring that scarce resources are used in the most cost-effective manner, thereby enhancing economic growth, improving living standards and improving environmental sustainability."*

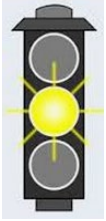
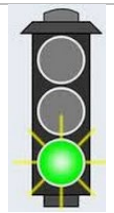
Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
2. Introduction	Section 2.1 of the IPWEA is the background section, it requires the AMP to have a: - Purpose of the plan - Relationship with other planning documents - Infrastructure assets included in the Plan - Key stakeholders in the plan - Organisational structure Section 2.2 Goals and Objectives of Asset Ownership states that the AMP should have: - - Reasons and justification for asset ownership links to organisation vision, mission, goals and objectives - - Plan Framework - - Key elements of the plan Section 2.3 Core and Advanced asset management states that the AMP should have: - Sophistication/ Limitations of this AMP		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans.	N/A
3. Level of Service	Section 3.1 Customer Research and Expectations - Background and customer research undertaken and proposed approach to future consultation - Details of how knowledge of customer requirements has been considered in setting levels of service Section 3.2 Strategic and Corporate Goals - Organisation strategic goals and impacts on the level of service		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans. Improvement opportunities have been identified for the ongoing measurement and monitoring of KPIs (see section 2.1).	**Recommendation 2**

Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
	Section 3.3 Legislative Requirements - Background legislation or regulations which affect asset operation or require certain levels of service Section 3.4 Current level of service - Define current levels of service being provided by the asset - Identify related performance measures - How does the organisation compare to other similar organisations Section 3.5 Desired level of service - Provide details on the level of service desired if different from what is being provided, and what opinions have been considered in determining that level of service - Provide details of differences between current and desired levels of service and how these gaps will be progressively closed			
4. Future Demand	Section 4.1 Demand Drivers - Factors influencing demand- anticipated changes in customer expectations, changes in technology, population changes, economic changes, etc Section 4.2 Demand Forecasts - Details of projected growth or decline of demands on services Section 4.3 Demand Impacts on assets - Impact of changes in demand on assets (utilisation/ capacity, loading/ condition)		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans.	N/A

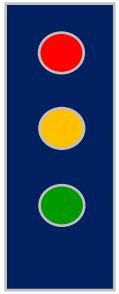
Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
	Section 4.3 [sic] Demand Management Plan - Non-asset solutions available as alternatives to asset-based solutions (i.e. demand management, insurance, managed failures) Section 4.4 Asset programs to meet demand - Major Programs and costs			
5. Lifecycle Management Plan	Section 5.1 Background Data - - Physical Parameters - - Asset capacity/ performance - - Asset condition - - Asset valuations - - Historic Data Section 5.1 [sic] Operations and Maintenance - - operations and maintenance plan - - operations and maintenance strategies - - Summary of future costs Section 5.2 Renewal/ replacement plan - - Renewal Identification - - Renewal Strategies - - Summary of future costs Section 5.3 Creation/ Acquisition/ Augmentation Plan - - Selection Criteria - - Capital Investment Strategies - - Summary of Future Costs		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans. Improvement opportunities have been noted in relation to reliability of financial data and forward estimates (see section 2.1).	**Recommendations 3 and 4**

Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
	Section 5.4 Disposal Plan Disposal is any of the activities associated with disposal of a decommissioned asset, including sale, demolition or relocation - Forecast future disposal of assets including timing and costs - Cashflow forecast of income/ expenditure from asset disposal			
6. Management Risks	6.1 Critical assets - How critical assets are identified and managed 6.2 Risk Assessment - Approach for assessing risks (may reference a separate Risk Management Plan) - Top risks and how these will be managed 6.3 Infrastructure Resilience Approach - A summary of the approach to managing resilience (e.g. business continuity planning, lifelines projects) - A summary of the key outcomes of the above - e.g. resilience improvement initiatives		Most of the sections that are summarised in the 'Details from the Standard' column are included in the plans. Infrastructure Resilience Approach is not explicitly addressed – risk assessment includes treatment plan to 'Ensure business continuance strategy includes capital and maintenance works'.	N/A

Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
7. Financial Summary	7.1 Financial Statement and Projections These should be prepared for at least 10 years and include: - Cashflow forecasts by year - Breakdown of expenditure by service groups - breakdown of expenditure into operations, routine maintenance, renewal and upgrade/ new works expenditure; and - Trends from the previous 2-3 years 7.2 Funding Strategy - - Provide details of how expenditure will be financially treated (e.g. Capitalisation policies) and funded - - Determine whether any planning is needed to smooth out variations in cashflow. 7.3 Variation Forecasts - - Forecast of future value of asset and valuation methodology - - Forecast of depreciation 7.4 Key assumptions made in financial forecasts - - what are the key assumptions made in preparing the forecasts and risks that these might change 7.5 Forecast Reliability and Confidence Readers should understand the accuracy of the information presented as well as providing an insight as to how the accuracy of future financial forecasts would be improved. Advanced plans may include a sensitivity analysis quantifying variation in the forecasts resulting from possible scenarios relating to key assumptions.		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans. Improvement opportunities have been noted in relation to reliability of financial data and forward estimates (see section 2.1).	**Recommendations 3 and 4**

Section of the Asset Management Plan	Details from the Standard	Traffic Light Assessment	Observations and Commentary	Referencing IA Finding
8. Plan Improvement and Monitoring	8.1 Status of AM practices - Current and desired state of asset management processes, data and systems 8.2 Improvement Programme - Details of actions proposed and timetables for improve accuracy and confidence in the AMP, indicating responsibility for each action. - Details of resources required to implement the improvement programme 8.3 Monitoring and review procedures - Procedures and timetable for performance reporting (3 yearly review of AMP) - Timetable for external audit and review (of process, data integrity, level of service) 8.4 Performance Measures - Outline of performance measures for the asset management system, - Describe how the effectiveness of the AMP will be measured		Most of the sections that are summarised in the 'Details from the Standard' column are included in the plans. There is no Asset Management Strategy overarching the AMPs to provide a clear view on desired maturity levels for asset management. Asset Management Maturity Assessments are not currently undertaken.	**Recommendations 1 and 7**
9. Appendices	Maintenance response service levels, capital works programs etc		Key sections (or equivalent) that are summarised in the 'Details from the Standard' column are included in the plans. Appendices include Transport Service levels, Financial summary, Transport risks, Transport improvement plan.	N/A

Key



Significant issues identified requiring immediate escalation to Management and short-term corrective actions.

Some issues identified require attention, to be raised to Management in due course and a plan put in place for corrective actions.

No significant issues identified.

Overall Conclusion

Audit considers the asset management plans to be of a high standard. The majority of Key sections / content (or equivalent) per better practice are included in the plans. The plans demonstrate a stronger than average level of maturity in the articulation of service levels, and have clear linkage to CHB's *Our Holdfast 2050+* Strategic Plan.

3.2 Detailed Assessment of Asset Management Effectiveness

Key Areas of Asset Management

Based on main elements of the asset management process provided by the IIMM, we have identified the following key areas of asset management applicable to the CHB where effectiveness criteria descriptors (ECDs) were designed and assessed in order to determine whether the asset management processes in place meet the requirements of good practice.

#	Asset Management Area	Sections of the IIMM covered															ECDs
		2.1	2.2	2.3	2.4	2.5	3.1	3.2	3.3	3.4	3.5	4.1	4.2	4.3	4.4	4.5	4.6	
1	Governance and Risk Management Framework	✓					✓	✓				✓		✓				9
2	AM Policy, AM Strategy, Asset Management Plan	✓		✓								✓	✓	✓				4
3	Capital Investment Planning			✓			✓			✓								4
4	Asset Register				✓										✓			8
5	Asset Valuation										✓							5
6	Management of Level of Services		✓															3
7	Asset Condition Monitoring					✓												3
8	Operational / Maintenance / Outsourcing						✓		✓	✓				✓		✓		3
9	Asset Management Performance Monitoring																✓	2
	Total																	**41**

Effectiveness Criteria Descriptors

The ECDs are statements describing what is expected to be a good asset management practice for each of the key areas of asset management applicable to the CHB and the audit objectives established for this engagement (refer to **section 1.2**).

The following ratings were used to determine Council's asset management performance against the relevant ECDs:

Rating	Description	Criteria
E	Effective	The process in place meets or exceeds the required level of service described in the effectiveness criteria descriptor established.
ME	Majority Effective	The process in place meets the required levels of service described in the effectiveness criteria descriptor established. An opportunity for better practice was identified in the process.
PE	Partially Effective	The process in place requires some improvement to meet the required level of service described in the effectiveness criteria descriptor.
RI	Requires Significant Improvements	The process in place requires significant improvement to meet the required level of service described in the effectiveness criteria descriptor.

1. Governance and Risk Management Framework

Asset Management Area: Governance and Risk Management Framework				
Audit objectives: • Compliance with legislative requirements, clarity and accuracy of interrelationships and linkages between the strategic plan, asset management plans, maintenance plans/procedures, asset management policy and the long term financial plan • Governance and risk management framework in place for creating, managing, monitoring and reviewing matters relating to asset management.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
1.1	Asset Management Framework is well defined and documented to ensure alignment between Council's overall strategies, the asset management policy, asset management objectives, asset management strategies, AMPs and operational plans.	Clear alignment between existing policies and plans. An improvement noted in this process is the need for the development of a documented Asset Management Strategy.	2.1	**Majority Effective**
1.2	Operational roles, responsibilities and authorities in relation to asset management is defined.	No reportable findings.	N/A	**Effective**
1.3	Responsibility and accountability for asset management can be clearly demonstrated.	No reportable findings.	N/A	**Effective**
1.4	The scope of the asset management system is well defined.	No reportable findings.	N/A	**Effective**
1.5	Internal or external changes affecting assets, asset management or the asset management system are managed and actioned.	An Asset Management Strategy is not documented to provide coordinated prioritisation of asset management actions across asset classes. Infrequent updates to asset management improvement plan tables.	2.1 / 2.3	**Partially Effective**
1.6	An up-to-date register of laws and regulations that the entity must comply is maintained and mechanisms are in place to monitor and/or measure compliance with relevant laws and regulations.	No reportable findings. Relevant laws / regulations are referenced in asset policies.	N/A	**Effective**
1.7	Process for the identification of risks are documented.	No reportable findings.	N/A	**Effective**
1.8	Risks are documented in a risk register and treatment plans are actioned and monitored.	No reportable findings.	N/A	**Effective**
1.9	Risks assessment processes in place also consider compliance, WHS, environmental issues and other factors not related to the risk of failure.	No reportable findings.	N/A	**Effective**

2. Asset Management Policy, Asset Management Strategy, Asset Management Plans

Asset Management Area: AM Policy, Asset Management Strategy, Asset Management Plans				
Audit objectives: • Governance and risk management framework are in place for creating, managing, monitoring and reviewing matters relating to asset management.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
2.1	Asset Management policy exists, is updated and reviewed on a regular basis and, contains information consistent with best practice (e.g. ISO 55000, IPEWA's International Infrastructure Management Manual).	No reportable findings.	N/A	**Effective**
2.2	Asset Management Strategy exists, is updated and reviewed on a regular basis and, contains information consistent with best practice (e.g. IPEWA's International Infrastructure Management Manual - IIMM)	There is no documented Asset Management Strategy.	2.1	**Ineffective**
2.3	Asset Managemetn Plan exists, is updated and reviewed on a regular basis and, contains information consistent with best practice e.g. IPEWA's IIMM)	No reportable findings	N/A	**Effective**
2.4	Contents included in the Asset Management policy, Asset Management Plans, Annual Business Plan and the Long Term Financial Plan are aligned and consistent.	No reportable findings	N/A	**Effective**

3. Capital Investment Planning

Asset Management Area: Capital Investment Planning				
Audit objectives: • Assumptions and forward-planning processes. • Linkages between budgets and financial plans and the acquisition, accounting, valuation, tracking, maintenance, renewal, recording and reporting of assets.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
3.1	Asset Management priorities are defined using a risk based approach	No reportable findings	N/A	**Effective**
3.2	Long term financial forecasts are prepared and include operational, maintenance, renewal and development costs. Forecasts are compared with actuals. Long term financial forecasts included in the AMPs agree with the long term financial plan (LTFP)	Improvement opportunities have been noted in relation to reliability of financial data and forward estimates	2.1	**Majority Effective**
3.3	There is a capital acquisition plan in place	No reportable findings	N/A	**Effective**
3.4	There is a renewal program based on the useful lives of assets, their conditions, asset hierarchy and other data relevant for prioritisation.	No reportable findings	N/A	**Effective**

4. Asset Register

Asset Management Area: Asset Register				
Audit objectives: • Reasonableness of useful life estimates, depreciation rates and management of significant assets. • Review of the Asset Management System (TechOne and Assetic software) to ensure it is working effectively.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
4.1	Key data for asset management are produced by a robust and integrated asset management system reducing the risk of using multiple sources of data.	No reportable findings	N/A	**Effective**
4.2	There are mechanisms/controls in place to ensure completeness and accuracy of the processes for adding newly purchased, constructed or contributed infrastructure asset in the asset register.	No reportable findings	N/A	**Effective**
4.3	There are mechanisms/controls in place to ensure completeness and accuracy of the asset databases including additions, disposals, depreciation, impairment and valuation.	No reportable findings	N/A	**Effective**
4.4	Completion of work in progress is communicated with appropriate level of data (cost, physical features, etc) to ensure that asset is recorded in the asset register accurately and on a timely manner.	No reportable findings	N/A	**Effective**
4.5	Asset components included in the asset register are consistent with common practices and enable Council to perform an appropriate valuation and calculation of depreciation of assets.	No reportable findings	N/A	**Effective**
4.6	Unit rates, useful lives and condition assessment data are stored in a master file and are in accordance with relevant supporting documents (e.g. revaluation report).	No reportable findings	N/A	**Effective**
4.7	Asset data included in the asset registers are consistent with data captured by the GIS system	No reportable findings	N/A	**Effective**
4.8	There are mechanisms in place to identify inconsistencies between the asset register and the GIS system	**GIS staff unavailable for audit. Audit could not confirm process to reconcile GIS to FAR.**	N/A	N/A

5. Asset Valuation

Asset Management Area: Asset Register				
Audit objectives: • Effectiveness of internal controls across asset management processes, including management of level of services, asset condition monitoring (including timing and inspection regime), asset valuation (timing and basis for valuation), asset management information (including the asset register and GIS system), asset renewal and maintenance programs and asset management performance monitoring. • Reasonableness of useful life estimates, depreciation rates and management of significant assets.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
5.1	Asset valuation is performed on a regular basis as determined by Australian Accounting Standards	There is an opportunity for CHB to update the unit rates of transport assets (and other asset classes) on an annual basis.	2.1	Partially Effective
5.2	Valuation of assets is performed by a valuer with appropriate qualifications	No reportable findings	N/A	Effective
5.3	Basis for valuation are appropriately documented and in line with common practices in local government	No reportable findings	N/A	Effective
5.4	Unit rates and useful lives are determined by an appropriate valuer for each component of asset	No reportable findings	N/A	Effective
5.5	Accumulated depreciation and depreciation for the period are calculated based on estimated useful lives determined by the valuer	No reportable findings	N/A	Effective

6. Management of Level of Services

Asset Management Area: Management of Level of Services				
Audit objectives: • Effectiveness of internal controls across asset management processes, including management of level of services, asset condition monitoring (including timing and inspection regime), asset valuation (timing and basis for valuation), asset management information (including the asset register and GIS system)				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
6.1	Level of services and performance measures are defined and documented.	No reportable findings	N/A	Effective
6.2	Performance targets are compared to actual performance, results are assessed/reported and actions are taken for assets not meeting established performance targets.	Improvement opportunities have been identified for the ongoing measurement and monitoring of KPIs.	2.1	Majority Effective
6.3	Future demand is considered and incorporated as an input into future planning	No reportable findings	N/A	Effective

7. Asset Condition Monitoring

Asset Management Area: Asset Condition Monitoring				
Audit objectives: • Effectiveness of internal controls across asset management processes, including management of level of services, asset condition monitoring (including timing and inspection regime), asset valuation (timing and basis for valuation), asset management information (including the asset register and GIS system), asset renewal and maintenance programs and asset management performance monitoring.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
7.1	Assets are subject to a condition assessment on a regular basis and recorded in the asset registers.	No reportable findings	N/A	**Effective**
7.2	There is a well-documented guidance on condition rating systems.	No reportable findings	N/A	**Effective**
7.3	Results of condition assessment are reported and used for its pre-determined purpose (e.g. data with results of the condition assessment are used to determine priorities on renewals, maintenance, etc).	No reportable findings	N/A	**Effective**

8. Operational / Maintenance / Outsourcing

Asset Management Area: Asset Condition Monitoring				
Audit objectives: • Effectiveness of internal controls across asset management processes, including management of level of services, asset condition monitoring (including timing and inspection regime), asset valuation (timing and basis for valuation), asset management information (including the asset register and GIS system), asset renewal and maintenance programs and asset management performance monitoring.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
8.1	Operational plans exist providing directions on service delivery in accordance with Asset Management Strategy and Asset Management Plans.	No reportable findings	N/A	**Effective**
8.2	Maintenance plans (corrective and preventative) are documented and mechanisms/controls are in place to ensure they are completed on schedule.	No reportable findings	N/A	**Effective**
8.3	Responsibility is assigned for managing the outsourced asset management process and there is a process for monitoring the activities of the assigned service provider	No reportable findings	N/A	**Effective**

9. Asset Management Performance Monitoring

Asset Management Area: Asset Condition Monitoring				
Audit objectives: • Effectiveness of internal controls across asset management processes, including management of level of services, asset condition monitoring (including timing and inspection regime), asset valuation (timing and basis for valuation), asset management information (including the asset register and GIS system), asset renewal and maintenance programs and asset management performance monitoring.				
#	**Effectiveness Criteria Descriptors**	**Overall performance**	**Finding Reference**	**Results**
9.1	Internal reviews of asset management practices (e.g. maturity assessment) are performed on a regular basis.	CHB does not have a formal, scheduled approach to assessment of asset management maturity.	2.3	Partially Effective
9.2	Areas for improvement are identified and a register of action plans is maintained containing responsibility and target data.	A table of improvements and associated action plans are documented the AMPs, but not regularly updated.	2.1 / 2.3	Majority Effective

Galpins

Accountants, Auditors & Business Consultants

Appendices

Appendix 1. Audit scope and methodology

Scope

Internal audit has facilitated of a maturity assessment of all asset management classes to assist in targeting the audit effort to areas of most need. Based on the results of this maturity assessment, it was determined that the audit will focus on the Transport asset class.

The audit evaluated and reported on:

- compliance with asset management legislative requirements
- the use of asset management information in strategic decision making at a SLT / EM level, including clarity and accuracy of interrelationships and linkages between the strategic plan, asset management plans, maintenance plans/procedures, asset management policy, annual business plan and the long-term financial plan
- methodology and mechanisms in place for determining useful life estimates, valuations, condition inspections, depreciation rates and management of significant assets
- forward-planning processes
- governance and risk management frameworks in place relating to asset management
- effectiveness of asset management systems used.

The audit specifically focused on areas of maturity identified in the self-assessment as requiring improvement, and review plans to achieve this.

Methodology

In conducting the engagement, the team:

- Facilitated a maturity assessment of the existing approach towards asset management.
- Reviewed documentation relevant to the audit, including: Infrastructure and Asset Management Plans; Long Term Financial Plan (LTFP); Asset Management policy; Annual Business Plan; maintenance plans/procedures; any other document defining business processes in place.
- Conducted select interviews with internal stakeholders. This is likely to include staff from the Assets & Delivery Team as well as the Financial Services Team.
- Selected of a sample of transactions and/or documentation providing evidence of the effectiveness of internal controls in place for the asset management areas identified for this engagement.
- Benchmarked Council's key documents and processes against better practices manual and / or internationally recognised asset management principles such as the International Infrastructure Management Manual, the ISO 55000 series of Asset Management standards.
- Identified potential opportunities for improvement.
- Drafted a report summarising findings and recommendations.

- Considered management responses to the draft report and the subsequent review process.
- Provided a final report for presentation to the Audit Committee.

Appendix 2. Overall Control Environment Conclusion Rating Definitions

This internal audit project aimed to assess the controls established to address a key strategic risk or risks as documented in the Executive Summary. Based on the work undertaken, and when considering the design and/or effectiveness of controls collectively, we conclude that the control environment is one of the following ratings:

Rating	Effective	Majority Effective	Partially Effective	Requires Significant Improvement	Ineffective
Definition	Controls assessed were effective in mitigating the key strategic risk or risks	Controls assessed were largely effective in mitigating the key strategic risk or risks	Controls assessed were partially effective in mitigating the key strategic risk or risks	Controls assessed require significant improvement to mitigate the key strategic risk or risks	Controls assessed were ineffective in mitigating the key strategic risk or risks

Appendix 3. Risk framework

The method of risk assessment used in this audit is based on Council's Risk Management Framework.

It measures the likelihood of each risk occurring and the consequence of the risk event. From this analysis it is then possible to determine the level of inherent risk (risk without any controls in place) and residual risk (risks when controls are in place). This method of analysis is not an exact science and quite subjective, but it is of value as an indicator and therefore assists in assessing audit risks.

Likelihood \ Consequence		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	E	Medium	Medium	High	Extreme	Extreme
Likely	D	Low	Medium	High	High	Extreme
Possible	C	Low	Medium	Medium	High	High
Unlikely	B	Low	Low	Medium	Medium	High
Rare	A	Low	Low	Low	Medium	Medium

Risk Consequence:

Level	Impact Scale
1	Insignificant
2	Minor
3	Moderate
4	Major
5	Catastrophic

Additional detail on consequences in terms of Reputation, Business Impact, People Safety, Environment and Service Delivery is contained in the table over page.

Impact Scale	Reputation	Business impact	People Safety	Environment	Service Delivery
1. Insignificant	No adverse effect on public image No media interest Insignificant level of community concern. A slight but manageable increase in the number of adverse resident complaints Negligible adverse impact upon social health and wellbeing of the community which has little or no impact upon established community relationships and links	Low financial loss – impact of less than $10k Operational issues manageable within normal activities Project – up to 5% of original project budget.	No injuries Minor repairs required of an insignificant nature to property / infrastructure.	"Nuisance" category under the *SA Environment Protection Act (1993)* Short term, immediately reversible effects on ecosystem	Insignificant impact on Council's ability to achieve strategic outcomes Project – Nil impact on achievement of key project objectives or project duration up to 10% of original timeframe without consequential impacts
2. Minor	Minor adverse effect on public image Minor media coverage in paper distributed within the local area (small scale single article). Minor level of community concern, an increase in the number of resident complaints requiring direct effort to resolve/attend to Minor adverse impact upon social health and wellbeing of the community that may have a minor impact upon established community relationships and links	Medium financial loss – impact of between $10k and $100k Minor impact in undertaking routine activities Project – between 5-10% of original project	Only First Aid treatment required Minor loss or infrastructure damage. Normal seasonal illness leading to minor disruption to activities	"Nuisance" category under *SA Environment Protection Act (1993)* Some minor adverse effects to few species/ ecosystem parts that are short term and immediately reversible. Contamination – on-site release immediately contained	Some delays in delivery of strategic initiatives, but only minor aspects impacted Overall strategic intent still achievable Project duration extended up to 35% of original project timeframe without consequential impacts
3. Moderate	Moderate adverse effect on public image Adverse media campaign in relevant press over two or more issues, supported by uptake of issue in electronic media Moderate level of community concern, large number of complaints and letters to editor in relevant press Minor common law action or Ombudsman investigation threatened/ initiated	Moderate financial loss – impact of between $100k and $1 million Impacts up to 2.5% on rate revenue generation Impaired ability to maintain normal operations, reprogramming required Minor legal issues, non-compliances and breaches of regulation Project – between 10-20% of original project budget.	Medical treatment required which may include short term admission to hospital Moderate loss/or infrastructure damage Local epidemic leading to noticeable disruption of activities	"Material" category under the *SA Environment Protection Act (1993)* Contamination – on-site release contained with outside assistance 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. Manageable restrictions in resource usage Disturbance to sites or artefacts of cultural significance	Some key components of the Strategic Plan cannot be achieved within expected timeframes. Additional funding/resources or some strategies re-prioritisation is required Project duration extended up to 35% of original project timeframe with consequential impacts on other dependencies
4. Major	Significant adverse effect on public image Widespread adverse media campaign including electronic local and national media. Social media going viral requiring management intervention. Pressure on State Government and agencies to intervene Significant level of community concern Social health and wellbeing of the community seriously affected by major community unrest and/or significant breakdown of established community relationships and links. Significant common law action threatened, major Ombudsman investigation initiated	Major financial loss - impact of between $1 million and $3 million Impacts between 2.5% and 10% on rate revenue generation Significant effects loss of ability to complete programs, major restrictions to services and project delivery Serious breach of regulation with investigation or report to authority with prosecution and/or moderate fine possible Project – between 20-35% of original project budget.	Serious & extensive injuries Serious structural damage to infrastructure or serious loss of assets. Widespread epidemic that causes significant disruption to activities	"Serious" category under the *SA Environment Protection Act (1993)* Contamination – off-site release with no detrimental effects 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 Restrictions on resource usage threatening viability of accepted lifestyle Damage to sites or artefacts of cultural significance	Key Strategic Objectives unable to be achieved; review of Strategic Plan is required Project duration extended by 36- 80% of original project timeframe with or without consequential impacts on other dependencies
5. Catastrophic	Major effect on public image Widespread adverse media campaign including electronic local, national and international media. Widespread community outrage Social media going viral, unable to be contained. State Government and agencies to intervene Social health and wellbeing of the community severely affected resulting in fracturing of established community relationships and links. Class Actions, Judicial Inquiries initiated	Critical financial loss/exposure – impact greater than $3 million Impacts of more than 10% on rate revenue generation Projects & programs failure, inability to meet minimum acceptable standards Major breaches of regulation, sanctions imposed Project - >35% of original project budget.	Fatalities Critical loss, irreversible damage property / infrastructure with a replacement cost that overwhelms the capital budget (>25%) Community movements restricted under State Emergency Plan	"Serious Material harm" category under the *SA Environment Protection Act (1993)* and EPA actions initiated Off-site contamination requiring immediate and significant remediation actions 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. Restriction on resource usage resulting in permanent disruption of accepted life-style	Goals of Strategic Plan not achievable; total and immediate re-work of Plan is required Project duration extended by >80% of original project timeframe with consequential impacts on other dependencies

Appendix 4. Asset Management Maturity Self-Assessment

Asset Maturity Assessment

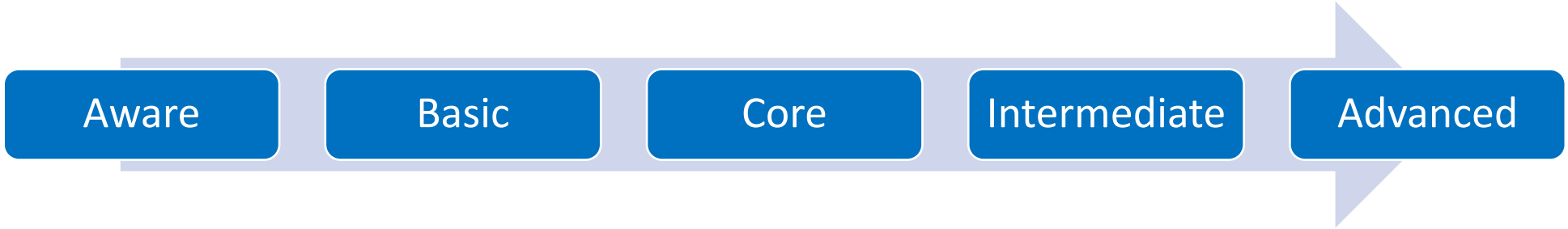
In addition to performing our internal audit procedures to address the objectives and scope defined for this engagement, Audit facilitated an Asset Management Maturity Self-Assessment as a pre-cursor to the audit.

The Asset Management Maturity Self-Assessment was prepared based on the asset management maturity index provided by IPWEA's International Infrastructure Management Manual (IIMM).

This assessment was conducted via a self-assessment survey to relevant stakeholders, followed by a workshop to discuss and consolidate the survey results to provide a realistic maturity assessment. Key components of this self-assessment were then validated through the audit, providing a robust overall assessment of the asset management maturity, with recommendations aligned to a desired future state of maturity.

Asset Management Maturity Index

The index is a tool that organisations can use to determine the appropriate level of maturity of asset management practices. The IIMM provides guidance on establishing an asset management maturity index for each area of asset management. The level of maturity of the asset management practices are measured using the following scales:



For each section of the IIMM, a level of maturity of the asset management practices in place was assigned. The tables over page provide the criteria used when establishing an asset maturity index for each asset management process area related to different section of the IIMM.

Section	Aware	Basic	Core	Intermediate	Advanced
2.1 AM Policy Development	Corporate awareness of the benefits of AM.	Corporate expectation expressed in relation to development of AM Plans and AM objectives.	AM Policy and AM Objectives developed, aligned to corporate goals and strategic context.	AM System scope is defined and documented. Strategic context (internal, external, customer environment) analysed and implications for the AM System documented in the Strategic AM Plan.	AM Policy and Strategic AM Plan fully integrated into the organisation's business processes and subject to defined audit, review and updating procedures.
2.2 Levels of Service and Performance Management	Level of service requirements generally understood but not documented or quantified.	Asset contribution to organisation's objectives and some basic levels of service have been defined. Customer Groups defined and requirements informally understood.	Levels of service and performance measures in place covering a range of service attributes. Annual reporting against performance targets. Customer Group needs analysed. Level of service and cost relationship understood.	Customers are consulted on significant service levels and options.	Customer communications plan in place. Levels of service are integral to decision making and business planning.
2.3 Demand Forecasting	Future demand requirements generally understood but not documented or quantified. Demand forecasts based on mathematical analysis of past trends and primary demand factors.	Demand forecasts based on experienced staff predictions, with consideration of known past demand trends and likely future growth patterns.	Demand Forecasts based on robust projection of a primary demand factor (eg: population growth) and extrapolation of historic trends. Risk associated with demand change broadly understood and documented. Demand management considered as an alternative to major project development	A range of demand scenarios is developed (eg: high/medium/low). Demand management is considered in all strategy and project decisions.	Risk assessment of different demand scenarios with mitigation actions identified.
2.4 Asset Register Data	Asset information in combination of sources and formats. Awareness of need for asset register.	Basic physical information recorded in a spreadsheet or similar (e.g. location, size, type), but may be based on broad assumptions or not complete.	Sufficient information to complete asset valuation (basis attributes, replacement cost and asset age/life) and support prioritisation of programmes (criticality). Asset hierarchy, identification and attribute systems documented. Metadata held as appropriate.	A reliable register of physical, financial and risk attributes recorded in an information system with data analysis and reporting functionality. Systematic and documented data collection process in place.	Information on work history type and cost, condition, performance, etc. recorded at asset component level. Systematic and fully optimised data collection programme with supporting metadata.
2.5 Asset Condition	Condition and performance understood but not quantified or documented.	Adequate data and information to confirm current performance against AM objectives.	Condition and performance information is suitable to be used to plan maintenance and renewals to meet over the short term.	Future condition and performance information is modelled to assess whether AM objectives can be met in the long term. Contextual information, such as demand, is used to estimate likely performance.	The type, quality and amount of data are optimised to the decisions being made. The underlying data collection programme is adapted to reflect the assets' lifecycle stage.
3.1 Decision Making	AM decisions based largely on staff judgement.	Corporate priorities incorporated into decision making.	Formal decision making techniques (MCA / BCA) are applied to major projects and programmes, where criteria are based on the organisations' AM objectives.	Formal decision making and prioritisation techniques are applied to all operational and capital asset programmes within each main budget category. Critical assumptions and estimates are tested for sensitivity to results.	AM objectives/targets are set based on formal decision making techniques, supported by the estimated costs and benefits of achieving targets. The framework enables projects and programmes to be optimised across all activity areas. Formal risk-based sensitivity analysis is carried out.

Table 2.1.2: Asset Management Maturity Index

Section	Aware	Basic	Core	Intermediate	Advanced
3.2 Risk Management	Risk management is identified as a future improvement. Risk framework developed.	Critical services and assets understood and considered by staff involved in maintenance / renewal decisions.	Critical assets and high risks identified. Documented risk management strategies for critical assets and high risks.	Resilience level assessed and improvements identified. Systematic risk analysis to assist key decision-making. Risk register regularly monitored and reported. Risk managed and prioritised consistently across the organisation.	Resilience strategy and programme in place including defined levels of service for resilience. Formal risk management policy in place. Risk is quantified and risk mitigation options evaluated. Risk is integrated into all aspects of decision making.
3.3 Operational Planning	Operational processes based on historical practices.	Operating procedures are available for critical operational processes. Operations organisational structure in place and roles assigned	Operating procedures are available for all operational processes. Operational support requirements are in place	Risk and opportunity planning completed Operational objectives and intervention levels defined and implemented. Alignment with organisational objectives can be demonstrated.	Continual improvement can be demonstrated for all operational processes. Comparison with iso 55001 requirements complete.
3.4 Capital Works Planning	Capital investment projects are identified during annual budget process.	There is a schedule of proposed capital projects and associated costs for the next 3-5 years, based on staff judgement of future requirements.	Projects have been collated from a wide range of sources and collated into a project register. Capital projects for the next three years are fully scoped and estimated. A prioritisation framework is in place to rank the importance of capital projects.	Formal options analysis and business case development has been completed for major projects in the 3-5 year period. Major capital projects for the next 10-20 are conceptually identified and broad cost estimates are available.	Long-term capital investment programmes are developed using advanced decision techniques such as predictive renewal modelling.
3.5 Financial and Funding Strategies	Financial planning is largely an annual budget process, but there is intention to develop longer term forecasts.	Assets re-valued in compliance with financial reporting and accounting standards. 10 year financial forecasts are based on extrapolation of past trends and broad assumptions about the future. Expenditure categories compliant with FRS.	Asset revaluations have a 'B' grade data confidence 10 year+ financial forecasts based on current comprehensive AMPs with detailed supporting assumptions / reliability factors.	Asset revaluations have a 'B' grade data confidence 10 year+ financial forecasts based on current comprehensive AMPs with detailed supporting assumptions / reliability factors.	Asset revaluations have an 'A' grade data confidence 10 year + financial forecasts based on comprehensive, advanced AM plans with detailed underlying assumptions and high confidence in accuracy. Advanced financial modelling provides sensitivity analysis, demonstrable whole of life costing and cost analysis for level of service options.
4.1 AM Teams	Leadership is supportive of AM	AM functions are carried out by small groups. Roles reflect AM requirements	Position descriptions incorporate AM roles AM coordination processes established Ownership and support of AM by leadership Awareness of AM across most of the organisation	Organisational structures support AM Roles reflect AM resourcing requirements and reflected in position descriptions for key roles. Consistent approach to AM across the organisation Internal communication plan established.	Roles reflect AM requirements and defined in all relevant position descriptions Formal documented assessment of AM capability and capacity requirements to achieve AM objectives Demonstrable alignment between AM objectives, AM systems and individual responsibilities

Table 2.1.2: Asset Management Maturity Index

Section	Aware	Basic	Core	Intermediate	Advanced
4.2 AM Plans	Stated intention to develop AM Plans	AM Plans contains basic information on assets, service levels, planned works and financial forecasts (5-10 years) and future improvements.	AM objectives are defined with consideration of strategic context. Approach to risk and critical assets described, top-down condition and performance assessment, future demand forecasts, description of supporting AM processes, 10 year financial forecasts, 3 year AM improvement plan.	Analysis of asset condition and performance trends (past/future), customer engagement in setting LoS, ODM/risk techniques applied to major programmes. Strategic context analysed with risks, issues and responses described.	Evidence of programmes driven by comprehensive ODM techniques, risk management programmes and level of service/cost trade-off analysis. Improvement programmes largely complete with focus on ongoing maintenance of current practice.
4.3 Management Systems	Awareness of need to formalise systems and processes.	Simple process documentation in place for service-critical AM activities.	Basic Quality Management System in place that covers all organisational activities. Critical AM processes are documented, monitored and subject to review. AM System meets the requirements of ISO 55001.	Process documentation implemented in accordance with the AM System to appropriate level of detail. Internal management systems are aligned.	ISO certification to multiple standards for large asset intensive organisations, including ISO 55001. Strong integration of all management systems within the organisation.
4.3 Information Systems	Intention to develop an electronic asset register / AMIS.	Asset register can record core asset attributes – size, material, etc. Asset information reports can be manually generated for AM Plan input.	Asset register enables hierarchical reporting (at component to facility level). Customer request tracking and planned maintenance functionality enabled. System enables manual reports to be generated for valuation, renewal forecasting.	Spatial relationship capability More automated analysis reporting on a wider range of information.	Financial, asset and customer service systems are integrated and all advanced AM functions are enabled. Asset optimisation analysis can be completed
4.4 Service Delivery Mechanisms	AM roles generally understood.	Service delivery roles clearly allocated (internal and external), generally following historic approaches.	Core functions defined Procurement strategy/policy in place. Internal service level agreements in place with the primary internal service providers and contract for the primary external service providers.	Risks, benefits and costs of various outsourcing options considered and determined. Competitive tendering practices applied with integrity and accountability.	All potential service delivery mechanisms reviewed and formal analysis carried out to identify best delivery mechanism.
4.6 Improvement Planning	Recognition of AM improvements.	Improvement actions identified and allocated to appropriate staff.	Current and future AM performance assessed and gaps used to drive the improvement actions. Improvement plans identify objectives, timeframes, deliverables, resource requirements and responsibilities	Formal monitoring and reporting on the improvement programme to Executive Team. Project briefs developed for all key improvement actions.	Improvement plans specify key performance indicators (KPIs) for monitoring AM improvement and these are routinely reported.

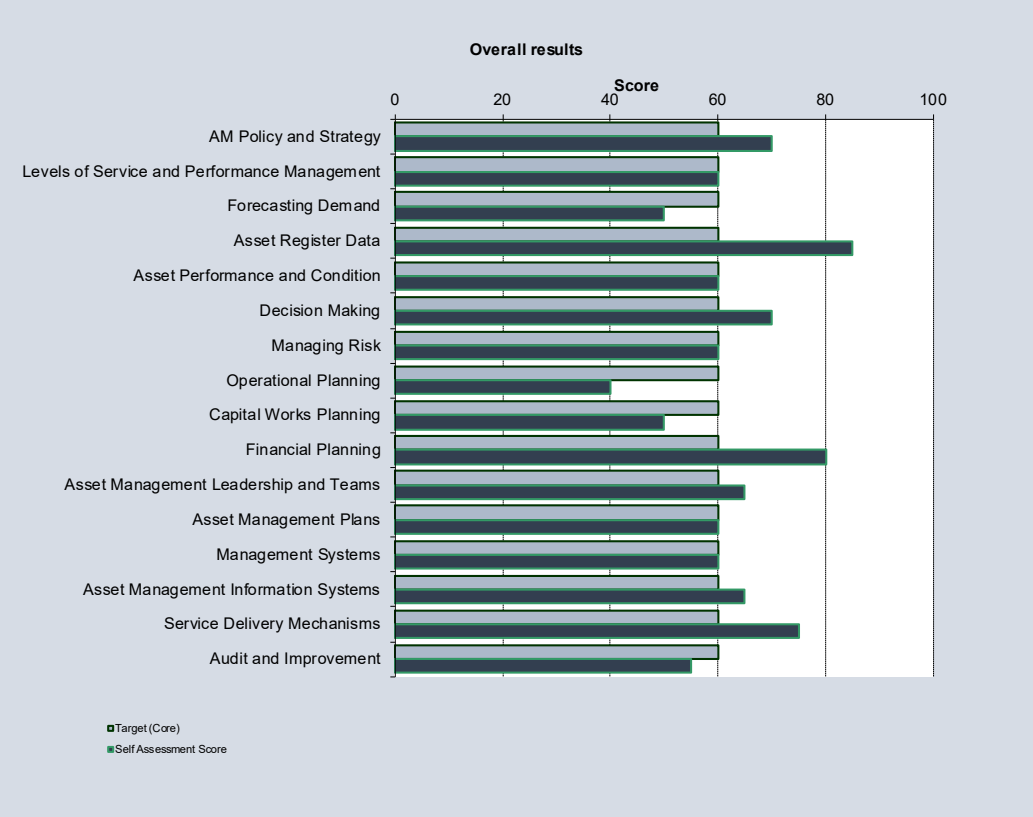
Table 2.1.2: Asset Management Maturity Index

Results of the Transport Asset Management Maturity Self-Assessment (April 2021)

IIMM*	Asset Management Area	Target	Score
IIMM 2.1	AM Policy and Strategy	60	70
IIMM 2.2	Levels of Service and Performance Management	60	60
IIMM 2.3	Forecasting Demand	60	50
IIMM 2.4	Asset Register Data	60	85
IIMM 2.5	Asset Performance and Condition	60	60
IIMM 3.1	Decision Making	60	70
IIMM 3.2	Managing Risk	60	60
IIMM 3.3	Operational Planning	60	40
IIMM 3.4	Capital Works Planning	60	50
IIMM 3.5	Financial Planning	60	80
IIMM 4.1	Asset Management Leadership and Teams	60	65
IIMM 4.2	Asset Management Plans	60	60
IIMM 4.3	Management Systems	60	60
IIMM 4.4	Asset Management Information Systems	60	65
IIMM 4.5	Service Delivery Mechanisms	60	75
IIMM 4.6	Audit and Improvement	60	55

** Sections of the International Infrastructure Management Manual.*

Asset Maturity Index		
	81-100	Advanced
	61-80	Intermediate
	41-60	Core
	21-40	Basic
	0-20	Aware
	NR	Not responded



Appendix 5. Improvement plans included within Asset Management Plans

Transport Improvement Plan

Task No	Task	Responsibility	Resources Required	Established	Due
1	Develop a rolling 3 year works program identifying assets to be renewed. Publish this for community information	Asset Manager(s) and Staff	Medium	2020	2022
3	Implement the risk mitigation strategies identified in this plan	Asset Leadership Team	Medium	2020	2023
4	Establish Maintenance Standards and Plans	Asset Manager(s) and Staff	Low	2020	2022
5	Create budget lines to capture maintenance expenditures, and improve processes to allocate costs against budget	Asset Leadership Team	Low	2020	2022
7	Develop process to complete renewal projects on time and on budget, and to the required quality	Asset Leadership Team	Medium	2020	2022
9	Consider works for a whole street to improve service delivery and reduce overall costs	Asset Manager(s) and Staff	Low	2020	2022
10	Identify new technology for improved asset life and/or environmental benefit, or reduced whole of life cost	Asset Manager(s) and Staff	Low	2020	2022
11	Undertake detailed inspections and investigations including geotechnical investigations to determine pavement solutions	Asset Manager(s) and Staff	Medium	2020	2022
12	Review unsealed laneways to determine whole of life cost if upgraded	Asset Manager(s) and Staff	Low	2020	2022
13	Develop a pavement reinstatement standard for third-party works and implement an agreement	Asset Manager(s) and Staff	Low	2020	2022
14	Investigate wearing course approach to life cycle – rejuvenation vs reseal options	Asset Leadership Team	Low	2020	2022

Task No	Task	Responsibility	Resources Required	Established	Due
15	Further develop and implement transport service levels and review road hierarchy	Asset Leadership Team	Low	2020	2022
16	Add street lighting fixtures to the transport asset register. Explore the option of a lighting and electrical specific AMP	Asset Manager(s) and Staff	High	2020	2022
17	Improve the data confidence level through cleansing and collection of new data	Asset Manager(s) and Staff	High	2020	2025
18	Benchmark our asset condition data and renewal strategies against similar LGAs	Asset Manager(s) and Staff	Low	2020	2023
19	Allocate asset portfolios to managers and provide training and support	Asset Leadership Team	Low	2020	2021
20	Facilitate annual reviews and provide report to CEO	Asset Leadership Team	Low	2020	2022

Building Improvement Plan

Task No	Task	Responsibility	Resources Required	Established	Due
1	Undertake annual safety inspection program on all buildings.	Asset Manager(s) and Staff	BAU	2020	2022
2	Establish a compliance register for DDA requirements.	Asset Manager(s) and Staff	Medium	2020	2024
3	Integrate building maintenance into Technology One and link to customer requests or implement appropriate Buildings Maintenance system (BMS), to ensure operational service levels are being met.	Asset Leadership Team	Medium	2020	2022
4	Establish Facilities Management Plans for complex, heritage listed, or high-risk sites.	Asset Manager(s) and Staff	Medium	2020	2030
5	Model the localised impacts of climate change of City of Holdfast Bay's Building Assets and identify required actions.	Asset Leadership Team	Low	2020	2022
6	Review the level of service for City of Holdfast Bay's Buildings and refine.	Asset Manager(s) and Staff	BAU	2020	2022
7	Implement clear maintenance and capital replacement responsibilities in lease agreements that align with building hierarchy service standards.	Asset Manager(s) and Staff	BAU	2020	2023
8	Consider and account for Life Cycle Costs (%) for all New Capital Bids based on either forecast expenditure or actual expenditure (where known).	Chief Executive Officer/ Senior Leadership Team	BAU	2020	2022
9	Work towards adopting a life cycle approach to depreciation.	Asset Leadership Team	Low	2020	2024
10	Aligned works program to asset hierarchy service levels to ensure buildings essential to core business are maintained to their required level.	Asset Leadership Team	BAU	2020	2021

Building Improvement Plan (cont.)

Task No	Task	Responsibility	Resources Required	Established	Due
11	Works should be grouped into appropriate refurbishment and upgrade programs, to generate efficiencies of scale, and prevent disruption to stakeholders.	Asset Manager(s) and Staff	BAU	2020	2022
12	Audit functionality, safety and amenity for key buildings and integrate service levels and forecast works.	Asset Manager(s) and Staff	High	2020	2030
13	Current criticality framework was produced internally. Community consultation will be undertaken upon the next criticality framework review.	Asset Manager(s) and Staff	Low	2020	2023
14	Strategic Property Review	Asset Manager(s) and Staff	Medium	2020	2022

Open Space and Coastal Improvement Plan

Task No	Task	Responsibility	Resources Required	Established	Due
1	Undertake annual safety inspection program on all playgrounds.	Asset Manager(s) and Staff	BAU	2020	2022
2	Establish a compliance register for DDA requirements.	Asset Manager(s) and Staff	Medium	2020	2024
3	Integrate open space and coastal maintenance into Technology One and link to customer requests.	Asset Leadership Team	Low	2020	2022
4	Model the localised impacts of climate change of City of Holdfast Bay's Open Space Assets and identify required actions.	Asset Leadership Team	Low	2020	2022
5	Review the level of service for City of Holdfast Bay's Open Space and refine.	Asset Manager(s) and Staff	BAU	2020	2022
6	Consider and account for Life Cycle Costs (%) for all New Capital Bids based on either forecast expenditure or actual expenditure (where known).	Chief Executive Officer/ Senior Leadership Team	BAU	2020	2022
7	Aligned works program to asset hierarchy service levels.	Asset Leadership Team	BAU	2020	2021
8	Works should be grouped into appropriate refurbishment and upgrade programs, to generate efficiencies of scale, and prevent disruption to stakeholders.	Asset Manager(s) and Staff	BAU	2020	2022
9	Audit functionality, safety and amenity for key spaces and integrate service levels and forecast works.	Asset Manager(s) and Staff	High	2020	2030
10	Review practice of reusing open space assets rather than disposing, and the cost benefit to Council.	Asset Manager(s) and Staff	BAU	2020	2022
11	Integrate findings of the Coastal Protection Infrastructure Assessment Report into maintenance, operations and renewals.	Asset Manager(s) and Staff	High	2020	2024
12	Develop Patawalonga Lock Maintenance, Operations and Renewals Plan. Review every 5 years.	Asset Manager(s) and Staff	Medium	2020	2022

Stormwater Improvement Plan

Task No	Task	Responsibility	Resources Required	Established	Due
1	Develop a rolling 3 year works program identifying assets to be renewed. Publish this for community information.	Asset Manager(s) and Staff	Medium	2020	2022
2	Implement the risk mitigation strategies identified in this plan	Asset Leadership Team	Medium	2020	2023
3	Review and improve street tree management, to reduce kerb lift and associated stormwater issues	Asset Manager(s) and Staff	Low	2020	2025
4	Add Life Cycle Costs (%) for operational and maintenance expenses to all New Capital Bids based on AMP figures, where actual costs are not known	Asset Manager(s) and Staff	Included in Project Costs	2020	2020
5	Review the Stormwater Management Plan	Asset Manager(s) and Staff	Medium	2020	2024
6	CCTV investigation of pipe condition for critical assets	Asset Manager(s) and Staff	Medium	2020	2030
7	Ensure design of WSUDs is appropriate, and establish proactive maintenance and operations	Asset Manager(s) and Staff	Low	2020	2022
8	Further develop formal criticality framework for renewals and maintenance	Asset Management Leadership Team	Low	2020	2025
9	Climate adaptation risk assessment and integration of historical asset failures	Asset Management Leadership Team	Low	2020	2024
10	Stormwater data sharing arrangement across Southwest Drainage Scheme Councils	Asset Management Leadership Team	Low	2020	2022
11	Facilitate annual reviews and provide report to CEO	Asset Leadership Team	Low	2020	2022

Plant and Equipment Improvement Plan

Task No	Task	Responsibility	Resources Required	Established	Due
1	Develop a rolling 3 year works program identifying assets to be renewed.	Asset Manager(s) and Staff	Medium	2020	2022
2	Implement the risk mitigation strategies identified in this plan.	Asset Leadership Team	Medium	2020	2023
3	Review plant currently beyond its service life, with a view to amending the remaining life or possible disposal without replacement.	Asset Manager(s) and Staff	BAU	2020	2022
4	Review Use of Vehicles Policy.	Asset Manager(s) and Staff	BAU	2020	2021
5	Undertake an Electric Vehicles Feasibility Study.	Asset Manager(s) and Staff	Medium	2020	2022
6	Reduce the service life of high-use heavy vehicles, such as road sweepers, to address escalating maintenance costs.	Asset Management Leadership Team	Medium	2020	2021
7	Improve the disability access and safety of City of Holdfast Bay's community bus program.	Asset Manager(s) and Staff	Medium	2020	2022
8	Develop continuity planning in case of failure of high criticality plant and equipment. Lease options or sharing arrangements with neighboring councils.	Asset Manager(s) and Staff	Medium	2020	2022
9	Review alternate Plant and Equipment procurement including leasing or dry hire.	Asset Manager(s) and Staff	BAU	2020	2022

Appendix 6. Documents reviewed

The documents reviewed include the following:

Legislation and Guidance documents

- Local Government Act 1999
- International Infrastructure Management Manual (IIMM) 5th Edition
- IPWEA Australian Infrastructure Financial Management Manual
- ISO 55000
- Better Practice Model – Internal Financial Controls
- Australian Accounting Standard AASB 116 – Property, Plant and Equipment
- Australian Accounting Standard AASB 13 – Fair Value

City of Holdfast Bay

- Asset Management Policy approved 11.8.20
- Asset Accounting Policy approved 22.6.21
- City of Holdfast Bay Annual Report 2020-21
- Transport Asset Management Plan 2020
- Building Asset Management Plan 2020
- Open Space Asset Management Plan 2020
- Stormwater Asset Management Plan 2020
- Plant & Equipment Asset Management Plan 2020
- Asset Management Maturity Self Assessment Tool Transport v2
- Asset Management Maturity Self Assessment Tool Buildings v1
- Asset Management Maturity Self Assessment Tool Open Space and Coastal v2
- Asset Management Maturity Self Assessment Tool Stormwater v1

Appendix 7. Staff members interviewed

We extend our appreciation to the following individuals who provided information and participated in this review:

Position
General Manager Assets & Delivery
Manager Engineering
Manager Public Realm
Asset Management Lead
Manager Field Services
Management Accountant

Disclaimers

Inherent limitations

This report has been prepared for the information and internal use of the City of Holdfast Bay in accordance with the scope and objectives outlined in the Executive Summary of this report. The services provided in connection with this engagement comprise an advisory engagement which is not subject to the Australian Auditing Standards or the Australian Standards on Review and Assurance Engagements. Consequently, no express opinions or conclusions have been drawn or intended to convey assurance. 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 the procedures we performed 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. The procedures performed were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed on the control procedures were 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.

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Third party reliance

This report is solely for the purpose set out in the Executive Summary of this report and for the City of Holdfast Bay's information, and is not to be used for any other purpose or distributed to any other party without Galpins' prior written consent. This internal audit report has been prepared at the request of the City of Holdfast Bay or its delegate in connection with our engagement to perform internal audit services. Other than our responsibility to City of Holdfast Bay, neither Galpins nor any member or employee of Galpins undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the City of Holdfast Bay's external auditor, on this internal audit report. Any reliance placed is that party's sole responsibility.

Attachment 3

Galpins

Accountants, Auditors & Business Consultants

City of Holdfast Bay

Internal Audit Report – Internal Financial Control Monitoring

May 2022

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Background

Each financial year, Council performs a financial internal controls self-assessment (CSA) process to provide assurance that Council is meeting its obligations under s125 of the *Local Government Act 1999*:

> *"A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records."*

The CSA is restricted to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

The CSA process conducted by Council constitutes Council's internal financial control monitoring program, as required by the *Better Practice Model – Internal Financial Controls for South Australian Councils.*

Conduct of the CSA

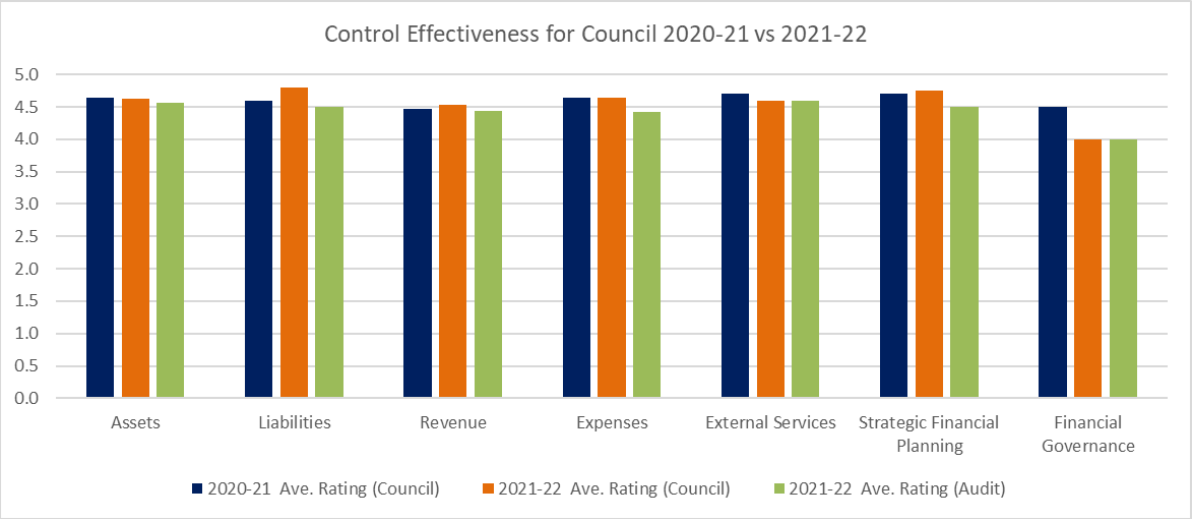
The CSA was finalised by Council staff on the 14th April 2022, encompassing a review of the operating effectiveness of 89 controls for Council as selected per the risk-based control monitoring methodology. Each control was given an effectiveness score out of 5 by both an 'assessor' (typically staff member responsible for performing the control activity) and a reviewer (typically the manager responsible for overseeing the control activity).

Control effectiveness scores are defined as follows:

Definitions of Control Effectiveness Ratings	
1. Ineffective	During the period, the control has not been implemented as described. Urgent management action is required to implement the described control processes.
2. Requires significant improvement	During the period, the control has been implemented as described, but with significant deficiencies in the consistency or effectiveness of implementation. Significant management action required to implement processes to improve the effectiveness of the control.
3. Partially effective	During the period, the control has been implemented as described, but with some deficiencies in the consistency and/or effectiveness in which it has been applied.
4. Majority effective	During the period, the control has been implemented as described and in the majority of cases has been consistently and/or effectively applied. There is potential to enhance the effectiveness of the control, but only with minor adjustments.
5. Effective	During the period, the control as described has been fully implemented and has in all cases has been consistently and/or effectively applied.

Results of the CSA

The results of the CSA indicate a high level of control effectiveness for Council, and some continuous improvement in results compared to the prior year. The following table illustrates the average effectiveness scores determined by Council assessors and reviewers in 2021-21 in comparison to the 2020-21 scores, and in comparison to Internal Audit effectiveness scores.



**Audit rating is based on the average of assessor / reviewer score for controls not tested in audit sample.*

Internal Audit review of control ratings

Internal Audit reviewed the reasonableness of effectiveness ratings assigned by Council, by selecting a sample of controls and reviewing evidence supporting the assigned rating. Our methodology was as follows:

- A sample of controls were selected for independent verification. Controls were selected based on a number of factors, including:
  - existence of a variance between the assessor's/ reviewer's effectiveness rating
  - a treatment plan was in recommended in the prior year's review
  - the control related to a key financial policy
  - specific control selection based on auditor judgement, including controls considered to be particularly important or at greater risk of control failure (e.g. due to high volume, multiple responsible persons, reliance on manual processes)
- Documentation supporting the assessor/ reviewer rating was requested, based on specific documents referenced by the assessor/ reviewer in their comments and the auditor's knowledge of expected supporting documents.
- These documents were reviewed to perform an independent verification of the controls and conclude if the effectiveness rating scored by the assessor/ reviewer was reasonable.

Results of our review

Overall, there was a high degree of consistency with Council's assessor/ reviewer assessment scores and the scores determined by internal audit.

Of the 25 controls reviewed, nine controls were scored slightly lower by Internal Audit than either the assessor score or the reviewer score. These nine controls all have prior year treatment plans that are not fully implemented, and as a result Audit scored the control as 4 (majority effective), compared to a 5 (effective) by Council. See **Table 1** for more detail regarding controls tested and effectiveness scores assigned.

There were three treatment plans resulting from Internal Audit recommendations in the 2021 Internal Financial Controls audit. The status of these were reviewed, with two treatment plans confirmed as being in progress and one as complete. See **Table 2** for further details.

There were no new treatment plans for 2022 assigned by Council resulting from the CSA, as there are not any ControlTrack Assessments with an effectiveness rating of 3 or less by both the Assessor and Reviewer.

In the interest of continuous improvement, internal audit have identified three better practice treatment plans in relation to some controls for consideration by management. These are detailed in the '**Recommended Treatment Plans**' section of this report.

Table 1 – Results of Internal Audit assessment

Control	Reason for selection	Assessor / reviewer rating	Audit effectiveness rating	Auditor comments
ASS-BAN-0001: Access to EFT Banking system is restricted to appropriately designated personnel.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.[1]
ASS-DEB-0001: Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by relevant staff for accuracy and on-going pertinence.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.
ASS-FIX-0014: There is a process in place for the verification of fixed assets which is reconciled to the FAR.	Prior year treatment plan	A=4, R=4	4	
ASS-PRO-0003: Processes are in place for establishing and changing project scope and budgets with approvals in accordance with Delegations of Authority.	Auditor judgement	A=4, R=4	4	
EXP-CRE-0005: There is a process in place to approve all credit card transactions to ensure compliance with the policies and procedures covering credit card usage.	Assessor / reviewer difference	A=4, R=5	4	
EXP-CRE-0007: There is a process in place to ensure there are appropriate approvals prior to the issuing of Credit Cards and limits.	Assessor / reviewer difference	A=4, R=5	4	
EXP-PAY-0004: Any non-routine payroll queries or unusual payroll transactions/request are referred to management for investigation.	Assessor / reviewer difference	A=5, R=4	4	

[1] Refer to Table 2 – 2020-21 ControlTrack Assessment Treatment Plans Status Update for further details.

Control	Reason for selection	Assessor / reviewer rating	Audit effectiveness rating	Auditor comments
EXP-PAY-0010: The ability to access, modify or transfer information contained in the payroll master files is restricted to authorised staff.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.
EXP-PAY-0013: The payment of the payroll is authorised by appropriate staff not involved in the preparation of the payroll.	Prior year treatment plan	A=5, R=5	5	.
EXP-PAY-0015: There is a process in place to ensure employees are not added to the payroll masterfile, nor details amended or amounts paid without receipt of the appropriate forms which have been authorised by relevant staff.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.
EXP-PAY-0017: There is a process to ensure all overtime is verified and approved by relevant appropriate staff.	Prior year treatment plan	A=5, R=5	5	
EXP-PUR-0001: Access to the supplier master file and ability to make changes is restricted to appropriately authorised staff.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.
EXP-PUR-0003: Council has a Procurement Policy that provides direction on acceptable methods and the process for procurement activities to ensure transparency and value for money within a consistent framework, with consideration of any potential conflicts of interest.	Auditor judgement	A=4, R=4	4	
LIA-ACC-0001: Access to the supplier masterfile is restricted to authorised staff	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.

Control	Reason for selection	Assessor / reviewer rating	Audit effectiveness rating	Auditor comments
LIA-ACC-0002: All invoices and payment requests are approved in accordance with relevant policies and/or Delegations of Authority.	Assessor / reviewer difference	A=4, R=5	4	
LIA-ACC-0004: Employee expenses claims must be approved by authorised staff and independently verified and include relevant substantiation.	Assessor / reviewer difference	A=5, R=4	4	
LIA-ACC-0007: Payments are verified to appropriate supporting documentation and are in line with Delegations of Authority.	Assessor / reviewer difference	A=5, R=4	4	The Finance staff delegations and Tech1 transaction limits are not synchronised due to the need to provide for journal approvals. Example: the Finance Manager's delegation is limited to $50,000, however in Tech1 the Finance manager has unlimited approval. There is an opportunity to investigate isolating Finance staff journal approval permissions from AP financial delegations in Tech1. See **Recommended Treatment Plan 1**.

Control	Reason for selection	Assessor / reviewer rating	Audit effectiveness rating	Auditor comments
LIA-ACC-0013: Separation of Accounts Payable and Procurement duties.	Assessor / reviewer difference	A=4, R=5	4	The Assessor noted that: 'Supplier details are only updated by Procurement Officer/Governance who does not process invoices. There have been some exceptions to this rule whilst the Procurement Officer has been on leave. On these occasion Finance staff kept a record of those updated which was accessible by Procurement Officer.' Audit note that when the Procurement Officer is on leave, segregation of duties may be compromised due to the need for Finance staff to ensure business continuity. A potential compensating control is to strengthen control LIA-ACC-0018 and require a specific review of the Tech1 Supplier Masterfile change log by an independent officer when the Procurement Officer is on leave to ensure all supplier detail updates are bona fide. See **Recommended Treatment Plan 2**.
REV-GRA-0003: Management and/or Council to approve all tied grants (prior to funds being received by Council) to ensure that Council will be able to meet the terms and obligations of the grant.	Auditor judgement	A=4, R=4	4	
REV-GRA-0004: There is a process in place for the regular review of all grant income to monitor compliance with the terms of the grant.	Assessor / reviewer difference	A=3, R=4	4	
REV-RAT-0001: Access to the Property master file is restricted to appropriately designated personnel, with a process in place to ensure changes are in line with policies and procedures.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.

Control	Reason for selection	Assessor / reviewer rating	Audit effectiveness rating	Auditor comments
REV-USE-0002: Fees and Charges register is maintained and made available to the public.	Assessor / reviewer difference	A=4, R=5	4	Fees and Charges Policy approved by Council in April 2022 has strengthened the process, providing transparency on how fees are set. Council's fees and charges register published online is not the single source of information regarding fees and charges. Example, during the review Audit noted that the register is not the single source of information regarding fees and charges online. For example Audit accessed the 2019-2020 Community Wellbeing Program fees via the Community Transport page. There is an opportunity for CHB to Undertake a stocktake of all fees and charges published online to identify duplications and establish protocols on how fees and charges information online will be maintained. See **Recommended Treatment Plan 3**.
STR-GEN-0001: Access to General Ledger maintenance is restricted to appropriately authorised personnel.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.
STR-GEN-0010: Journal entry access is restricted to appropriately authorised personnel.	Prior year treatment plan	A=5, R=5	4	Treatment plan in progress.
STR-GEN-0011: Reconciliation of all balance sheet accounts is completed in accordance with a schedule of review and/or procedure. Strategic Financial Planning - General Ledger	Assessor / reviewer difference	A=4, R=5	4	Control operating as described for a sample of four reconciliations reviewed.

Table 2 – 2020-21 ControlTrack Assessment Treatment Plans Status Update

Internal audit performed a follow up on the status of the previous Treatment Plans recommended by Internal Audit in 2020-21.

#	Risk Category	Business Process	Control	Rating from 2020-21 CSA	Status	Assessment Comments and update
1	Expenses	Payroll	EXP-PAY-0010: The ability to access, modify or transfer information contained in the payroll master files is restricted to authorised staff.	4	In progress	Interrelated controls, with a single treatment plan. Treatment plan is in progress, CHB are reviewing processes to formalise review of access to finance modules in TechOne.
	Strategic Financial Planning	General Ledger	STR-GEN-0001: Access to General Ledger maintenance is restricted to appropriately authorised personnel.	4		
	Strategic Financial Planning	General Ledger	STR-GEN-0010: Journal entry access is restricted to appropriately authorised personnel.	4		
	Liabilities	Accounts Payable	LIA-ACC-0001: Access to the supplier master file is restricted to authorised staff	4		
	Revenue	Rates/Rate Rebates	REV-RAT-0001: Access to the Property master file is restricted to appropriately designated personnel, with a process in place to ensure changes are in line with policies and procedures.	4		
	Liabilities	Accounts Payable	LIA-ACC-0001: Access to the supplier master file and ability to make changes is restricted to appropriately authorised staff.	4		
	Assets	Debtors	ASS-DEB-0001: Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by relevant staff for accuracy and on-going pertinence.	4		
	Expenses	Payroll	EXP-PAY-0015: There is a process in place to ensure employees are not added to the payroll master file, nor details amended or amounts paid without receipt of the appropriate forms which have been authorised by relevant staff.	4		

#	Risk Category	Business Process	Control	Rating from 2020-21 CSA	Status	Assessment Comments and update
2	Assets	Fixed Assets	ASS-FIX-0014: There is a process in place for the verification of fixed assets which is reconciled to the FAR.	4	In progress	2020-21 treatment plan 2 assessed as in progress. The GIS Officer role is vacant. Once filled, the officer's role will include reviewing the process for reconciling fixed assets recorded in the GIS system to the fixed asset register. Current process requires a work order to be linked to an asset, providing assurance that new assets are added to the GIS. This does not provide comfort that both systems reconcile.
3	Expenses	Payroll	EXP-PAY-0013: The payment of the payroll is authorised by appropriate staff not involved in the preparation of the payroll.	4	Complete	
	Expenses	Payroll	EXP-PAY-0017: There is a process to ensure all overtime is verified and approved by relevant appropriate staff.	5		

Table 3 – Status of Other Improvement Plans in ControlTrack

The following table summarises the status of other improvement plans recorded in ControlTrack.

ControlTrack Improvement Ref Number	ControlTrack improvement plan description	Action Owner	Audit assessment
1	Identify how to run a report that will show all credit notes raised in the last month and set up a process where these are reviewed and authorised.	Financial Services	Fully implemented
3	Policy and procedure endorsed and communicated to staff (External Funding procedures).	Strategy and Governance	Fully implemented
4	Grant funding reports to be tabled with SLT quarterly.	Strategy and Governance	Fully implemented
6	Disaster Recovery Plan developed.	Innovation and Technology	Fully implemented

Recommended Treatment Plans

Recommended Treatment Plan 1:

Control	LIA-ACC-0007: Payments are verified to appropriate supporting documentation and are in line with Delegations of Authority.
Observation Summary	Finance staff permissions in Tech 1 do not align to the Council delegations.
Recommended Treatment Plan	Investigate the ability to isolate Finance staff journal approval permissions from AP financial delegations in Tech1.
Management Response	Financial Accountant will investigate the capabilities within Technology One of isolating journal approval and the impact on workflow.

Recommended Treatment Plan 2:

Control	LIA-ACC-0013: Separation of Accounts Payable and Procurement duties.
Observation Summary	Separation of Accounts Payable and Procurement duties is compromised when the Procurement Officer is on leave.
Recommended Treatment Plan	Due to the need to maintain business continuity the separation of Accounts Payable and Procurement duties is not always possible. Consider strengthening control LIA-ACC-0018, a compensating control, to require that an independent officer reviews the Tech1 Supplier Masterfile change log when the Procurement Officer is on leave to ensure all updates are bona fide.
Management Response	Additional controls were put in place while the Procurement Officer was on leave, however, going forward Governance will provide backup from within their team to cover staff leave.

Recommended Treatment Plan 3:

Control	REV-USE-0002: Fees and Charges register is maintained and made available to the public.
Observation Summary	The fees and charges register is not the single version of the truth. Audit identified that some fees are documented in multiple locations online and may not be kept consistently up to date.
Recommended Treatment Plan	Undertake a stocktake of all fees and charges published online to identify any duplications, and establish protocols on how fees and charges information online will be maintained.
Management Response	Leadership team personnel will review in conjunction with Communications & Engagement team to ensure all documents are current.

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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, the City of Holdfast Bay's management and personnel. We have not sought to independently verify those sources. 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 with the City of Holdfast Bay. The internal audit 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 Executive Summary of this report and for the City of Holdfast Bay's information, and is not to be used for any other purpose or distributed to any other party without Galpins' prior written consent. This internal audit report has been prepared at the request of the City of Holdfast Bay or its delegate in connection with our engagement to perform internal audit services. Other than our responsibility to City of Holdfast Bay, neither Galpins nor any member or employee of Galpins undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the City of Holdfast Bay's external auditor, on this internal audit report. Any reliance placed is that party's sole responsibility.

Attachment 4

Galpins

Accountants, Auditors & Business Consultants

Alwyndor

Internal Audit Report – Internal Financial Control Monitoring

July 2022

Alwyndor

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Background

Each financial year, Alwyndor performs a financial internal controls self-assessment (CSA) process to provide assurance that Council, as a related entity, is meeting its obligations under s125 of the *Local Government Act 1999*:

> *"A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records."*

The CSA is restricted to the application of s125 as it relates to financial internal controls, specifically the controls exercised by Alwyndor during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

The CSA process conducted by Alwyndor constitutes Alwyndor's internal financial control monitoring program, as required by the *Better Practice Model – Internal Financial Controls for South Australian Councils.*

Conduct of the CSA

The CSA was finalised by Alwyndor staff on the 11 July 2022, encompassing a review of the operating effectiveness of 81 controls as selected per the risk-based control monitoring methodology. Each control was given an effectiveness score out of 5 by both an 'assessor' (typically staff member responsible for performing the control activity) and a reviewer (typically the manager responsible for overseeing the control activity).

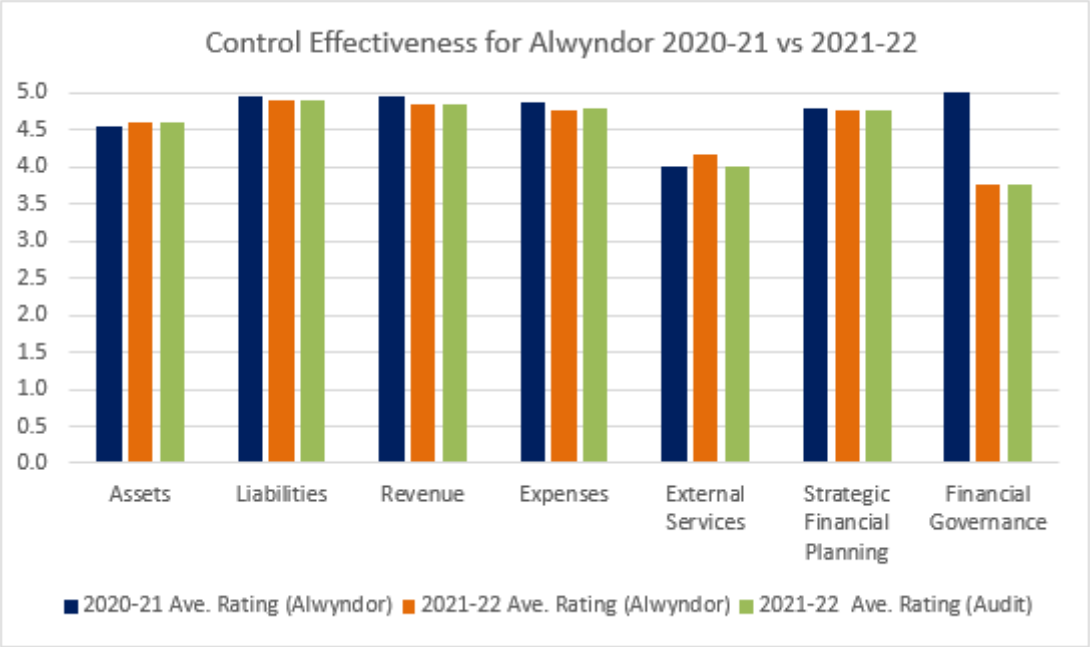
Control effectiveness scores are defined as follows:

Definitions of Control Effectiveness Ratings	
1. Ineffective	During the period, the control has not been implemented as described. Urgent management action is required to implement the described control processes.
2. Requires significant improvement	During the period, the control has been implemented as described, but with significant deficiencies in the consistency or effectiveness of implementation. Significant management action required to implement processes to improve the effectiveness of the control.
3. Partially effective	During the period, the control has been implemented as described, but with some deficiencies in the consistency and/or effectiveness in which it has been applied.
4. Majority effective	During the period, the control has been implemented as described and in the majority of cases has been consistently and/or effectively applied. There is potential to enhance the effectiveness of the control, but only with minor adjustments.
5. Effective	During the period, the control as described has been fully implemented and has in all cases has been consistently and/or effectively applied.

Results of the CSA

The results of the CSA indicate a high level of control effectiveness for Alwyndor.

The following table illustrates the average effectiveness scores determined by Alwyndor assessors and reviewers in 2021-22 in comparison to the 2020-21 scores, and in comparison, to the results of the internal audit review.



**Audit rating based on average of assessor / reviewer score for controls not tested in audit sample. In some cases, consideration has been given to reviewer comments justifying a lower score than the assessor, resulting in the Audit rating adopting the lower score.*

The assessed control effectiveness for the Financial Governance business cycle appears in the graph above to have dropped significantly. The Financial Governance business cycle contains only two controls. The effectiveness rating for one of the controls remains unchanged, whilst for control *FIG-GOV-0002 'there is a process in place for staff to be made aware of the Code of Conduct and Conflict of Interest'*, the Assessor and Reviewer scores were lower than the prior year as follows:

	2020-21 scores	2021-22 scores	2021-22 comments
Assessor	5	2	This is not provided or discussed during onboarding/induction.
Reviewer	5	3	This is an oversight, Values and behavioural requirements are clearly outlines in the Induction session, I have requested the Code of Conduct be included in Induction packs together with an explicit statement in the overview and presentation of employment requirements and associated Policies.

Internal Audit is satisfied that the actions requested by the Reviewer will ensure that the control will operate as intended in future.

Internal audit review of control ratings

Internal Audit reviewed the reasonableness of effectiveness ratings assigned by Alwyndor by selecting a sample of controls and reviewing evidence supporting the assigned rating. Our methodology was as follows:

- A sample of controls were selected for independent verification. Controls were selected based on a number of factors, including:
  - existence of a variance between the assessor / reviewer effectiveness rating
  - a treatment plan was recommended in the prior year review
  - the control related to a key financial policy
  - specific control selection based on auditor judgement, including controls considered to be particularly important or at greater risk of control failure (eg due to high volume, multiple responsible persons, reliance on manual processes).
- Documentation supporting the assessor / reviewer rating was requested, based on specific documents referenced by the assessor / reviewer in their comments and the auditor's knowledge of expected supporting documents.
- These documents were reviewed to perform an independent verification of the controls and conclude if the effectiveness rating scored by the assessor/ reviewer was reasonable.

Results of our review

Overall, there was a high degree of consistency with Alwyndor's assessor / reviewer assessment scores and the scores determined by internal audit.

For four of the 14 controls reviewed, there was a discrepancy between the Assessor's and Reviewer's scores and Internal Audit adopted the lower of the Assessor / Reviewer scores. In all instances, the lower score assigned was an effectiveness score of 4 (majority effective), and as such no new treatment plans have been identified.

All other controls were assigned scores consistent with the Assessor and Reviewer.

See **Table 1** for more detail regarding controls tested and effectiveness scores assigned.

Treatment plans are only required in ControlTrack for controls with an effectiveness rating of 3 or less. In 2021-22 there are three controls with an effectiveness rating of 3 or less:

- *FIG-GOV-0002 there is a process in place for staff to be made aware of the Code of Conduct and Conflict of Interest*
- *EXP-CRE-0004 credit card holders sign a declaration confirming compliance with Alwyndor policy and procedures prior to the Credit Card being released*
- *ASS-FIX-0013 relevant staff review useful lives, residuals, valuations, depreciation methodology and test for impairment as required by Accounting Standards and legislation to ensure that methods used are still appropriate and significant changes are incorporated into Asset Management Plans.*

Treatment plans for *FIG-GOV-0002* and *EXP-CRE-0004* to strengthen the controls' effectiveness have since been implemented, as detailed in 'Results of the CSA' above, and in Table 1 below.

The status of treatment plans for *ASS-FIX-0013, as well as other* previous treatment plans from 2019-20, is summarised in **Table 2**.

Table 1 – Controls selected for Internal Audit review

Process	Code	Description	Assessor / reviewer rating	Audit effectiveness rating	Auditor Comments
General Ledger	STR-GEN-0010	Journal entry access is restricted to appropriately authorised personnel.	A=5; R=5	5	
General Ledger	STR-GEN-0001	Access to General Ledger maintenance is restricted to appropriately authorised personnel.	A=5; R=5	5	
User Pay Income - Fee for Service	REV-USE-0009	There is a process in place to determine and approve discounts to be applied to Home Care	A=5; R=5	5	
Accounts Payable	LIA-ACC-0001	Access to the supplier masterfile is restricted to authorised staff	A=5; R=5	5	
Contracting	EXT-CON-0006	There is a process in place to ensure that commitments are made with approval by Council or delegated staff.	A=4; R=5	4	
Credit Cards	EXP-CRE-0004	Credit card holders sign a declaration confirming compliance with Alwyndor policy and procedures prior to the Credit Card being released.	A=3; R=3	5	The low Assessor and Reviewer scores were reflective of the fact that historically, not all declarations were signed prior to the issuing of the Credit Card. Credit Card holders have now signed updated declarations. Audit are satisfied that processes are now in place to ensure that the declaration is signed prior to Credit Cards being released.
Credit Cards	EXP-CRE-0003	Cardholders must check their statement to ensure all transactions are correct and identify any transactions of a personal nature which must be reimbursed.	A=4; R=5	4	

Process	Code	Description	Assessor / reviewer rating	Audit effectiveness rating	Auditor Comments
Payroll	EXP-PAY-0012	The payment for the payroll must be reconciled to a system generated report detailing amount and employee prior to payment.	A=4; R=5	4	
Payroll	EXP-PAY-0010	The ability to access, modify or transfer information contained in the payroll master files is restricted to authorised staff.	A=5;R=5	5	
Payroll	EXP-PAY-0008	Payroll system generates audit reports detailing all payroll changes and there is a process in place to ensure all changes are reviewed and verified against source documents.	A=5;R=4	4	
Purchasing and Procurement	EXP-PUR-0001	Access to the supplier master file and ability to make changes is restricted to appropriately authorised staff.	A=5;R=5	5	
Banking	ASS-BAN-0001	Access to EFT Banking system is restricted to appropriately designated personnel.	A=5;R=5	5	
Fixed Assets	ASS-FIX-0009	Maintenance of the fixed asset register is limited to appropriate staff with consideration to segregation of duties.	A=5;R=5	5	
Investments	ASS-INS-0005	Alwyndor has a clear and comprehensive investment policy to assist when making any decisions to invest funds.	A=5;R=5	5	

Recommended Treatment Plans

There are no new Treatment Plans identified.

Table 2- Alwyndor Aged Care 2019-20 / 2020-21 ControlTrack Assessment Action Plans Status

Internal audit performed a follow up on the status of ControlTrack Assessment Action Plans

#	Risk Category	Business Process	Control	Rating from 2019/20 CSA	Rating from 2020/21 CSA	Status	Treatment Plan	Assessment Comments and update
1	Assets	Debtors	The organisation maintains a Debt Collection Policy and/or procedure. BPM Control Type: Core Control Code: ASS-DEB-0013	A=2, R=2	A=4, R=4	Not Started Due Date: ~~30/06/2021~~ 1/11/2022	Debt Collection Policy to be created.	Alwyndor does not have a policy or formal documented procedure for Debt Collection, however outstanding debtors are checked regularly and any aged debtors are followed up. Risk level considered low, the majority of billing is collected via direct debit, meaning there is rarely a need for debt collection procedures. If debt collection is needed the procedure is determined on a case-by-case basis depending on the type of client and what service they have used.
2	Assets	Fixed Assets	Asset Management Plans are prepared and renewal expenditure and programmed maintenance required is reviewed periodically to reflect changing priorities, additional asset data and other relevant factors. BPM Control Type: Core Control Code: ASS-FIX-0003	A=3, R=3	A=4, R=3	Not started Due Date: ~~30/06/2020~~ ~~30/06/2022~~ 31/03/2023[1]	Complete Asset Management Plan	The development of the Asset Management Plan not started due to resourcing issues - lack of suitable staff & finances. Has been planned for 2022/23. Scheduled maintenance systems are in place to maintain/monitor assets against priorities, and any damage arising. Management of assets is undertaken by a register.
3	Assets	Fixed Assets	Relevant staff review useful lives, residuals, valuations, depreciation methodology and test for impairment as required by Accounting Standards and legislation to ensure that methods used are still appropriate and significant changes are	A=3, R=3	A=3, R=3	In progress Due Date: ~~31/12/2020~~ 31/03/2023	Fixed Assets, asset accounting policy to be reviewed	Assets are regularly maintained and serviced based on a maintenance schedule. The Financial Accountant provides an assessment for new assets which is reviewed by the Finance Manager. The Finance Manager then prepares a high level review the useful lives and depreciation methodology every two years. Independent valuations are performed every 5 years.

[1] 2023 budget includes funding to prepare an Asset Management Plan.

#	Risk Category	Business Process	Control	Rating from 2019/20 CSA	Rating from 2020/21 CSA	Status	Treatment Plan	Assessment Comments and update
			incorporated into Asset Management Plans. BPM Control Type: Core Control Code: ASS-FIX-0013					The development of the Asset Management Plan will include a review of the communication between the finance team and maintenance team to ensure assets are effectively monitored and disposals are appropriately documented.
4	Assets	Fixed Assets	There is a process in place for the verification of fixed assets which is reconciled to the FAR. BPM Control Type: Core Control Code: ASS-FIX-0014	A=3, R=3	A=5, R=4	In progress Due Date: ~~31/12/2020~~ 31/03/2023	Fixed Assets, asset accounting policy to be reviewed.	Several methods of verification are in place. Independent valuations performed every 5 years. All capital acquisitions are signed off to ensure that the asset has been received, is being treated as capital and entered into the asset schedule. The end of month checks ensure that all asset additions are accurate. Most assets require regular (at least annual) maintenance recorded in the maintenance schedule, acting as a form of stocktake. Assets in the maintenance schedule have been reconciled against the asset register. Looking to consolidate the asset ID used in Finance with the asset ID used by Maintenance team for easier monitoring however majority of the control is considered effective.
5	Revenue	User Pay Income – Fees for Service	There is a process in place to determine and approve discounts to be applied to Home Care. BPM Control Type: Core Control Code: REV-USE-0009	A=3, R=3	A=5, R=5	Completed	Create Home Care Fee Waiver policy and procedure	A fee waiver policy was not developed. However, an appropriate fee waiver form is used to communicate, approve and record all fee waivers.

Disclaimers

Inherent limitations

This report has been prepared for the information and internal use of the Alwyndor in accordance with the scope and objectives outlined in the Executive Summary of this report. The services provided in connection with this engagement comprise an advisory engagement which is not subject to the Australian Auditing Standards or the Australian Standards on Review and Assurance Engagements. Consequently, no express opinions or conclusions have been drawn or intended to convey assurance. 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 the procedures we performed 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. The procedures performed were not designed to detect all weaknesses in control procedures as they are not performed continuously throughout the period and the tests performed on the control procedures were 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, the Alwyndor's management and personnel. We have not sought to independently verify those sources. 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 with the Alwyndor. The internal audit findings expressed in this report have been formed on the above basis.

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Attachment 5

Proposed Internal Audit work plan		System/ Process Audit	Post Implementation Review	Financial Controls Review
Year 1 2022/23	1) **Floodwater/Stormwater** – coastal area/environmental impact/asset protection. *Risk 1 – Poor or ineffective management of the impacts of climate change* 2) ***Development Assessment*** – post implementation review. *Risk 7 - Poor or ineffective planning systems and processes* 3) ***Complaints Handling*** - link to Customer Experience Strategy once rolled out. *Risk 14 - Poor or ineffective customer service delivery* 4) ***Fraud Detection*** – Undertake fraud detection across CoHB & Alwyndor *Risk 16 – Poor or ineffective budget development and management*	✓	✓ ✓	✓
Year 2 2023/24	1) ***Strategic Plan*** – assessment of strategic alignment *Risk 11 - Lack of Strategic Alignment* 2) ***Human Resource Management*** – review across CoHB & Alwyndor *Risk 12 - Poor or ineffective workforce planning, including recruitment and retention* 3) ***Elected Members*** - audit relating to new body, their representation & decision-making role *Risk 17 - Poor or ineffective management of legislative, regulatory obligations and ongoing changes* 4) ***Asset Management*** – alternative asset class/elements of service delivery/grant funding. *Risk 3 - Insufficient or ineffective Asset Management Planning* 5) **Procurement and contracting** – review to include flow/processing of documentation, CoHB & Alwyndor *Risk 16 – Poor or ineffective budget development and management*	✓ ✓ ✓	✓	✓
Year 3 2024/25	1) **LGITSA Implementation of Cyber Security** – follow on work from 2 x cyber security audits *Risk 10 - Inadequate utilisation of information technology to support service delivery* 2) **Customer Experience Strategy** – following implementation of strategy *Risk 14 - Poor or ineffective customer service delivery* 3) **Economic Strategy** – following implementation of strategy *Risk 19 - Poor or inadequate Economic Development and Tourism Management* 4) **Financial Controls** – EOFY review of internal controls *Risk 16 – Poor or ineffective budget development and management* 5) ***Carbon Neutral Plan*** - post implementation review *Risk 1 - Poor or ineffective management of the impacts of climate change*		✓ ✓ ✓ ✓	✓

Item No: 7.3

Subject: **RISK REPORT**

Date: 17 August 2022

Written By: Risk and Improvement Officer

General Manager: Strategy and Corporate, Ms P Jackson

SUMMARY

A review of the Strategic Risk Register and high operational risks was undertaken in line with ISO31000 (2018), to ensure an accurate reflection of the current risk management position across the business as a whole, scoping both business risks and opportunities.

The environmental scan, used to identify new and emerging areas of both risk and opportunity, is scheduled for its quarterly update later in August and will therefore be presented within the Risk Report at the next meeting.

RECOMMENDATION

That the Audit Committee notes this report.

STRATEGIC PLAN
Statutory compliance

COUNCIL POLICY
Risk Management Policy

STATUTORY PROVISIONS
Not Applicable

BACKGROUND

As per the updated ISO31000 (2018) guidelines, both risks and related opportunities were captured and reviewed by Senior Leadership Team whilst using 'Our Strategic Plan 2050+' and supporting Business Plans for reference.

REPORT

Annual Risk Profile

An analysis of the last twelve months data from the strategic risk register was undertaken along with that from the high-level operational risk register to generate our 'Annual Risk Profile'. This profile illustrates the movement in our corporate risk exposure during 2021/22.

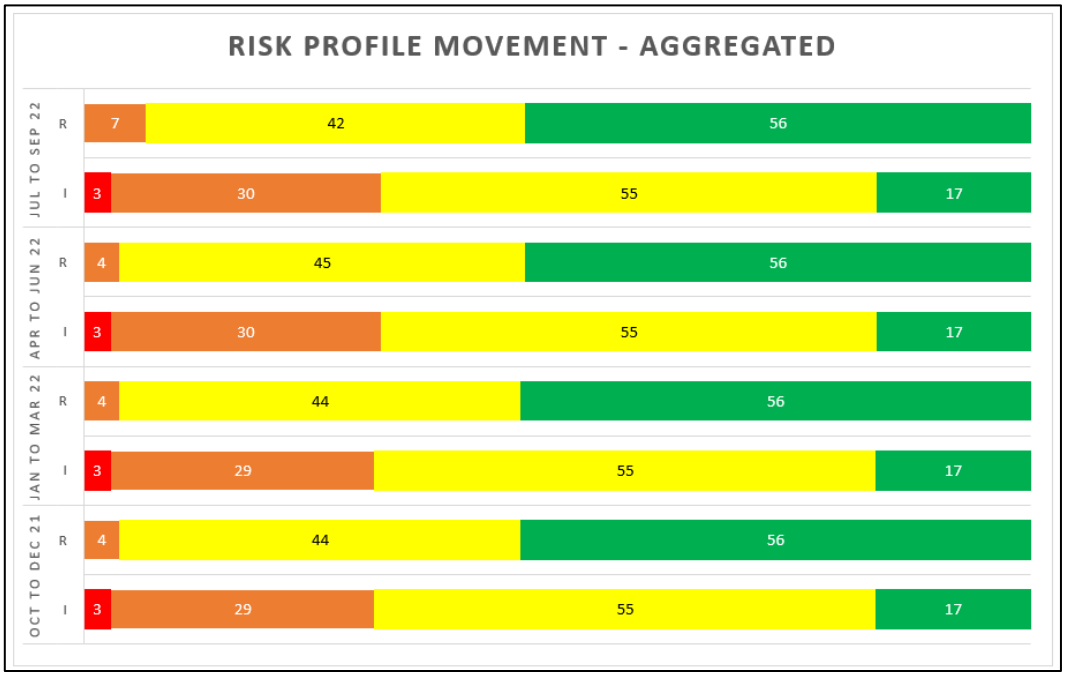
Refer Attachment 1

Risk Profile Overview and Movement
The Risk Profile Overview and Risk Profile Movement are presented for noting. (Tables 2 and 3)

Table 2: Risk Profile Overview - 12 Months to September 2022.

Period	Oct to Dec 21		Jan to Mar 22		Apr to Jun 22		Jul to Sep 22		
Risk	I	C	I	C	I	C	I	C	
Extreme	3	0	3	0	3	0	3	0	
High	29	4	29	4	30	4	30	7	↑
Medium	55	44	55	44	55	45	55	42	↓
Low	17	56	17	56	17	56	17	56	
Total	104	104	104	104	105	105	105	105	

Table 3: Risk Profile Movement - 12 Months to September 2022



Risk Register Reviews

With both the Risk Management Policy and Procedure having recently been updated, the next review phase centred on the strategic and operational risk registers. This review referenced all 20 risks currently identified in the Strategic Risk Register, along with the three risks from the Operational Risk Register currently rated as high - all related to asset management.

Each risk was considered and updated for context and relevance, with any completed actions re-listed as current controls, and newly identified actions provided to further mitigate each risk in question. The risk owners were linked at a high level, in alignment with the individual Senior Leadership Team members, who were all key in completing updates within their respective business areas.

Following this holistic review, three strategic risks were re-rated from MEDIUM to HIGH, reflecting the current risk climate. Summary details are listed below (Table 1), along with the *Strategic and High-Level Operational Risk* full register detail attached.

Under the current Risk Management Procedure all strategic risks, and all extreme and high operational risks are required to be reported to the Audit Committee.

Refer Attachment 2

Table 1 – Risks with Current Rating of HIGH – JUNE 2022

	I	C	R
Strategic Risk ID: 6 Inability to respond and recover effectively from disruptive events ***Newly re-rated*** *→ increasing crisis fatigue/range of emergency management issues*	**E**	**H**	**M**
Strategic Risk ID: 13 Inability to effectively implement strategic projects **Newly *re-rated*** *→ due to scarcity factor/escalating prices - contractors and raw materials*	**E**	**H**	**M**
Strategic Risk ID: 17 Ineffective management of legislative & regulatory obligations & ongoing changes ***Newly re-rated*** *→pending LG Elections /raised uncertainties of new Elected Member body*	**E**	**H**	**M**
Strategic Risk ID: 1 Poor or ineffective management of the impacts of climate change	**E**	**H**	**M**
Operational Risk: 81 Asset Management Plans with high-risk actions to be completed within 1 year	**H**	**H**	**M**
Operational Risk: 82 Asset Management Plans with high-risk actions to be completed within 2 years	**H**	**H**	**M**
Operational Risk: 83 Asset Management Plans with high-risk actions to be completed within 3 years	**H**	**H**	**M**

New/Emerging Risks

In May 2022, an environmental scan was undertaken scoping any new and/or emerging risk and opportunity areas. The following were identified:

- Housing/ Homelessness
- Financial Hardship/Business Sustainability
- Political impact of Federal Government elections
- Community support/changes to grant funding streams

These new and/or emerging issues will continue to be monitored for inclusion in the risk registers as relevant. The next review of the environmental scan will re-visit these, and any additional issues as highlighted, for consideration by SLT prior to the next risk reporting cycle.

Risk Module Migration

Following the review of the risk management portfolio, the final phase of the current implementation plan is to migrate our updated risk data onto a new portal-based risk management solution, 'transforming governance' as operated by ReliantSys®. This will be undertaken commencing in August 2022 and will result in a more efficient method of updating and maintaining our risk data. In addition, it will also provide risk and action owners a more timely, effective and relevant means of referencing and providing risk-based data, to support both daily operations and key corporate decision making.

BUDGET

The cost of the new ReliantSys module is being sought from the LGAMLS Risk Incentive Program.

LIFE CYCLE COSTS

There are no life cycle costs associated with this report.

Attachment 1

2021-22 ANNUAL RISK PROFILE

Strategic & High-Level Operational - Risks and Opportunities

'Protecting our heritage and beautiful coast, while creating a welcoming and healthy place for all in South Australia's most sustainable city'

CORPORATE GOVERNANCE

- Inability to implement appropriate controls to manage changes to Local Government.
- *Poor or ineffective customer service delivery.*
- Lack of strategic alignment.
- *Poor or ineffective workforce planning, including recruitment and retention.*
- Poor or ineffective budget development and management.
- *Poor or ineffective management of legislative and regulatory obligations and ongoing changes.*

WELLBEING

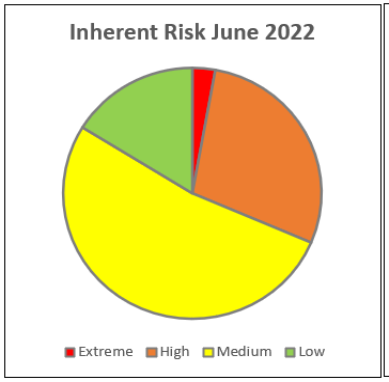
- Poor or ineffective Community Service delivery.
- *Failure to appropriately engage the broader community and stakeholders.*
- Inability to deliver a sustainable events calendar.
- *Inability to respond and recover effectively from disruptive events.*
- Prevention of risk or harm to children, young and vulnerable people.
- *Inability of current staff profile to transform the organisation.*

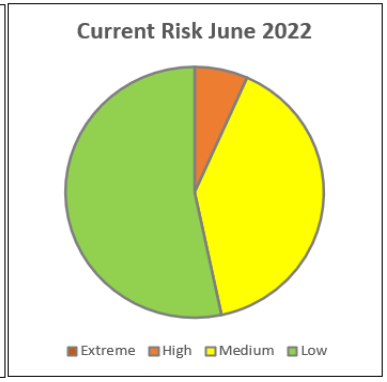
SUSTAINABILITY

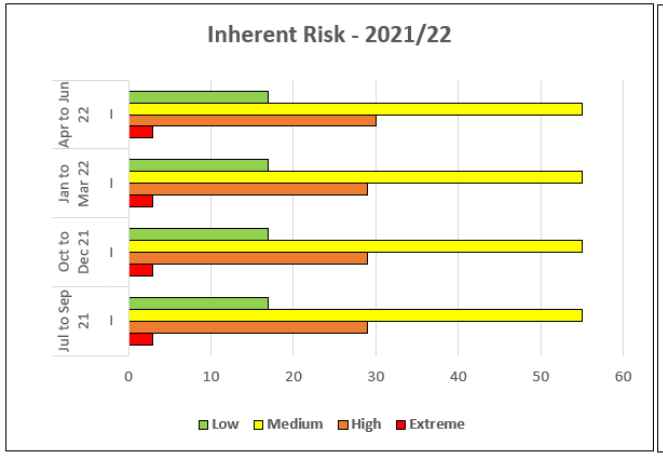
- Poor or inadequate Economic Development and Tourism Management.
- *Inability to sustainably provide aged care services to the community consistent with the requirements of the ACQS.*
- Staff, contractor or volunteer death or serious injury OR subject to physical, sexual, emotional or psychological abuse.
- *Inability to effectively implement strategic projects.*
- Poor or ineffective management of the impacts of climate change.

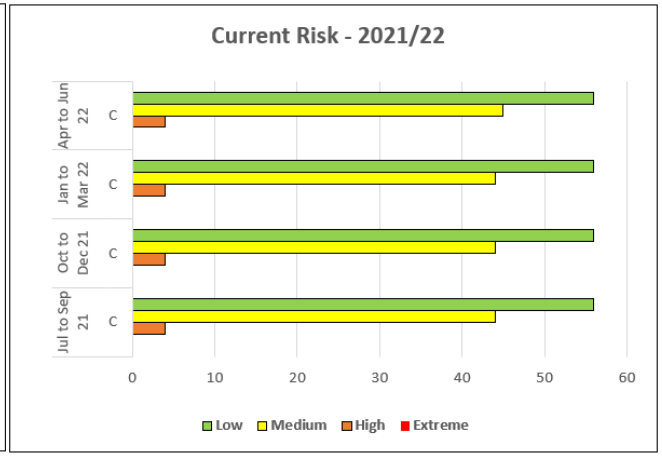
INNOVATION

- Poor or ineffective planning systems and processes.
- *Insufficient or ineffective Asset Management Planning.*
- Asset Management Plans with high and very high-risk actions with actions to be completed in within 1 year.
- *Asset Management Plans with high and very high-risk actions with actions to be completed in within 2 years.*
- Asset Management Plans with high and very high-risk actions with actions to be completed in within 4 years.
- *Inadequate utilisation of information technology to support service delivery.*









Attachment 2

City of Holdfast & Alwyndor Risk Register - Strategic & High Level Operational Risks — JUNE 2022

Risk Review Due	Risk ID	New ID	SLT Responsible	Strategic or Operational?	Risk Category	Risk Description	Consequences	Causes	Inherent Risk			Controls	Current Risk			Additional controls	Residual Risk		
									Consequence	Likelihood	Risk Rating	Description	Consequence	Likelihood	Risk Rating	Further treatments/actions	Consequence	Likelihood	Risk Rating
30-Jun-22	CE01 (previously 9)	CE01	Chief Executive Officer	Strategic	Effective Governance	**Inability to implement appropriate controls to manage changes to Local Government reform**	Legal/ Regulatory/ Policy, People, Financial/ Infrastructure, Reputation	1 Significant LG changes are ongoing 2. General rate/revenue pressures from State Govt. 3. Dissatisfaction with Boundary Reform process	Major	Possible	High	1.Membership of Local Government Association 2.Qualified /Specialised support staff for CEO office 3.LGRS suite of LG insurances /PSSI 4.Localised partnerships across various levels with neighbouring councils 5.Relevant suite of policies and procedures	Major	Unlikely	Medium	1.Implement caretaker process during pre-election period 2. Schedule mandatory training for Elected Members post election 3. Review skills/provide trainining for newly appointed Elected Members.	Major	Unlikely	Medium
30-Jun-22	0	CB01	General Manager Community and Business	Strategic	Community Service	**Poor or ineffective Community Service delivery**	Service Delivery Financial/ Infrastructure Environmental/Cultural	1. Significant range of services and increasing demand 2. Decreasing State and Federal services/funding 3. COVID pandemic impacts	Major	Possible	High	1.Policy, procedure & processes 2.Qualified/specialist staff 3.Community Engagement strategies 4.Play Space action plan 5.Website events/activites calendar	Major	Unlikely	Medium	1.Measure engagement particpants per year 2.Monitor no. of new/existing mixed use developments 3.Scope current/potential CHB building usage stats	Major	Unlikely	Medium
30-Jun-22	CB02 (previously 4)	CB02	General Manager Community and Business	Strategic	Growth and Prosperity	**Failure to appropriately engage the broader community and stakeholders**	Service Delivery Environmental/Cultural Reputation	1.Lack of appropriate engagement /informing community 2.Disproportionate vocal minority 3.Inconsistent approach to stakeholder management	Moderate	Possible	Medium	1.Communications Strategy 2030 2.Qualified/specialised staff 3.Policy & procedures for Communications & Engagement 4.Website training programs 5.Regular 1:1 support for project managers	Moderate	Unlikely	Low	1.Implement actions from Stakeholder Management audit 2.Review project management communications/external engagement 3.Review engagement documentation.- with Strategy & Governance	Moderate	Rare	Low
30-Jun-22	14	CB03	General Manager Community and Business	Strategic	Customer Service	**Poor or ineffective customer service delivery**	Service Delivery, Reputation, Environmental/Cultural	1.Lack of customer-centric design 2.Lack of customer focus, especially post COVID 3.Inadequate IT support systems/processes for efficient/effeective customer service	Moderate	Likely	High	1.Experienced /qualified customer service staff 2.Cross Council service standards for customer experience 3.Benchmarking and service information from LG network groups 4.Customer experience strategy 5.Service level performance key measures	Moderate	Unlikely	Medium	1.Develop a Customer Service Charter/Service Statement. 2.Undertake Customer Experience surveys to reconnect post COVID 3.Review and implement findings as illustrated by survey results	Minor	Unlikely	Low
30-Jun-22	15	CB04	General Manager Community and Business	Strategic	Service Delivery	**Inability to deliver a sustainable events calendar**	Service Delivery, Environmental/Cultural, Financial/ Infrastructure, Reputation,	1. High volume of events - raised community expectation 2.Demand/Pressures of open space management 3.Increased no.of events impacts community safety	Major	Possible	High	1.Qualified/specialised staff 2.Established events program 3.Event management policy,procedure & process 4.Partnership with local groups - Jetty Road Mainstreet etc 5.Stakeholder communication process	Moderate	Possible	Medium	1.Undertake event organiser survey to gauge post COVID needs 2.Benchmark event organisers to identify key review areas post COVID 3.Review target markets - domestic/overseas/package/independents	Moderate	Possible	Medium
30-Jun-22	19	CB05	General Manager Community and Business	Strategic	Service Delivery	**Poor or inadequate Economic Development and Tourism Management**	Financial/ Infrastructure, Service Delivery, Environmental/Cultural, Reputation	1.Outdated Tourism Policy/Plan 2.Lack of Social Inclusion/Access and Inclusion Plan 3.Lack of effective traffic mgt. strategies /transport issues	Major	Possible	High	1.Membership of Regional Toursim Boards 2.Networking with tourism organisations 3.Qualified/experienced staff 4.Toursim Destination Action Plan 5.Regional Destination Action Plan	Major	Unlikely	Medium	1.Ensure LTFP is updated with economic dev.funding detail 2.Factfind from tourism group activity levels for coming Summer 3.Draft tourism events calendar with COVID 'Plan B' capabilites	Major	Unlikely	Medium
30-Jun-22	5	AL01	General Manager Alwyndor	Strategic	Community Health and Wellbeing	**Inability to sustainably provide aged care services to the community consistent with the requirements of the ACQS.**	Legal/ Regulatory/ Policy Service Delivery Financial/ Infrastructure Reputation	1.Significant operation with $20m turnover/250 staff 2.Operates with multiple other Allied Health services 3.Lack of defined/inadpequate policies and procedures	Major	Possible	High	1.Onsite management and support from Alwyndor Mgt Board 2.Specialised/trained staff 3.Additonal staffing available via contracted services 4.Policies, procedures and processes 5.Aged Care Service standards	Major	Unlikely	Medium	1.Support services staff review 2.Staff skills audit 3.Benchmark services against lead aged care industry providers	Major	Unlikely	Medium
30-Jun-22	SC01 (previously 6)	SC01	General Manager Strategy and Governance	Strategic	Disruptive events	**Inability to respond and recover effectively from disruptive events**	Reputation Legal/ Regulatory/ Policy Service Delivery	1.Cyber Security/hacking 2.Disruptive events 3.Climate change/Environmental factors	Major	Almost Certain	Extreme	1.Crisis and Incident Management Plan 2.Business Continuity Plan 3.Incident Management training 4.Southern Region IM Partnership (CoMa/CoMi/CoO)	Major	Possible	High	1.Consider feedback/input as part of consultation of new DPTI system 2.Identify member to attend Resilient South Emergency Mgt meetings 3.Review website to ensure Community infopages are updated	Major	Unlikely	Medium
30-Jun-22	SC02 (previously 7)	SC02	General Manager Strategy and Governance	Strategic	Growth and Prosperity	**Poor or ineffective planning systems and processes**	Legal/ Regulatory/ Policy Service Delivery Reputation	1. Planning reform impacts reducing Council's influence 2. Priorities/targets to increase tree coverage impacting on Council planning 3. Loss of knowledge	Major	Likely	Extreme	1.Planning legislation and guidelines 2.Qualified/Specialist staff 3.Effective Planning and Development application process 4.Regulated policies and procedures 5.Assessments sampled/reviewed by supervisor	Moderate	Possible	Medium	1. Implementation of 2021/22 audit recommendations 2. Internal Audit to review Planning reform implementation 3. Review training requirements of team members	Moderate	Unlikely	Medium
30-Jun-22	SC03 (previously 8)	SC03	General Manager Strategy and Governance	Strategic	People & Culture (incl. WHS)	**Staff, contractor or volunteer death or serious injury OR subject to physical, sexual, emotional or psychological abuse**	People Reputation Legal/ Regulatory/ Policy	1.Physical, sexual, emotional or psychological abuse 2. Unqualified staff 3.Lack of appropriate training	Catastrophic	Possible	High	1.WHS Strategic Plan and Programs 2.Qualified/Specialised staff 3.Regular appraisal systems 4.Skills audits/Training Needs Analysis (TNA) 5.Published training program	Catastrophic	Rare	Medium	1.Support finalisation of 2021/22 EA renewal process 2.Update policy documentation as required 3.Rollout new Fair Treatment procedures at Depot	Catastrophic	Rare	Medium
30-Jun-22	10	SC04	General Manager Strategy and Governance	Strategic	Innovation and Business Support	**Inadequate utilisation of information technology to support service delivery**	Service Delivery, Environmental/Cultural, Project, Legal/ Regulatory/ Policy , People	1.Inadequate approach to data governance/security 2.Failure of significant/SMART city concepts/opportunities 3.Council's needs fail to align with vendor functionality	Major	Likely	Extreme	1.Information Management Governance Committee 2.Secure working practices in line with ISO 27001 Info Security Mgt 3.Networking partnerships with neighbouring/metro Council areas 4.Qualified / Specialised staff 5.Vendor agreements/ preferrred contractors for third party services	Moderate	Possible	Medium	1. Implement 2021/22 Cyber Security audit actions 2. Implement identified user security inc MFA at Council & Alwyndor 3. Review feasibility of resources/deliverables & advise IT Mgt Grp.	Moderate	Unlikely	Medium
30-Jun-22	11	SC05	General Manager Strategy and Governance	Strategic	Effective Governance	**Lack of strategic alignment**	Service Delivery, Financial/ Infrastructure, Reputation, Environmental/Cultural	1.Increased service demands/delivery; need to be agile 2.Low risk appetite for alternative service options 3.Hard to measure performance outcomes vs outputs	Major	Possible	High	1.Experienced/qualified staff overseeing strategy/governance process 2.Membership on LG related Strategic and Governance networks 3.Related policies, procedures and processes 4.Strategic Plan review working group 5.Benchmarking groups - access to key governance data	Moderate	Unlikely	Medium	1. Present strategic overview ('Our Holdfast 2050+'etc…) to new EMs 2. Draft and finalise CHB Corporate Plan 3. Review Business Plans to ensure alignment to Corporate Plan	Moderate	Unlikely	Medium
30-Jun-22	12	SC06	General Manager Strategy and Governance	Strategic	Workforce Planning	**Poor or ineffective workforce planning, including recruitment and retention.**	People Legal/ Regulatory/ Policy Reputation Financial/ Infrastructure	1.Inadequate workforce planning inc post COVID pressures 2.Lack of effective position management 3.Poor and ineffective recruitment decisions	Catastrophic	Possible	High	1.Organisational Development Policy 2.Recruitment and Selection Procedures 3.Background Screening & Reporting Procedures, 4.People & Culture Service Standards, 5.Quality Working Culture Policy,	Major	Rare	Medium	1.Support finalisation of 2021/22 EA renewal process 2.Update policy documentation as required 3. Undertake gap analysis across current skills audit data	Major	Rare	Medium
30-Jun-22	13	SC07	General Manager Strategy and Governance	Strategic	Project delivery	**Inability to effectively implement strategic projects**	Financial/ Infrastructure, Service Delivery, Reputation, Environmental/Cultural	1.Increased volume and complexity of projects 2. isguided stakeholder interest in major project outcomes 3.Decentralised approach to project management	Major	Possible	High	1.Project Management Board meetings and oversight 2.Project Management Framework and templates 3.Qualified /specialised staff managing project progress 4.Annual budget management process 5.Grant funding reporting and verification process	Major	Possible	High	1.Enhance project management reporting templates 2.Scope/design group training or online training module 3.Devise training module and/or online module to deliver required detail	Major	Unlikely	Medium
30-Jun-22	16	SC08	General Manager Strategy and Governance	Strategic	Effective Governance	**Poor or ineffective budget development and management**	Financial/ Infrastructure, Service Delivery, Legal/Regulatory/Policy, Reputation	1.Lack of zero based budgeting aligned with strategy 2.Insufficient budget for development of new assets 3. Difficult to understand full cost of individual services	Major	Possible	High	1.Qualified/experienced/ specialised staff 2.Financial regulations/ Accounting standards 3.Internal policies, procedures, processes 4.Regular external and internal system audits 5.Budget Setting, Management & Reporting	Major	Unlikely	Medium	1. Scope & mplement zero based budgetting as required 2. Ensure capital accounting adequately allocated for new assets 3.Ensure inclusion of strategic option/variations in LTFP process	Major	Unlikely	Medium
30-Jun-22	17	SC09	General Manager Strategy and Governance	Strategic	Effective Governance	**Poor or ineffective management of legislative and regulatory obligations and ongoing changes**	Legal/ Regulatory/ Policy, Service Delivery, Financial/Infrastructure, Reputation	1.Poor comms. re. legislative/regulatory change 2.Poor comms. re. Aged Care legislative/regulatory change 3.Lack of compliance framework/understanding for risks	Major	Almost Certain	Extreme	1.Reference to LGA 1999 Act & regulations 2.LGA Governance networking group 3.Qualified / experienced staff 4.Compliance Register - Council 5.Governance policy, procedure and processes	Major	Possible	High	1. Review and update Compliance Register 2. Draft a Compliance Policy & Framework 3. Provide Compliance training for staff as relevant	Major	Rare	Medium
30-Jun-22	18	SC10	General Manager Strategy and Governance	Strategic	People & Culture (incl. WHS)	**Inability of current staff profile to transform the organisation**	People, Service Delivery, Legal/ Regulatory/ Policy, Reputation	1.Lack of innovative/dynamic organisational direction 2.Poor capability/capacity for organisational transformation 3.Lack of skills/training to support staff to build change/agile skills	Major	Possible	High	1.HR policy and procedures 2.Training Needs Analysis (TNA) & corporate traininng program 3.Organisational structures and skills audits 4.Vacancy Management 5.Succession Planning	Major	Unlikely	Medium	1.Align strategic plans to organisation structure to ensure capacity 2.Benchmark similar Councils re.their strategic planning process 3. Ensure 'key worker' risk/succession planning is updated & mapped.	Major	Unlikely	Medium
30-Jun-22	20	SC11	General Manager Strategy and Governance	Strategic	People & Culture (incl. WHS)	**Prevention of risk or harm to children, young and vulnerable people**	People, Service Delivery, Reputation, Environmental/Cultural	1.'Poor recruitment 2.'Failure to adequately undertake staff checks/ screening. 3. Inadequate level of training	Catastrophic	Likely	Extreme	1.Background Screening & Reporting Procedures 2.Training Needs Analysis (TNA) details training per position. 3.Required training undertaken for existing related postions. 4.Appropriate screening checks undertaken as part of recruitment process.	Major	Rare	Medium	1.Undertake TNA reconciliation to skills source docs. 2.Identified staff to acknowledge 'Children & Vulnerable People' req'mts. 3.Ensure required screening checks are undertaken as relevant	Major	Rare	Medium
30-Jun-22	1	AD01	General Manager Assets and Delviery	Strategic	Environment	**Poor or ineffective management of the impacts of climate change**	Environmental/Cultural Reputation Financial/ Infrastructure	1. Lack of focus for environmental/climate change 2. Lack of budget capacity for environmental issues 3. Poor Community engagment on environmental issues	Catastrophic	Likely	Extreme	1.Resilient South Regional Climate Partnership 2.Environment Strategy & Implementation Plan 3.Waste Management Policy inc diversion to recycling & organics 4.Tree Management Policy and Street tree audit 5.Specialist trained staff/externally funded Urban Greening Officer	Catastrophic	Possible	High	1.Implement Resilient South Local Action Plan 2.Develop Regional Climate Action Plan 3.Develop a carbon neutral plan/strategy to achieve 2030 target	Major	Unlikely	Medium
0-Jan-00	3	AD02	General Manager Assets and Delviery	Strategic	Growth and Prosperity	**Insufficient or ineffective Asset Management Planning**	Service Delivery Environmental/Cultural Financial/ Infrastructure Reputation	1.Insufficient resources/skills/accurate data & cost information, 2.Inadequate level of correct data analysis 3.Lack of commitment by SLT and EMs to drive asset management	Major	Likely	High	1.Place making Strategies guiding future asset investment/design 2. Asset management policy, AMPs and related procedures 3. Capital accounting & Project management programs 4. Specialist/trained staff 5. Regular training to allign with legislation	Major	Unlikely	Medium	1.Asset Management Audit actions 2.Recruit staff to team vacancies 3.Update asset related policies and procedures for 2022/23	Major	Unlikely	Medium
30-Jun-22	-	81	General Manager Assets and Delviery	Operational	Asset Management	**Asset Management Plans with high and very high risk actions with actions to be completed in within 1 year**	Service Delivery, Financial/Infrastructure, Reputation, Environmental/Cultural	1.Inadequate priority planning currently in place 2.Insufficient resources/skills/accurate data & cost information, 3.Inadequate level of correct data analysis	Major	Likely	High	1.Trained teams/specialist staff 2.Adequate vehicles, tools & skills in place 3.Training Needs Analaysis (TNA) data base 4.Established maintenance schedule data 5. SOPs/SSAPs/User Reference Documentation	Major	Possible	High	1.Develop an internal AMS to inform AMPs. 2.Review survey to inform community LOS as required to inform next AMP 3.Introduce review timetable via annual updates to the AMP development.	Major	Unlikely	Medium
30-Jun-22	-	82	General Manager Assets and Delviery	Operational	Asset Management	**Asset Management Plans with high and very high risk actions with actions to be completed in within 2 years**	Service Delivery, Financial/Infrastructure, Reputation, Environmental/Cultural	1.Inadequate priority planning currently in place 2.Insufficient resources/skills/accurate data & cost information, 3.Inadequate level of correct data analysis	Major	Likely	High	1.Trained teams/specialist staff 2.Adequate vehicles, tools & skills in place 3.Training Needs Analaysis (TNA) data base 4.Established maintenance schedule data 5. SOPs/SSAPs/User Reference Documentation	Major	Possible	High	4.Update asset category rates via revaluation cycle, next AMP update/reconcile replacement costs 5.Revise the valuaton dateline to 01/07 - to commence 2022/23 with Open Space 6.Develop costed improvement plan with AMS.	Major	Unlikely	Medium
30-Jun-22	-	83	General Manager Assets and Delviery	Operational	Asset Management	**Asset Management Plans with high and very high risk actions with actions to be completed in within 4 years**	Service Delivery, Financial/Infrastructure, Reputation, Environmental/Cultural	1.Inadequate priority planning currently in place 2.Insufficient resources/skills/accurate data & cost information, 3.Inadequate level of correct data analysis	Major	Likely	High	1.Trained teams/specialist staff 2.Adequate vehicles, tools & skills in place 3.Training Needs Analaysis (TNA) data base 4.Established maintenance schedule data 5. SOPs/SSAPs/User Reference Documentation	Major	Possible	High	7.Undertake assessment with AMS and schedule every 4 years. 8.Investigate the use of thematic GIS mapping to support decision making. 9.Long term goal, asset data maturity to be in place to inform the strategic modelling. Aim to undertake some predictive / scenario modelling to inform the next Transport AMP.	Major	Unlikely	Medium

Item No: 7.4

Subject: **CARBON NEUTRAL PLAN**

Date: 17 August 2022

Written By: Team Leader Environment and Coast

General Manager: Assets and Delivery, Michael de Heus

SUMMARY

The development and implementation of a Carbon Neutral Plan is one of a number of treatment actions that reduce our climate risk from High to Medium. This report provides details of Council's Carbon Neutral Plan including the costs and risks associated with offsetting carbon emissions in the future.

RECOMMENDATION

That the Audit Committee recommends to Council:

1. **to approve the Carbon Neutral Plan for Council operations to be carbon neutral for Scope 1 and 2 emissions by 2030; and**

2. **to review the feasibility and cost of offsets in 2026/27 financial year in preparation for 2030.**

STRATEGIC PLAN

Our Holdfast 2050+ Sustainability – Become a carbon neutral Council by 2030
Environmental Strategy

COUNCIL POLICY

Council Risk Management Policy

STATUTORY PROVISIONS

Not applicable

BACKGROUND

In October 2019, Council recognised that the world is in a state of climate emergency and that all levels of government have a responsibility to act. In 2020 Council endorsed the Environment Strategy 2020 – 2025, which included a target to become carbon neutral in Council operations by 2030. In 2021, Council began the development of a Carbon Neutral Plan to capture Council's (including Alwyndor) emissions profile and develop a pathway to reduce emissions by 2030. Two workshops were held with Elected Members and select Council staff. The 2030 target has also been embedded in Council's strategic plan, Our Holdfast 2050+.

One of the options, in order to claim carbon neutrality, is to purchase offsets for emissions that cannot be eliminated by 2030. This comes with a number of costs and risks that are detailed in this report.

Carbon Language

A carbon neutral organisation for a given year is required to account for and then "offset" its emissions footprint. The most common carbon neutral standard in Australia is known as Climate Active (Department of Industry, Science, Energy and Resources, 2022). To become carbon neutral under Climate Active guidelines, organisations must undertake the following actions:

1. Calculate the greenhouse gas emissions generated by their activity, such as fuel, electricity and travel.
2. Reduce these emissions as much as possible by investing in new technology or changing the way they operate.
3. Offset any remaining emissions by purchasing carbon offset units.
4. Once an organisation has cancelled out their emissions they have reached a state called 'carbon neutral' and can be certified.

Council's Carbon Neutral Plan has been created based on the requirements outlined above, in line with both global best practice standards and Australian Government requirements.

Carbon emissions are grouped into three "scopes" based on their source of origin:

- Scope 1: Direct emissions from activities owned or controlled by the organisation (e.g. fuel, diesel, gas and refrigerants).
- Scope 2: Indirect emissions limited to electricity.
- Scope 3: All other indirect emissions that occur in the organisations supply chain (e.g. purchased good or services, amount of emissions used to create roads).

Carbon offsets are purchased activities that compensate for the organisations emission of greenhouse gases by providing a reduction elsewhere. Accredited and quality offsets are required to meet the Australian Governments National Carbon Offset Standard. Carbon offsets are paid to organisations to invest in projects locally or internationally.

Approach to Emissions Reduction

A key principal for best practice emissions management for the reduction of an organisation's emissions footprint is the carbon management hierarchy. This hierarchy focuses on avoidance in the first instance, followed by reduction and replacement of activities that create greenhouse gas emissions, before finally considering offsetting emissions (see figure 1). For a 2030 Carbon Neutral target, the focus should be on avoidance, reduction and replacement from 2022/23 to 2029/30 prior to the consideration of offsets.

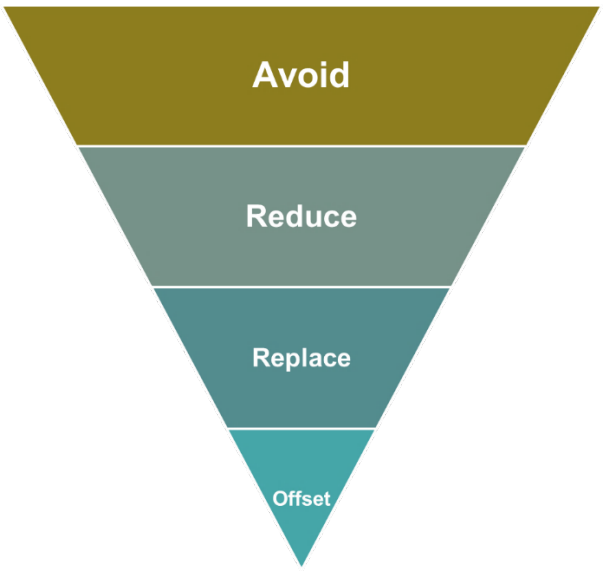


Figure 1: Carbon management hierarchy

It is important to understand Council's range of influence for our emissions footprint. Figure 2 demonstrates our influence for each of the scopes. Scope 1 is within the control of Council as it refers to our direct emissions, however, this is also dependent on the technology and options available to find low emission alternatives.

Council has a significant level of influence over Scope 2 via the LGA energy contract, where we can influence the transition to purchasing 100% renewable energy in 2023.

Scope 3 is more complex as we do not have direct control over the supply chain, however, this can be influenced through procurement policy to purchase lower carbon options if available and providing comparable service and value.

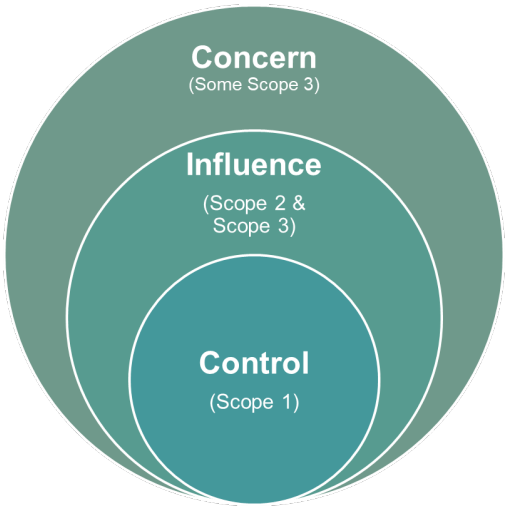


Figure 2: Circles of influence

REPORT

Council's Emissions Profile

In 2020/21 Council emitted 17,785 tonnes of carbon dioxide equivalent (tonne CO_2e), this is broken down into the scopes in table 1. By 2030 total emissions are projected to increase by almost 10% to 19,694 tonne CO_2e if Council does nothing to reduce its emissions. Growth in Council's emissions is expected to increase in line with localised population growth and the increasing need of Council to service a growing population.

Scope	Emissions sources	Total tonnes CO_2-e	Proportion
1	Vehicle fuel, natural gas, refrigerants	721	4%
2	Purchased electricity	1,214	7%
3	All other indirect emissions	15,850	89%

Table 1: Council emissions profile 2021

Emissions Reduction Actions

The Carbon Neutral Plan (attachment 1) has a number of important actions between now and 2030 to avoid, reduce or replace carbon emissions. These include:

- Purchasing 100% renewable electricity (scheduled for January 2023)
- Transitioning our vehicle fleet to 100% zero emissions vehicles
- Completing the transition of the remaining 25% of streetlights to LEDs
- Energy efficiency upgrades to Council buildings (completed in 2022)

Refer Attachment 1

In addition, the Carbon Neutral Plan is backed by a 70-page Technical Report.

Refer Attachment 2

Transitioning the vehicle fleet to 100% zero emissions vehicles by 2030 is the most complex action coming out of the Carbon Neutral Plan and Council has approved a budget in 2022/23 to develop a Fleet Transition Plan. The transition will see an increase in the purchase price of vehicles, offset by a net cost saving through significantly reduced maintenance and no fuel purchases.

Completing the transition for the remainder of the streetlights to LEDs will result in significant emissions reductions as well as operational cost savings. Additional capital expenditure will be required to complete this over a number of years before 2030.

The most cost-effective energy efficiency building upgrades, identified via an energy efficiency audit in 2019, were completed in 2021/22.

The purchase of 100% renewable energy will eliminate all scope 2 emissions, and the LED and building upgrades will both reduce the amount of energy used as well as providing a lifecycle cost saving. See table 7.

These actions will reduce the majority of our scope 1 and 2 emissions, which include purchased electricity, natural gas, vehicle fuel, and refrigerants (air conditioning).

Scope 3 emissions encompass Council's entire supply chain including items such as waste, business travel, landscaping, pest control, office equipment, water, construction and so on. Many of these emissions are difficult to reduce because Council has little control over them. Procurement of carbon neutral products and reducing emission through construction are two actions identified to reduce scope 3 emissions.

Offsetting Emissions

There are several risks associated with purchasing offsets. At this time it is impossible to know the price of future offsets, although it is highly likely that they will increase over time. The International Monetary Fund estimates that prices may increase to $70 per tonne by 2030. This represents a considerable risk as the commitment to continue to offset emissions is likely to require increased financing over time. The technical report estimates approximately 12,580 tCO_2e for scopes 1-3, which will still be required to be offset by 2030. At $70/tonne, the annual offset purchase cost will be $881,000. The current offset market rate is approximately $30/tonne, but fluctuates.

Offsets will be an ongoing cost that do not have a financial return on investment, unlike emissions reduction initiatives that can reduce both operational costs and emissions, thus reducing the amount of offsets for purchase.

There are also risks associated with the type of offsets purchased. For example, if purchasing a reforestation project and it burns down, the offsets are lost, or if purchasing international projects, there is the risk that these could fail due to local economic or political factors. When purchasing offsets, it is important to consider the goal of the offsets. It may be better to purchase offsets that assist organisations to reduce emissions, rather than carbon sequestration and storage. For example, the City of Adelaide purchases a diverse portfolio of offsets across a range of nature-based and renewable energy offsetting projects. This assists the organisation to mitigate the risk of offsetting failure and supports biodiversity and conservation projects across Queensland and Cambodia, and renewable energy transition in Mongolia and India.

Trees sequester carbon as they grow, however the Technical Report found that we cannot use our trees to offset emissions as there are not enough to have any significant impact. The quantification of this type of offset (technically known as an 'inset') can be expensive and time-consuming and requires a commitment to continue to monitor over time.

We cannot avoid, reduce or replace all emissions, particularly scope 3, by 2030. Therefore, Council is required to make the decision if and when to purchase offsets.

Option 1 – Carbon Neutral Scopes 1 and 2

At present it is possible to claim carbon neutrality for just scope 1 and 2 emissions. This decision would include the necessity to purchase offsets for items that cannot be eliminated with current technologies, such as air conditioning refrigerants. These represent a small proportion of our overall emissions, with the cost of offsets relatively minor and required to be purchased annually.

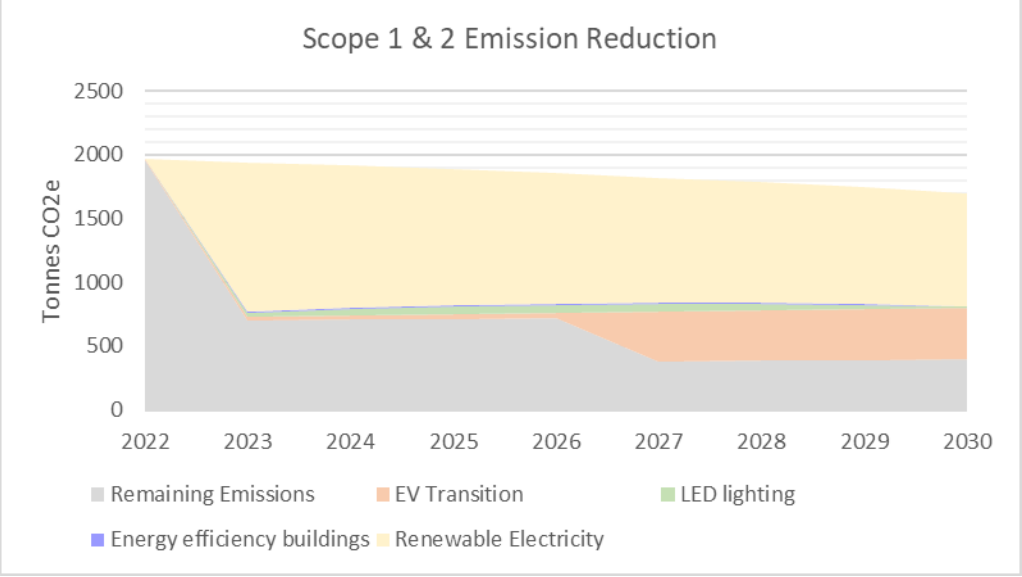


Figure 3: Effect of emission reduction actions for scope 1 and 2*

*All projected emissions and offset costs are estimates based on a number of assumptions to be used for decision making purposes.

Figure 3 outlines the reduction in CO_2e by implementing the Carbon Neutral Plan actions for scopes 1 and 2. Table 2 outlines the estimated offset cost based on the remaining emissions. This cost will be annual and ongoing to remain carbon neutral. Climate Active certification is an additional estimated $13,250 every three years for an assessment and audit.

Scope 1 and 2	2025	2026	2027	2028	2029	2030
Remaining emissions (tonnes CO_2e)	715	724	380	386	391	396
Offset per tonne	$48	$53	$57	$61	$66	$70
Offset cost	$34,000	$38,000	$22,000	$24,000	$26,000	$28,000

Table 2: Estimated projected cost for offsetting scopes 1 & 2 from 2025 to 2030

The cost of being carbon neutral for scopes 1 and 2 in 2030 is estimated to be $28,000 for the first year, plus the cost of assessment and audit. The cost of offsets is likely to increase in subsequent years. It is also expected for our emissions to decrease.

There is also the option of going carbon neutral for scopes 1 and 2 earlier than the target date. For example, if Council decides to be carbon neutral for scopes 1 and 2 from 2025, it is estimated to cost an additional $144,000 in offsets and $26,500 in assessment and audit fees over 5 years.

Option 2 – Carbon Neutral Scopes 1-3

If Council chooses to claim carbon neutrality for scopes 1-3 emissions, a large offset purchase would need to be required on an annual basis. Offsets must be purchased for every year that Council claims to be carbon neutral.

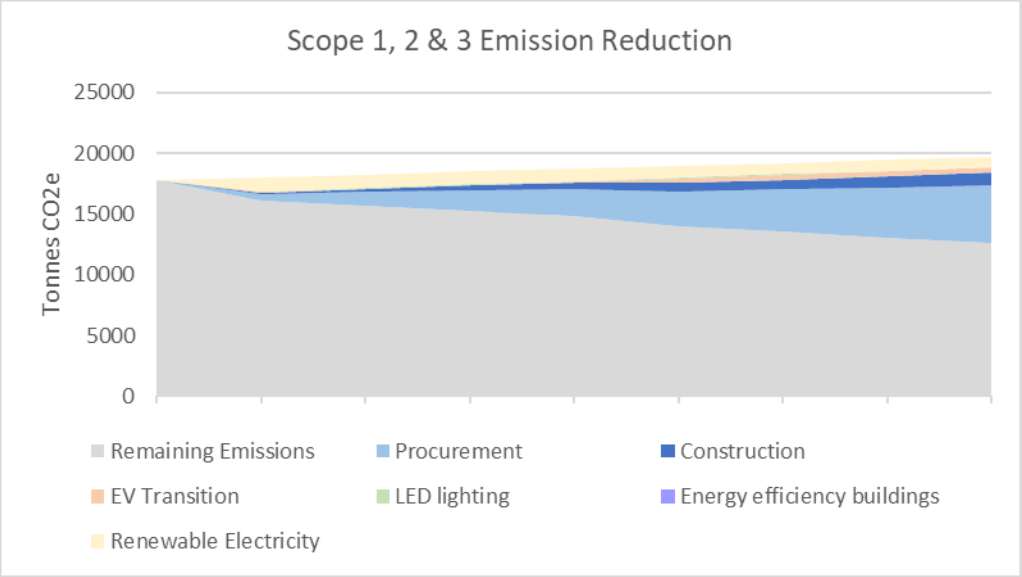


Figure 4: Effect of emission reduction actions for scope 1, 2 & 3*

*All projected emissions and offset costs are estimates based on a number of assumptions to be used for decision making purposes.

Figure 4 outlines the reduction in CO_2e by implementing the Carbon Neutral Plan actions for scope 1-3. Table 2 outlines the estimated offset cost based on the remaining emissions. This cost will be annual and ongoing to remain carbon neutral. Climate Active certification is an additional $13,250 every three years for an assessment and audit.

Scope 1, 2 and 3	2025	2026	2027	2028	2029	2030
Remaining emissions (tonnes CO_2e)	15,264	14,822	14,014	13,542	13,056	12,580
Offset per tonne	$48	$53	$57	$61	$66	$70
Offset cost	$735,000	778,000	797,000	829,000	857,000	881,000

Table 3: Estimated projected cost for offsetting scopes 1, 2 & 3 from 2025 to 2030

The cost of being carbon neutral for scopes 1-3 in 2030 is estimated to be $881,000 for the first year, plus the assessment and audit fee. The cost of offsets is likely to increase in subsequent years. It is also expected for our emissions to decrease.

There is also the option of going carbon neutral for scopes 1-3 earlier than the target date. For example, if Council decides to be carbon neutral for scopes 1-3 from 2025, it will cost an additional $3,996,000 in offsets and $26,500 in assessment and audit fees over 5 years.

Alwyndor

Below is the 2020/21 emission profile for Alwyndor and estimated emission targets for Scope 1-2 and Scope 1-3 modelling.

Alwyndor Emissions Profile

Scope	Emissions sources	Total tonnes CO_2-e	Proportion
1	Vehicle fuel, natural gas, refrigerants	135	3%
2	Purchased electricity	432	11%
3	All other indirect emissions	3396	86%

Table 4: Alwyndor Emissions Profile 2021

Offset option 1: Carbon Neutral for Scopes 1 and 2

Scope 1 and 2	2025	2026	2027	2028	2029	2030
Remaining emissions (tonnes CO_2e)	50	49	47	45	42	39
Offset per tonne	$48	$53	$57	$61	$66	$70
Offset cost	$2,412	$2,602	$2,702	$2,753	$2,789	$2,710

Table 5: Estimated projected cost for offsetting scopes 1 & 2 from 2025 to 2030

Offset option 2: Carbon Neutral for Scopes 1, 2 and 3

Scope 1, 2 and 3	2025	2026	2027	2028	2029	2030
Remaining emissions (tonnes CO_2e)	3508	3493	3477	3459	3440	3418
Offset per tonne	$48	$53	$57	$61	$66	$70
Offset cost	$168,361	$185,142	$198,204	$211,029	$227,034	$239,290

Table 6: Estimated projected cost for offsetting scopes 1, 2 and 3 from 2025 to 2030

Risk

There are several risks associated with purchasing offsets. At this time it is impossible to know the price of future offsets, although it is highly likely that they will increase over time.

Policy around carbon emissions is evolving quickly and there is the potential for significant governmental changes in policy and tax position with respect to carbon emissions.

The decision to purchase offsets for 2030, including which emissions scopes and the type of offsets, should be made in 2026/27. This will provide enough time to investigate the complexities of offset purchases, which might include advance purchases in order to offset future emissions at a reduced price, and will examine what portfolio offset mixes might look like (e.g. including international projects as offset options). In addition, it is possible that the carbon neutrality and offsetting systems may change significantly by this time.

BUDGET

Budget implications are detailed in the Climate Neutral Plan and include the emissions reduction actions, which are both capital and operational in nature.

Approved actions within the 2022/23 annual budget include $20,000 for Fleet Transition Plan and the purchase of green energy is included within the budget.

Ongoing emission monitoring software is estimated to be $30,000-$35,000 per year ongoing, staff time will be allocated to undertake monitoring tracking and reporting.

The offset purchase investigation proposed for 2026/27 is estimated to cost $20,000.

There is also the eventual cost of offsetting remaining emissions to become a Climate Active certified carbon neutral organisation, which has been detailed in this report.

All projected emissions and offset costs are estimates based on a number of assumptions to be used for decision making purposes.

Estimated offset requirements annually for scope 1 and 2 emissions from 2030:

Offset Council emissions:	$28,000
Offset Alwyndor emissions:	$2,700
Certification:	$4,500
Total:	$35,200

LIFE CYCLE COSTS

Ongoing capital and operational costs will be required. Many initiatives such as electric vehicles and LED light transition will have upfront capital costs that will have a pay-off through operational savings.

Key life cycle savings from the Carbon Neutral Plan include:

Action	Reduction Initiative	Accumulated t CO_2-e	$/t CO_2-e	Total savings/ cost to 2030
1	100% renewable energy	2,774	-$229	-$635,994
2	EV fleet transition	1,724	-$65	-$111,321
3	LED public lighting	362	-$130	-$86,770
4	Energy efficient buildings	75	-$111	-$8,358
5	Lower carbon construction materials	1,078	Unknown	Unknown
6	Improved procurement	4,758	$13	$60,888

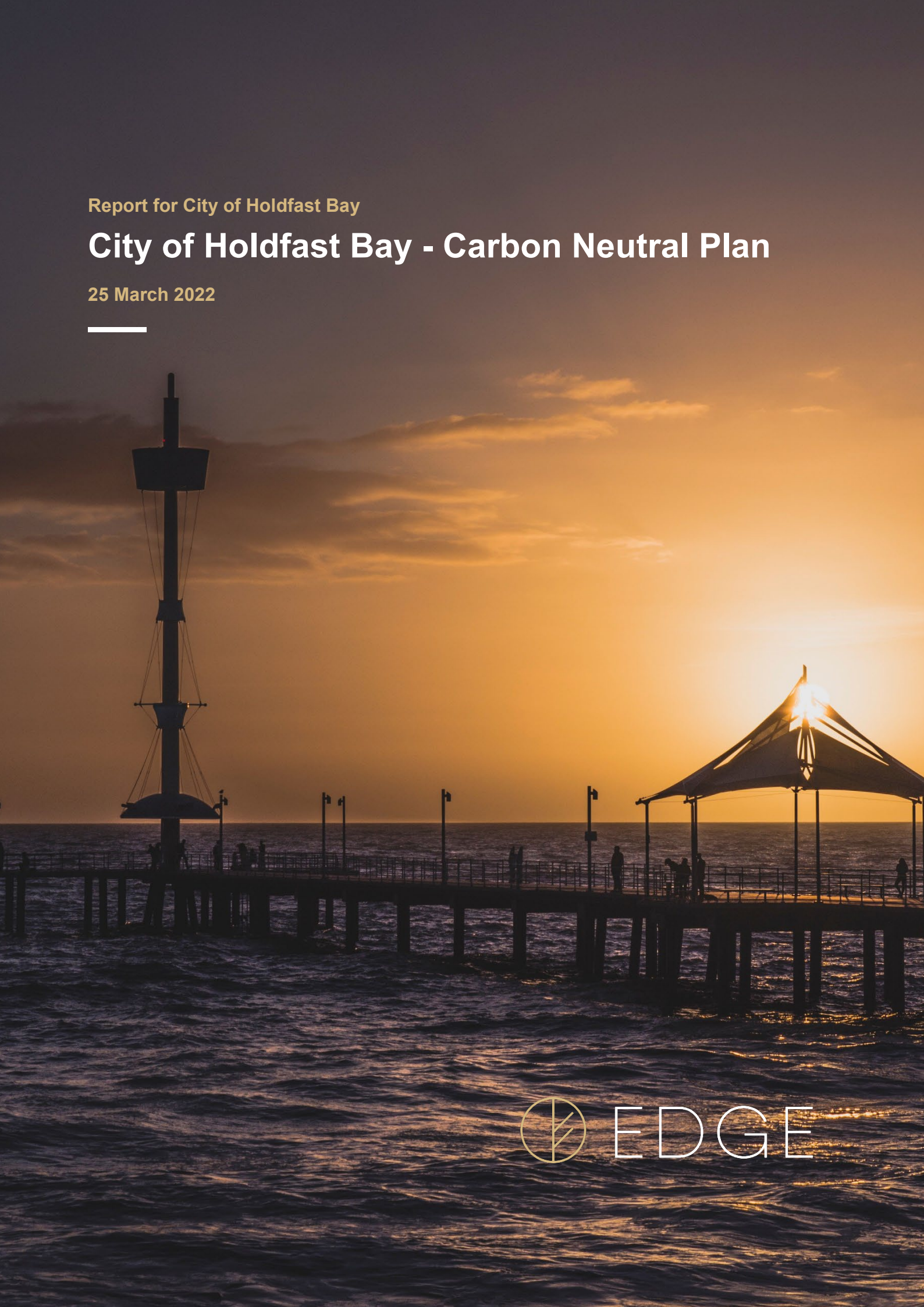
Table 7: Lifecycle cost savings accumulated to 2030

Attachment 1

Report for City of Holdfast Bay

City of Holdfast Bay - Carbon Neutral Plan

25 March 2022



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Revision	Revision Details	Author	Approved by	Date Approved
V0.1	Draft Plan	J. Marchant, M. Siu	J. McKeon	28th February 2022
V0.2	Draft Plan	J. Marchant	M. Siu	25th March 2022

The need for climate action

Climate change affects us all. Global temperatures have increased on average by 1.1°C since the 1800s (United Nations, 2022) due to increasing amounts of greenhouse gases (GHG) being released to the atmosphere. The consequences of these changes to the climate include increased risk, severity and prevalence of bushfire, extreme heat events, sea level rise, flooding and drought, and an increasing loss of biodiversity. The impacts of a changing climate are already affecting the City of Holdfast Bay and it is essential that Council acts in the best interests of its community to prepare for, adapt to and mitigate the effects of climate change and works to reduce the causes of climate change.

In 2019 Council recognised that the world is in a state of climate emergency and there is an urgent need to act to avoid the most catastrophic impacts of climate change. Following the announcement of the climate emergency, Council committed to developing a Carbon Neutral Plan, with the aim of eliminating, reducing and offsetting emissions generated by Council by the year 2030.

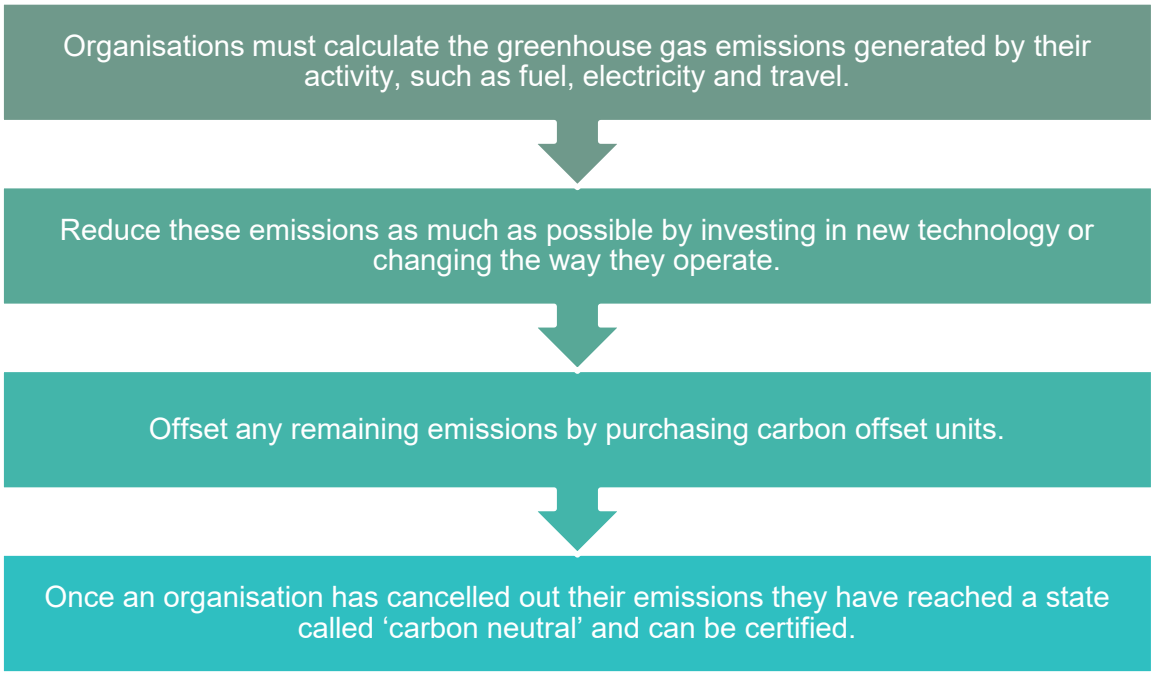
Through the 2030 carbon neutral target, Council is demonstrating its alignment to the Intergovernmental Panel on Climate Change (IPCC) recommendations to limit global warming to 1.5°C (CSIRO; Bureau of Meteorology, 2020). The 2030 target also aligns Council with a growing list of other local governments committing to carbon neutrality or net zero by 2030 and betters the South Australian and Australian Government targets of net zero by 2050 (Government of South Australia, 2022).

Through reducing emissions produced from its own operations, services and activities, Council will eliminate, avoid and where necessary offset emissions to achieve carbon neutrality by 2030. This plan provides a roadmap for Council to achieve its carbon neutral goal by 2030 through undertaking emission reduction activities over the 2022/2023 – 2029/2030 period.

All levels of government must take action to ensure a sustainable world for current and future generations. As a community leader, Council has a responsibility and desire to work with partners, businesses and communities to tackle climate change together.

What does carbon neutral mean?

The most common carbon neutral standard in Australia is known as Climate Active (Department of Industry, Science, Energy and Resources, 2022). To become carbon neutral under Climate Active guidelines, organisations must undertake the actions outlined below.



This Carbon Neutral Plan has been created based on the requirements outlined above, in line with both global best practice standards and Australian Government requirements.

Council's emissions profile

An emissions profile is a term used to describe the total amount of GHG emissions produced by an organisation, product, service, event, state or country. There are a range of GHG emissions. Each type of GHG has a global warming potential that is different to other greenhouse gases. For example, methane has a global warming potential 28 times that of carbon dioxide. In order to standardise the global warming potential of multiple greenhouse gases, the term carbon dioxide equivalent (CO_2-e) is used. Figure 1 below tells us that the global warming potential of nitrous oxide is higher than that of carbon dioxide. In general terms, we refer to CO_2 emissions. The CO_2-e can then be used to describe the carbon equivalent emissions.

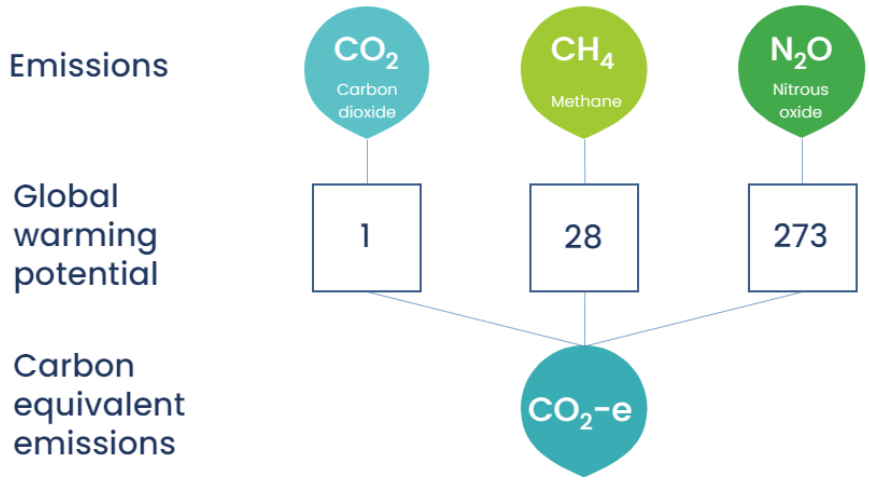


Figure 1. Carbon dioxide equivalent emissions is a term used that allows for measuring of the overall global warming impact of different GHGs in a common metric

The City of Holdfast Bay's calculated total emission's profile for the 2020/2021 financial year period is 17,785 tonnes of carbon dioxide equivalent (t CO_2-e). By 2030 total emissions are projected to increase by almost 10% to 19,695 t CO_2-e. Growth in Council's emissions inventory is expected to increase in line with localised population growth and the increasing need of Council to service a growing population.

Council's emissions profile can be divided into three categories, called scopes (see Table 1).

Table 1. Definitions of the three scope categories

Term	Meaning
Scope 1	Direct emissions from activities owned or controlled by the organisation in the baseline year (e.g., fuel combustion from company vehicles, refrigerants).
Scope 2	Indirect emissions associated with the organisation's consumption of purchased electricity in the baseline year.
Scope 3	All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

The scope categories include emissions from the following categories:

Scope 1:

- Fuels (petroleum, diesel) used in Council vehicles.
- Any fuels used for stationary equipment.
- Emissions from refrigerant usage, such as those used in heating ventilation air-conditioning systems.

Scope 2:

- Purchased electricity sourced from the South Australian electricity grid.

Scope 3:

- Purchased goods and services.
- Capital goods.
- Fuel and energy related emissions generated from outside of Council.
- Generated waste and resources.
- Business travel and;
- Employee commuting.

Figure 2 outlines the percentage and numeric split of emissions produced by Council operations and services over the 2020/2021 financial year period. It can be seen that the majority of Council's emissions sit in Scope 3 (89%). Scope 1 emissions represent 721 t CO2-e (4%) of emissions whilst Scope 2 emissions represent 1,214 tonnes of CO2-e (7%).

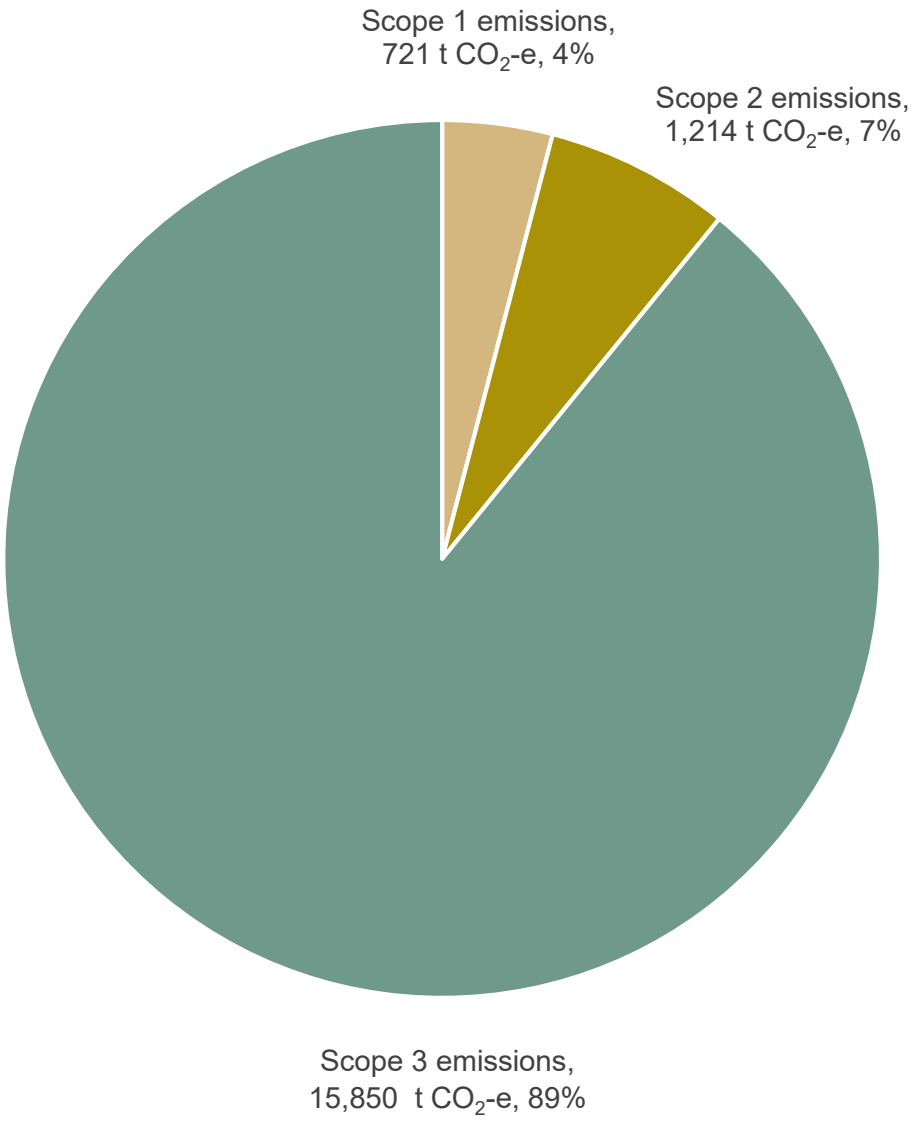


Figure 2. The City of Holdfast Bay Council emissions, broken down by the three Scope categories.

What has Council done already?

Council has already taken significant action to address climate change, as outlined in Figure 3. Now that Council have a greater understanding of where emissions are sourced from, a significant opportunity exists to target specific activities. This will require the use of new technologies, strategic stakeholder partnerships and policy mechanisms to drive down the emissions produced by Council and to work with the community to investigate options for reducing the community's emissions profile.

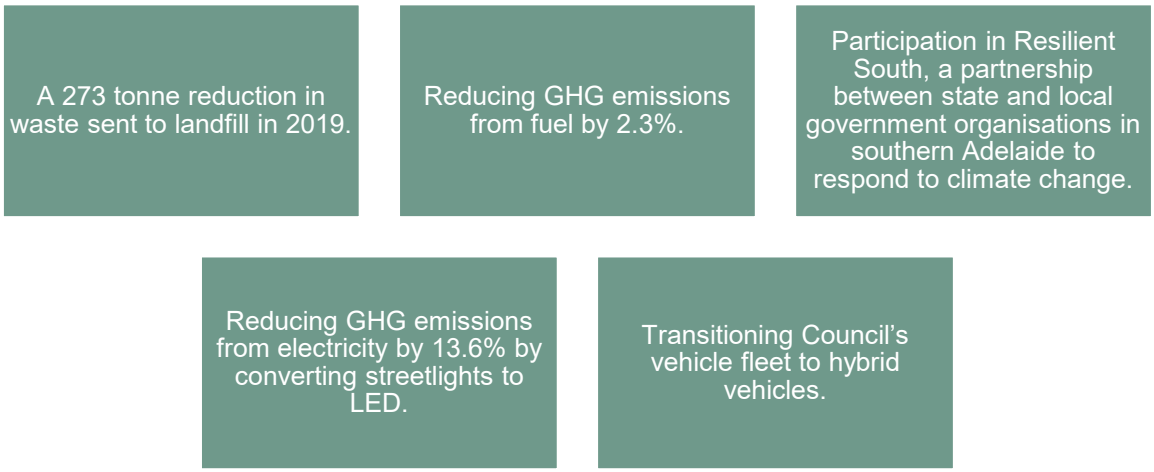


Figure 3. Key actions already taken by Council to address climate change.

This Carbon Neutral Plan provides a pathway for transitioning to activities that not only reduce GHG emissions but also assist Council to save money. Building on the actions taken so far, we have developed a plan to:

1. Determine the quantity of emissions produced by Council.
2. Establish an evidence-based approach to reducing emissions.
3. Create a proposed implementation plan of actions from 2022/23 to 2029/30 and have this plan endorsed by Elected Members.
4. Carry out the actions and activities listed in the plan.

How will Council reduce emissions?

Implementation Plan

The following tables outlines the proposed implementation plan for Council to achieve Carbon Neutrality by 2030.

O = Council decision or endorsement required for budget and/or plan/initiative approval **** = Already occurring and/or included within existing budgets**

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
1. Low Emissions Transport													
1.1 Fleet Transition Plan	Complete plan and endorsed by Council by June 2023	New initiative bid for 2022/23, $20,000	✓	✓		O							
1.2 Install electric charging stations for charging of fleet vehicles	N/A	35 charging stations = $35,000 over 4 years	✓										
1.3 Purchase electric passenger vehicles	All passenger vehicles to be 100% electric by 2027	17 vehicles @ $10,300 (net) = $175,100 (net cost after trade in)	✓										
1.4 Purchase other electric fleet (e.g. utes, vans, buses, sweeper)	Key vehicles to be low CO2 by 2030 (electric, hydrogen, hybrid)	Unknown, pending technology improvements.	✓							O			
2. Sustainable Street and Public Lighting													
2.1 Investigate and plan for the implementation of sustainable street and public lighting	Complete plan and endorsed by Council by June 2023	Within existing resources		✓	✓	O							

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
2.2 Continue to implement sustainable public lighting	100% completion by 2028	Estimated cost $800,000 over 5 years. Cost saving with LED through lower power use.	✓										
3. Renewable Energy													
3.1 Advocate for the purchase of 100% accredited renewable energy as part of LGA procurement for a new electricity contract due early 2023**	N/A	Within existing resources		✓									
3.2 Purchase of 100% accredited renewable energy as part of LGA new electricity contract (commencing early 2023)	N/A	Within existing resources. Cost details to be determined in late 2022.			✓								
4. Tracking and Reporting Emissions													
4.1 Track carbon emissions and update the emissions inventory**	N/A	Additional staff time 0.25 FTE.		✓									
4.2 Improve annual reporting of Council's emissions**	N/A	Within existing resources		✓									
5. Reduced Emissions Procurement													
5.1 Reduce supply chain emissions	5% reduction of scope 3	0.25 FTE	✓	✓									

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	emissions every 3 years												
5.2 Reduce road and other infrastructure emissions through improving the materials and methods used for construction	5% reduction of scope 3 emissions every 3 years	TBA - likely ~ 5% additional costs initially, reducing over time.	✓	✓									
6. Advocacy and Behaviour Change													
6.1 Educate, liaise and support community and businesses to move towards carbon neutrality**	N/A	Within existing resources		✓	✓								
6.2 Implement a community energy program	N/A	Estimated $10,000 as start-up funding.	✓	✓									
6.3 Participate in the Resilient South climate partnership**	N/A	Within existing resources		✓	✓								
7. Events													
7.1 Certify all council events as carbon neutral.	All major council events certified carbon neutral. (e.g., NYE.)	~$10,000 per annum	✓	✓				o					
8. Offsetting Emissions													

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
8.1 Develop and implement an Urban Forest Strategy to increase tree canopy cover. ***	Targets to be set in Urban Forest Strategy. Complete strategy and endorsed by Council by June 2023.			✓		o							
8.3 Seek independent expert advice and quotes about purchasing carbon offsets.	N/A	Cost unknown - to be determined.	✓										
8.4 Implement purchase of carbon offsets		Likely to be >$70/tonne CO_2 equivalent by 2030	✓	✓									o
9. Certification													
9.1 Climate Active Certification		Fees required annually, and 3rd party re-assessment every 3 years. Current estimate $13,250 over 3 years including audit, technical assessment, 3rd party validation and certification fees.	✓	✓									o

Key messages

Through undertaking the emissions reduction activities described above, modelling shows that Council could reduce emissions by over 7,115 tonnes of CO_2-e by the year 2030.The reduction of Council's emissions by this number, would see council almost eliminate Scope 1 and Scope 2 emissions.

In addition to the emissions reduction initiatives previously discussed, the South Australian electricity grid is in the process of transitioning to a 100% renewable grid system. Electricity from the grid is expected to be net 100% renewable by 2030. This has significant implications for all South Australian electricity users and will assist the entire state, including residents and businesses of Holdfast Bay to reduce emissions from electricity use.

Modelling suggests that by 2030, after implementation of the listed emissions reduction initiatives, 12,580 tonnes of CO_2-e will remain. These emissions are sourced almost entirely from council's Scope 3 emissions, meaning that they are not in the direct control of Council, which makes them much more difficult to reduce. Council will continue to incorporate emissions reduction and carbon neutral products and services into procurement processes and utilise its influence to preference those suppliers who are actively reducing emissions of their goods and services. However, the primary focus of Council actions are on controlling the emissions that are directly emitted by Council and influencing the suppliers of Council products and services.

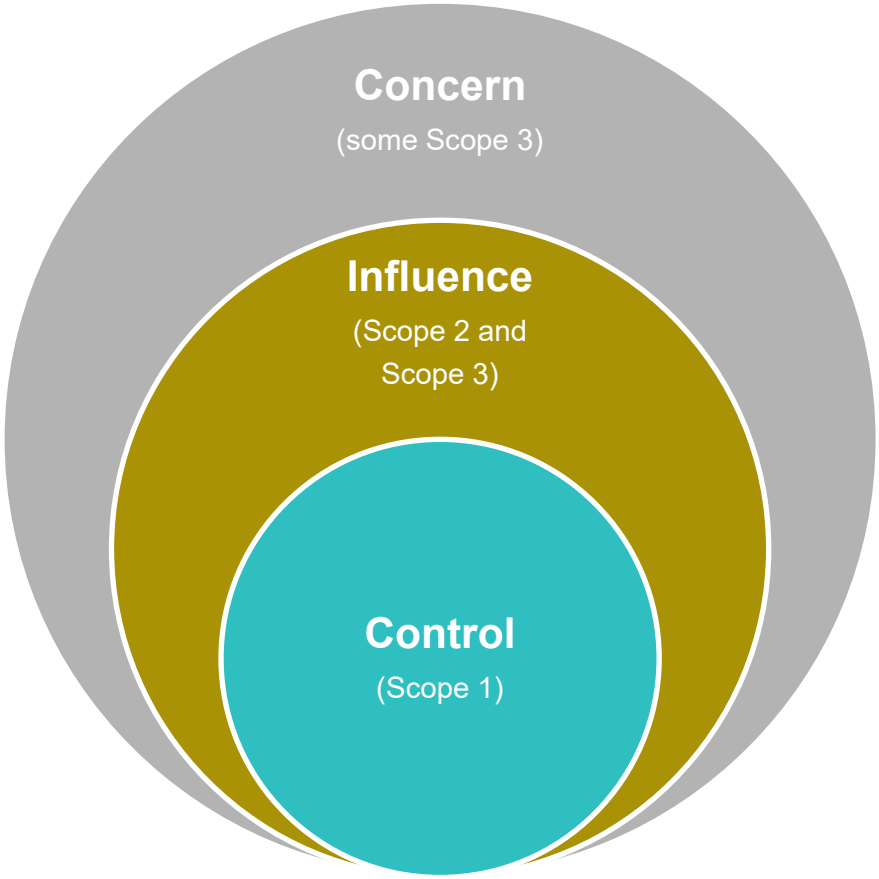


Figure 4. Circles of control, influence and concern in relation to different emission scopes.

Table 2 provides a projection of the total amount of emissions saved through the implementation of key emissions reduction initiatives and the saving or cost of the initiative, listed as a per tonne of CO_2-e. Emissions reduction initiatives are ranked in Table 2 according to the total financial benefit to Council, not the emissions reduction potential of the initiative. Results from analysis of Table 2 demonstrate that implementation of all the initiatives will reduce emissions and importantly reduce costs for Council by a net estimate of $1,518,127.

Table 2. The projected emissions reduction potential and costs/savings potential of each modelled emissions reduction initiative.

Rank	Reduction Initiative	t CO_2-e	$/t CO_2-e	Total savings/cost
1	100% renewable energy	2,774	-$229	-$635,994
2	EV fleet transition	1,724	-$65	-$111,321
3	LED public lighting	362	-$130	-$86,770
4	Energy efficient buildings	75	-$111	-$8,358
5	Lower carbon construction materials	1,078	Unknown	Unknown
6	Improved procurement	4,758	$13	$60,888

The column titled t CO_2-e represents the total emissions saved as a result of the implementation of the listed reduction initiative. The reduction initiatives coloured green represent cost savings to Council. The initiative coloured yellow are unknown and the initiative coloured red represents a cost to Council to implement the initiative. Costs are inclusive of both up-front and ongoing costs.

It can be seen that a 100% renewable energy contract, LED public lighting, the transition of the existing fleet to electric vehicles and making our buildings more energy efficient will provide Council with significant cost savings. The costs of using of lower carbon construction materials are unknown and the implementation of improved procurement is projected to be a cost to Council but are offset by the cost savings in green.

All initiatives will assist Council in reducing emissions. The initiatives that will have the greatest impact in reducing emissions (excluding the costs or savings of the initiative) are as follows, in order of impact:

1. Improved procurement (4,758 t CO_2-e).
2. 100% renewable energy (2,774 t CO_2-e).
3. EV fleet transition (1,724 t CO_2-e).
4. Lower carbon construction materials (1,078 t CO_2-e).
5. LED public lighting (362 t CO_2-e).
6. Energy efficient buildings (75 t CO_2-e).

The remaining emissions will need to be offset, with a decision to be made closer to 2030, regarding the type and quantity of offsets required to achieve carbon neutrality. The International Monetary Fund estimates that the cost of offsets could be up to $70 per tonne CO_2 by 2030. At 2030 Council's remaining emissions are modelled to be 12,580 tonnes, which would make the cost of purchasing offsets approximately $880,600.

In addition, Council will need to make a decision in 2028/29 about carbon neutral certification, which would be required to be purchased annually. There are several options for certification, or there is the option to self-declare. There are costs to all of these options such as the auditing and validation of emissions and offsets, which are estimated to be approximately $13,000 to $14,000 every three years.

Find out more

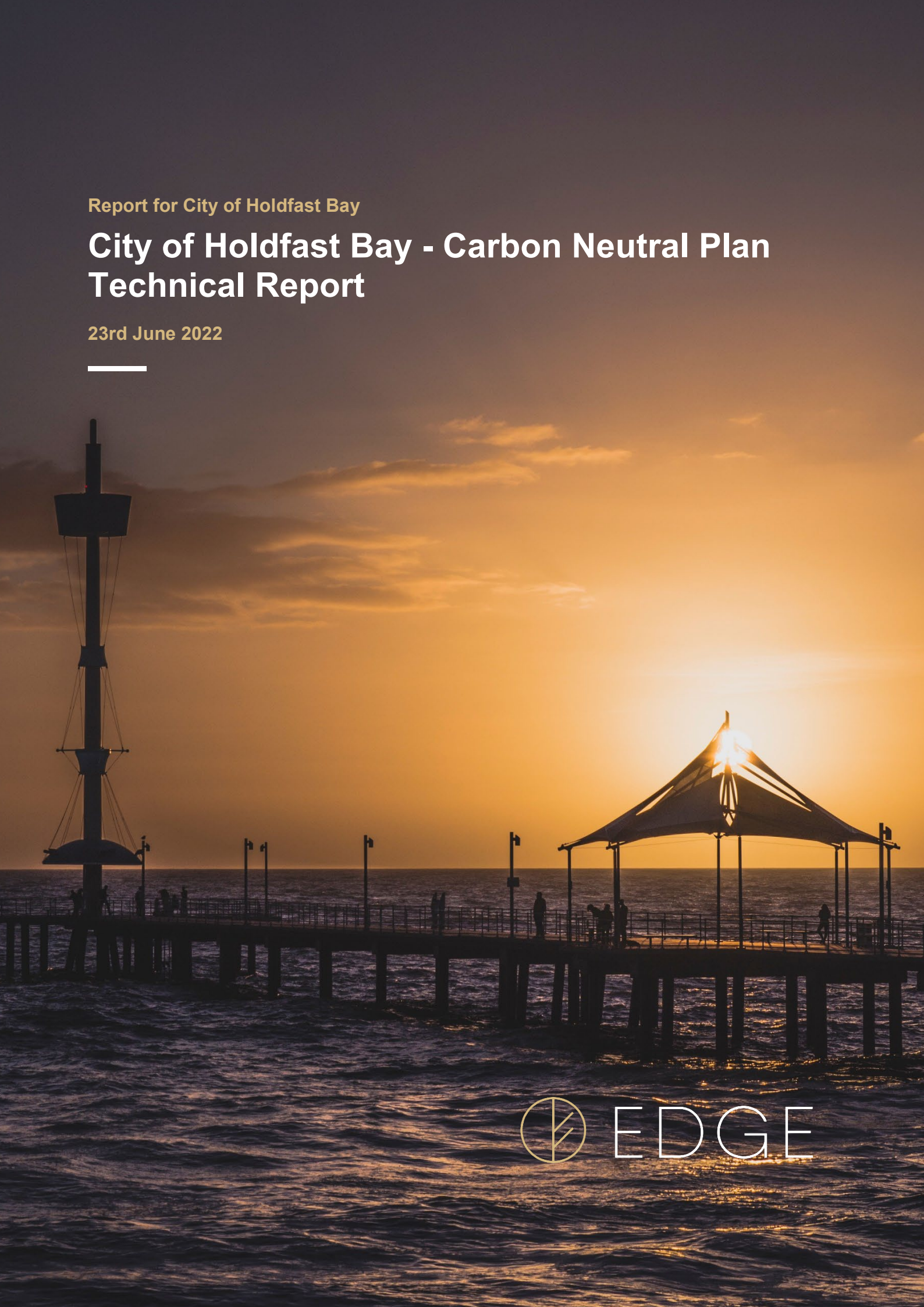
This plan draws on details in the *City of Holdfast Bay Carbon Neutral Plan Technical Report 2022*, which also includes a plan for the Alwyndor aged care facility.

Attachment 2

Report for City of Holdfast Bay

City of Holdfast Bay - Carbon Neutral Plan Technical Report

23rd June 2022



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Revision	Revision Details	Author	Approved by	Date Approved
V1.0	Draft Plan	J. Marchant, M. Siu, D. Rojas	J. McKeon	28th February 2022
V2.0	Draft Plan	J. Marchant, M. Siu, D. Rojas	J. McKeon	1st March 2022
V3.0	Draft Plan	J. Marchant, M. Siu	M. Siu	2nd April 2022
V4.0	Final Plan	J. Marchant, M. Siu	M. Siu	9th June 2022
V5.0	Final Plan	J. Marchant	J. Marchant	23rd June 2022

Executive Summary

Climate change poses material and foreseeable risks to the global economy and major impacts on society and the environment. In response, there are increasing expectations from business, state government and the broader community that Councils take action now.

In 2019, City of Holdfast Bay (Council) made a Climate Emergency Declaration. This represents a recognition by Council, that the world is in a state of a climate emergency and that as an accountable and leading organisation, Council has an urgent responsibility to act (City of Holdfast Bay, 2020). This action includes a commitment to transition to being a carbon neutral organisation by 2030.

Through this 2030 Carbon Neutral target, Council is demonstrating its alignment to the Intergovernmental Panel on Climate Change (IPCC) recommendations to limit global warming to well below 2°C (CSIRO; Bureau of Meteorology, 2020). The 2030 target will align Council with a growing list of local governments committing to carbon neutrality or net zero by 2030 and the South Australian and Australian Government targets of Net Zero by 2050 (Government of South Australia, 2022).

The carbon neutral plan outlines a pathway for Council, as an organisation, to achieve carbon neutrality by 2030, by combining emissions reduction and offsetting initiatives. As part of the carbon neutral commitment, Council included the Alwyndor aged care facility within the emissions inventory and emissions reduction modelling.

Emissions inventory

An emissions inventory was prepared for both Council and Alwyndor for the 2020/2021 financial year period. Council and Alwyndor's total emissions inventory utilised the global standardised Greenhouse Gas (GHG) Protocol to capture and calculate:

- Emissions produced from the use of the vehicle fleet, natural gas and air-conditioning units, known as Scope 1 emissions.
- Emissions produced from the use of purchased electricity known as Scope 2 emissions
- Emissions produced from supply chains, capital goods, waste, business travel, employee commuting and fuel and other related emissions. All of these categorise are included as Scope 3 emissions.

From these calculations it was determined that Council's 2020/21 baseline year had an annual emissions inventory of 17,785 tonnes of carbon dioxide equivalent (t CO_2-e). By 2030 total emissions are projected to increase by almost 10% to 19,695 t CO_2-e. Growth in Council's emissions inventory is expected to increase in line with localised population growth and the increasing need of Council to service a growing population.

Alwyndor's 2020/21 annual emissions inventory produced a total of 3,963 t CO_2-e. By 2030 total emissions are projected to increase to 4,389 t CO_2-e.

The majority of both Council (89%) and Alwyndor's (86%) emissions are sourced from Scope 3.

Emissions reduction initiatives

Ten initiatives across Council and Alwyndor were selected for modelling to determine cost and estimated carbon abatement potential towards carbon neutrality by 2030. From the analysis and modelling, the following insights were observed:

- Initiatives that target a reduction in Scope 2 (purchased electricity) emissions are impacted by the interrelationship between the South Australian (SA) grid target of 100% renewables by 2030, energy efficiency actions, and negotiating a Purchase Power Agreement (PPA) via the Local Government Association of SA. As such, the key benefit of implementing many of these initiatives over time is from significant financial benefits due to electricity consumption reduction.
- Negotiating a Purchase Power Agreement (PPA) will have immediate gains in emissions reduction for Scope 2 (purchased electricity), recognising that other energy efficiency actions may take a longer period to implement while the grid gradually decarbonises by 2030.

- Sustainable procurement and the use of lower carbon construction materials combined provide the greatest Scope 3 emissions reduction potential. These are the most challenging initiatives to implement and may take time before any reductions are observed.
- Transitioning Council fleet to electric vehicles represents a cost saving over time and will result in a significant emissions reduction, assuming a PPA is in place and the grid continues to decarbonise.
- Offsetting will be required to achieve carbon neutrality. This has ongoing financial consequences for Council and Alwyndor and should be considered against the implementation of further and more aggressive emissions reduction initiatives.

The elimination of Scope 3 emissions remains an opportunity for further exploration as new technologies emerge and become affordable. As such, Council may like to consider whether Scope 3 emissions are excluded from the public facing carbon neutral targets of the organisation, i.e., carbon neutrality only applies to Scope 1 and 2. While this may not be best practice, there are other councils that have opted to limit their carbon neutral status to Scope 1 and 2, recognising that Scope 3 often lies outside the areas of their control.

The focus of this plan is on emissions reduction and avoidance actions, rather than offsetting, which represents an ongoing expense for Council. Additionally, the price of carbon offsets is predicted to increase over time. This represents a considerable risk for those seeking to acquire offsets, as the commitment to continue to offset emissions is likely to require increased financing over time.

If Council elects to implement all of the emissions reduction initiatives described above and, in this plan, a total of 7,115 t CO_2-e of emissions may be eliminated from Council operations. However, it is projected that by 2030 12,580 t CO_2-e will still require elimination to achieve carbon neutral status.

To achieve carbon neutrality, Alwyndor will require a combination of emissions reduction initiatives, supporting actions and ultimately offsets. Should Alwyndor staff choose to implement all of the emissions reduction initiatives outlined within this plan, a total of 1,024 t CO_2-e of emissions would be eliminated from Alwyndor's emissions inventory. However, it is projected that by 2030, 3,365 t CO_2-e will still require elimination to achieve carbon neutral status.

Next steps

The carbon neutral implementation plan will be key to achieving the carbon neutral target by 2030.

Council has an important role in the community as a leader and to undertake projects and activities that have high perceived value within the community. Emissions reduction activities that are visual reminders are important, such as electric vehicles, solar panels, installing LEDs in public lighting and the purchasing of locally sourced carbon neutral products and services.

Additionally, the following priority actions are recommended:

- Switch all remaining street lighting to LED.
- The Local Government Association 100% renewable energy PPA is essential. It has high value up to 2030, where it will become negligible, due to the decarbonisation of the SA grid.
- Sustainable procurement through selecting low carbon suppliers and engaging with suppliers to reduce their emissions will have the greatest impact on Scope 3 emissions reduction. These associated emissions are likely to reduce, as suppliers focus on reducing their impact due to increasing pressure from their stakeholders (including Council).

Endorsing the activities and timelines in the implementation plan will be key to maximising emissions reduction opportunities and securing long-term financial support through the long-term financial plan. For most, earlier action is recommended to allow for the most beneficial outcome for Council both financially and from a carbon abatement perspective.

Contents

Glossary and Acronyms

Term	Acronym	Meaning
Abatement cost		The cost of reducing emissions compared to unconstrained business as usual scenarios.
Australian Carbon Credit Unit	ACCU	An ACCU is a financial product issued to someone by the Clean Energy Regulator in order to trade in the carbon market as part of offsetting. One ACCU is equivalent to one tonne of sequestered carbon.
Blue carbon		Blue carbon is the carbon captured by living organisms in coastal (e.g., mangroves, salt marshes, seagrasses) and marine ecosystems, and stored in biomass and sediments (Masson-Delmotte, et al., 2018).
Business as usual scenario	BAU	A description of what would most likely occur in the absence of a carbon reduction initiative, also referred to as the 'baseline scenario'.
Carbon dioxide	CO_2	Carbon dioxide is a greenhouse gas: a gas that absorbs and radiates heat (National Oceanic and Atmospheric Administration, 2020).
Carbon dioxide equivalent	CO_2-e	Carbon dioxide equivalent is a measure used to compare the emissions from various greenhouse gases based upon their global warming potential. For example, the global warming potential for methane over 100 years is 21. This means that emissions of one million metric tons of methane is equivalent to emissions of 21 million metric tons of carbon dioxide (OECD, 2013).
Carbon footprint		The amount of greenhouse gases and specifically carbon dioxide emitted by something (such as a person's activities or a product's manufacture and transport) during a given period (Merriam Webster Dictionary, 2021). In the case of this project, a carbon footprint refers to the CO_2-e emitted from Council's operations, assets and services, or the community's actions and assets.
Carbon neutrality		When CO_2 emissions caused by humans are balanced globally by CO_2 removals over a specified period (Source: IPCC SR15). This does not apply to other greenhouse gases.
Carbon sequestration		The process of storing carbon in a carbon pool (Masson-Delmotte, et al., 2018).
Climate change		Climate change is a long-term change in the average weather patterns that have come to define Earth's local, regional and global climates (NASA, 2021).
Electric vehicles	EVs	These include battery and hydrogen fuelled vehicles.
Greenhouse gas	GHG	Gases that trap heat in the atmosphere are called greenhouse gases (US Environmental Protection Authority, 2021). They include carbon dioxide, methane and nitrous oxide, amongst others.
Green hydrogen		Hydrogen produced by splitting water into hydrogen and oxygen using renewable electricity (World Economic Forum, 2021).
Grid decarbonisation		Decarbonising the grid means decreasing the emissions per unit of electricity generated. The electricity grid will decarbonise over time due to South Australia generating more and more energy from renewable energy sources,

		whilst simultaneously reducing reliance on non-renewable, high emitting fossil fuel sources.
International Panel on Climate Change	IPCC	The United Nations body for assessing the science related to climate change.
Marginal abatement cost curve	MACC	A framework commonly used to summarise information of potential mitigation effort, and can help in identifying the most cost-effective managerial and technological GHG reduction options (European Commission, 2018).
Offsetting		An action or activity (such as the planting of trees or carbon sequestration) that compensates for the emission of carbon dioxide or other greenhouse gases to the atmosphere (Merriam-Webster Dictionary, 2021).
Scope 1		Direct emissions from activities owned or controlled by the organisation in the baseline year (e.g., fuel combustion from company vehicles, natural gas, refrigerants).
Scope 2		Indirect emissions associated with the organisation's consumption of purchased electricity in the baseline year.
Scope 3		All indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

1 Introduction

Greenhouse gas (GHG) emissions have increased rapidly since the industrial revolution (Masson-Delmotte, et al., 2018). The Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report notes that GHG emissions have increased significantly as a direct result of human activities. Continued emissions of GHG will cause further warming and changes in all components of the climate system (Masson-Delmotte, et al., 2018). Australia's climate has on average already increased by 1.44°C since national records began in 1910 (CSIRO; Bureau of Meteorology, 2020). It is projected that mean, maximum and minimum temperatures will continue to increase in the near future, with a 0.5°C to 1.1°C temperature rise above the climate of 1986-2005, projected by 2030 (CSIRO; Bureau of Meteorology, 2020). This increases to a 1.2°C to 2.0°C warming by 2090 (based on current levels of GHG emissions) (CSIRO; Bureau of Meteorology, 2020).

The impacts of climate change extend beyond temperature increases and include (CSIRO; Bureau of Meteorology, 2020):

- Reduced average annual rainfall
- An increase in the intensity of extreme rainfall
- Decreasing winter and spring rainfall
- A harsher fire weather regime
- An increase in the number of hot days and heatwaves.
- A rise in sea level

The impact of climate change is already affecting the businesses, residents and community of Holdfast Bay. In 2017, Council developed a public survey to better comprehend the community knowledge, attitudes and behaviour related to climate change. The survey revealed the following key insights (City of Holdfast Bay, 2020):

- 82% of respondents believe they are already experiencing the impacts of climate change
- 90% expect to be impacted in the future
- 88% believe that the Council should do more respond to the impacts of climate change

Reflecting community sentiment, in October 2019, Council recognised that the world is in a state of climate emergency. Council have recognised and acknowledged the need to build upon significant achievements to date and to do more to reduce emissions produced by Council operations, service delivery and management of assets. This includes a commitment to transition to being a carbon neutral organisation by 2030.

This plan outlines a pathway for Council, as an organisation, to achieve carbon neutrality by the year 2030, by combining emissions reduction and offsetting initiatives.

1.1 Objectives of the Carbon Neutral Plan

The Carbon Neutral Plan outlines a Carbon Neutral Pathway for Council and Alwyndor by 2030. The following outlines Council's objectives for this plan:

1. To create an inventory of Council's emissions, including Scopes 1, 2 and 3 for the 2020/2021 financial year period, utilising the Greenhouse Gas Protocol for Council and Alwyndor. This will be used as a baseline year against which to monitor emissions reductions.
2. To utilise Council's inventory of emissions to better understand the opportunities that exist to reduce emissions through changes to Council's operations, procurement systems and asset management.

3. To review and analyse relevant emissions reduction opportunities, with recommendations of initiatives to include and exclude within the plan. This is to be based on cost-benefit analysis, GHG emissions reduction opportunity and estimated operational costs.
4. To prepare a proposed staged implementation plan outlining a relevant and realistic pathway to implementing emissions reduction and offsetting initiatives up until the 2030 period.
5. To incorporate feedback from Elected Members and Council staff into the selection of emissions reduction initiatives and development of the Carbon Neutral Plan.

1.2 Context

The IPCC has declared that the 2020 to 2030 decade is critical to reduce global GHG emissions and ensure that global warming is limited to a 1.5 to 2.0°C threshold (Masson-Delmotte, et al., 2018). A 45% reduction in global GHG emissions by 2030 is required to achieve this critical temperature rise threshold (Masson-Delmotte, et al., 2018). It is critical that all organisations seek to reduce emissions resulting from their operations in order to contribute to reduced levels of global warming.

In establishing a 2030 carbon neutral target, the City of Holdfast Bay is demonstrating its commitment to aligning itself with IPCC recommendations and bettering both the South Australian Government and Australian Government targets of Net Zero by the year 2050 (Government of South Australia, 2022). This plan will also align the City of Holdfast Bay with a growing list of local governments committing to carbon neutrality or net zero by 2030. This includes:

- City of Marion, SA (100% Renewables, 2021).
- City of Burnside, SA (City of Burnside, 2022).
- Town of Victoria Park, WA. (Moodie, 2021).
- Glasgow, UK (Carbon Neutral Cities Alliance, 2022).
- Sutherland Shire Council, NSW (100% Renewables, 2021).
- City of Canning, WA (Moodie, 2021).
- The Shire of Augusta, WA. (100% Renewables, 2021).
- City of Armadale, WA (100% Renewables, 2021).
- Knox City Council, Victoria (100% Renewables, 2021).
- City of Darwin, NT (100% Renewables, 2021).

In declaring the Council's ambitious carbon neutral target, the organisation is seeking a pathway to reduce Scope 1, 2 and 3 emissions across Council operations and more broadly to assist the community to respond to climate change. The Climate Emergency Declaration, first announced in 2019, represents a recognition by Council that the world is in a state of a climate emergency and that as an accountable and leading organisation, Council has a responsibility to act (City of Holdfast Bay, 2020).

Council developed an Environment Strategy in 2020, inside of which the Our Climate section has focused climate change response strategies across four core areas (City of Holdfast Bay, 2020):

1. Mitigation of energy use.
2. Adaptation to impacts.
3. Offsets of unavoidable emissions.
4. Community leadership.

This plan focuses on:

a. mitigation initiatives, i.e., reducing emissions produced by Council as an organisation and;
b. offsetting emissions that cannot be feasibly reduced without significant service delivery disruptions and financial impacts.

1.3 Background

The City of Holdfast Bay has a strong history of identifying and adapting to the impacts of climate change. This is demonstrated by recent projects including (City of Holdfast Bay, 2020):

- A 273 tonne reduction in waste sent to landfill in 2019.
- Reducing GHG emissions from fuel by 2.3%.
- Transitioning Council's vehicle fleet to hybrid vehicles.
- Reducing GHG emissions from electricity by 13.6% by converting streetlights to LED.
- Installing additional solar panels at Brighton and Glenelg.

In addition to the actions taken solely by the City of Holdfast Bay, since 2011 Council has planned and responded to the impacts of climate change through Resilient South, a partnership between state and local government organisations in southern Adelaide. Actions taken by the Resilient South Partnership include (Resilient South, 2022):

- Urban heat mapping
- Creating a community climate change survey
- Delivery of the Climate Ready Schools Program
- The creation of urban forests
- The southern region LED street lighting upgrade
- Climate adaptation planning
- Tree canopy mapping
- Climate governance risk assessments
- Coastal climate risk assessments and more.

Looking to the future, Council has recently published the City of Holdfast Bay Environment Strategy 2020-2025, as a driver of future environmental actions to be taken by Council. Through community engagement processes undertaken whilst developing the Environment Strategy 2020-2025, the Holdfast Bay community identified climate change as the greatest environmental challenge facing the City.

This plan outlines a pathway for Council to become a carbon neutral organisation by the year 2030. Included within the plan are the following key pieces of information:

1. A GHG emissions inventory outlining Council's and Awlyndor's GHG emissions profiles for the 2020/2021 financial year.
2. A projected GHG emissions profile for the 2029/2030 financial year period. This has been calculated using expected population growth figures for Holdfast Bay. A business as usual and an emissions reduction scenario have been projected to the 2029/2030 period.
3. Modelling of six emissions reduction initiatives for Council.
4. Modelling of four emissions reduction initiatives for Alwyndor.
5. A discussion of the requirements of offsetting.

Council requires a carbon neutral plan to guide the organisation in future strategic planning. The plan will also ensure that the financial impacts of the required emissions reducing activities are incorporated into long-term financial planning and the management of services and assets.

2 Methodology

The methodology used to create the City of Holdfast Bay Carbon Neutral Plan is outlined below. Key stages of the project methodology are described in Figure 1.

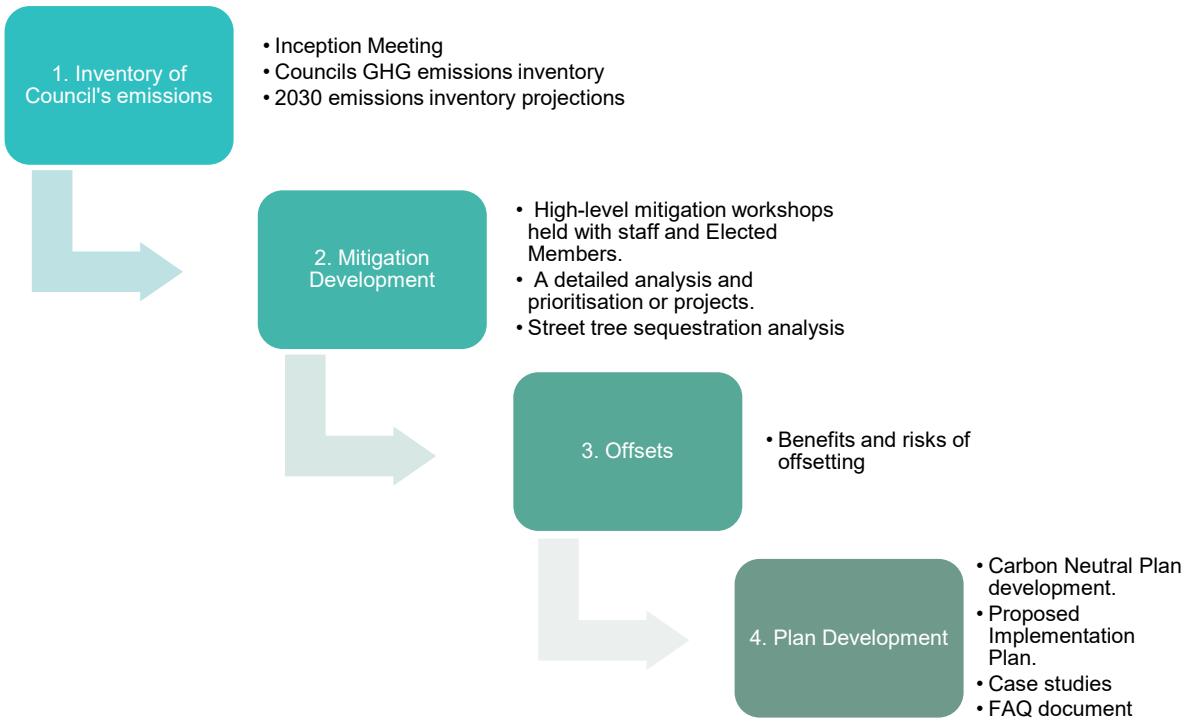

Figure 1. The key stages of the development of the Carbon Neutral Plan

2.1 Inception meeting

The project commenced with an inception meeting on the 9th September 2021 between the Project Team and Edge Environment. The meeting was used to discuss the following:

- Intent, objectives, scope and boundary for the project, including any secondary aims that can be achieved within the scope of the project.
- Refine the scope of works.
- Explain the request for information document and outline the process of gathering data utilised for calculating Council's carbon inventory.
- Explore marginal abatement cost curves and waterfall charts.
- Discuss the format and presentation of deliverables.
- Discuss and clarify roles and responsibilities.
- Finalise the delivery schedule.

Post meeting, City of Holdfast Bay staff were provided with:

- A copy of the request for information document.
- A copy of the inception meeting slide deck and notes.

2.2 Council's GHG emissions inventory

Utilising Council generated data and data related to council operations, a baseline for current operations and delivery of services was established for the 2020/2021 financial year. The Greenhouse Gas Protocol, the global standard used to measure and manage emissions, was used as the framework to calculate emissions from Council (Greenhouse Gas Protocol, 2022).

Emissions calculations for Council operational emissions were conducted utilising National Greenhouse Accounts Factors, Life Cycle Analysis (LCA) factors and population projection data sourced from profile.id (Profile.id, 2022). The City of Holdfast Bay community emissions profile has been sourced from Snapshot (Beyond Zero Emissions; Ironbark Sustainability, 2020). Business as usual (BAU) projections and emissions calculations have been conducted in accordance with the best practice Greenhouse Gas Protocol global accounting standards.

Figure 2 briefly describes the emissions inventory and calculation process used to determine the City of Holdfast Bay's operational emissions profile.

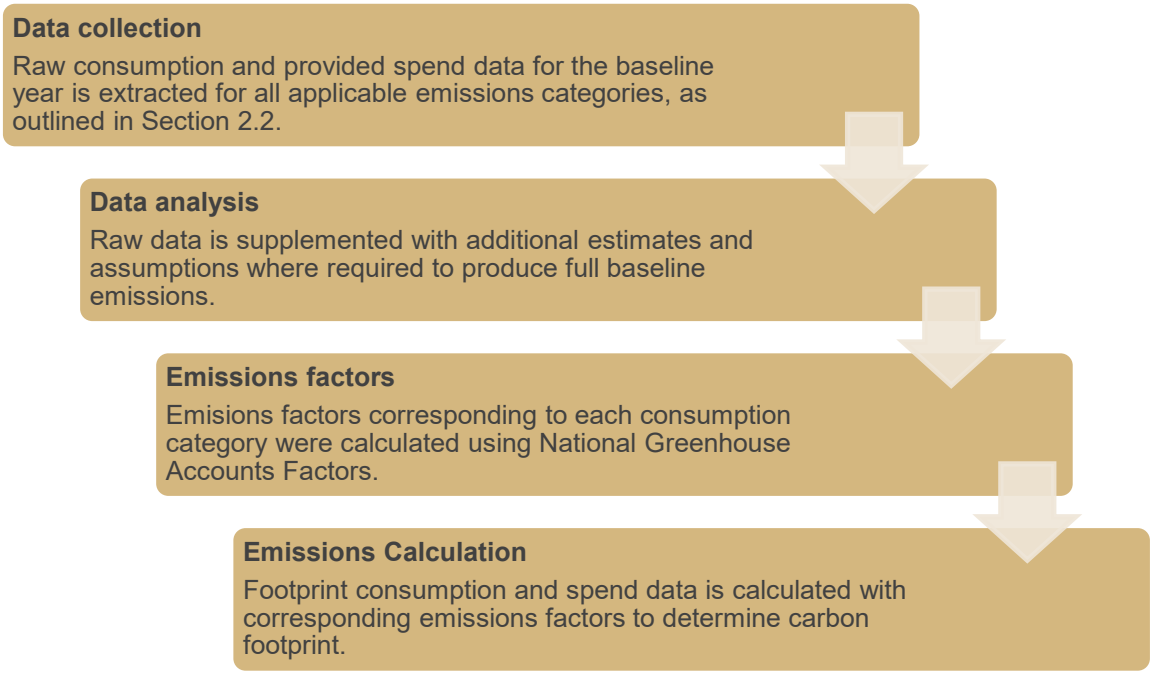

Figure 2. The emissions inventory and calculation process

To convert primary data (i.e. purchased electricity data, waste data, purchased goods and services data) into GHG emissions, we have used LCI databases and the National Greenhouse Accounts Factors, which contain GHG inventories for energy, activities and materials, and global warming potential calculation methods. The database converts physical and economic flows into corresponding tonnes of GHG emissions equivalent (t CO_2-e). A schematic representation of this methodology is depicted below in Figure 3.

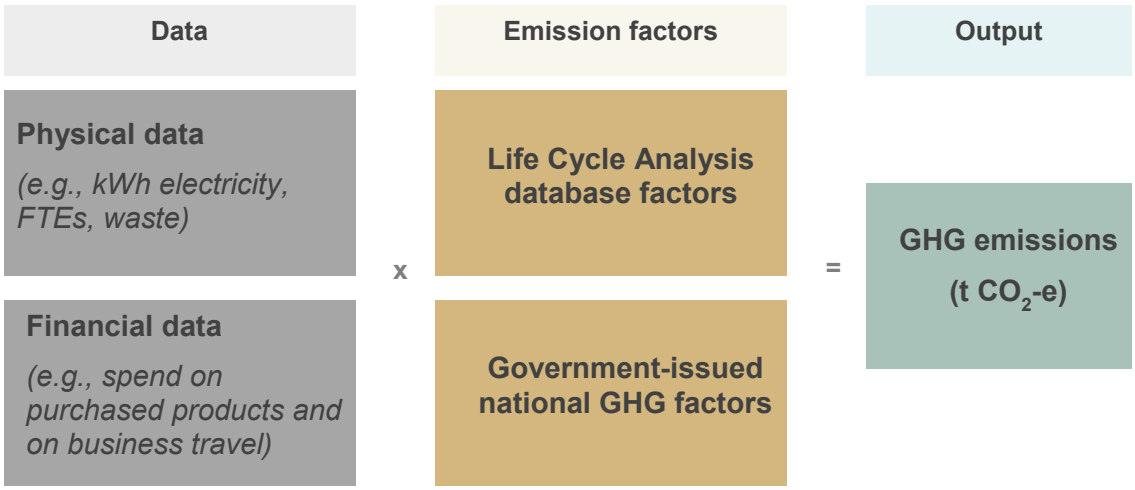

Figure 3. A brief description of how Council's GHG emissions have been calculated.

Table 1 outlines the data categories provided by City of Holdfast Bay staff to calculate the emissions profile for Council.

Table 1. A breakdown of scope, categories and sub-categories used to calculate the carbon inventory of the City of Holdfast Bay.

Scope Category	Category	Sub-category break-down
1	N/A	Fuel combustion – Mobile
		Fugitive emissions (refrigerants)
		Natural gas (methane)
2	N/A	Purchased electricity
3	1: Purchased goods and services	Advertising and marketing
		Appliances
		Books/magazines
		Catering food
		Cleaning
		Compostable dog bags
		Construction
		Corporate services
		Electrical, mechanical, fire and hydraulic services
		Entertainment
		Equipment, materials and appliances
		Financial intermediation
		Furniture, fittings and office equipment
		Health care
		Hotels and restaurants
		ICT
		Insurance

		Landscaping and environmental services
		Other land transport
		Other service activities
		Parking
		Playgrounds
		Post and telecommunications
		Recreational, cultural and sporting activities
		Repairs and maintenance
		Training
		Uniforms
		Waste
		Waste services
		Water
	Category 2: Purchased Capital Goods	Civil Works
		Construction
		Corporate Services
		Furniture, Fittings an Office Equipment
		Motor Vehicles
		Other land transport
		Other service activities
		Repairs and maintenance
		Solar
		Solar Installation
	Category 3: Fuel and energy-related emissions	Fuel Combustion – mobile
		Purchased electricity
	Category 4: Upstream transport	Captured through Category 1
	Category 5: Waste generated in operations	Organics recycling
		Comingled recycling
		General waste (landfill)
	Category 6: Business travel	Care hire/ taxi
		Air travel – domestic
		Other
	Category 7: Employee commuting	South Australia
	Categories 8 – 15.	Not applicable to the City of Holdfast Bay as the organisation does not produce and sell products, operate franchises, own investments or data is not available for leased assets.

2.3 Tree carbon storage analysis

The i-Tree Eco tool was used to calculate the carbon storage and sequestration benefits provided by planted public trees. i-Tree Eco is part of the i-Tree software suite1 and is a scientifically rigorous and globally leading tool for measuring, monitoring, and valuing urban forests and tree ecosystem services. Initial modelling was conducted based on the eight most commonly planted species of trees planted by Council from 2014 to 2021, to generate a baseline of carbon storage and sequestration.

This represents a total of 2,665 trees planted from 2014 to 2021. An assumed diameter, at breast height, of 2.5 centimetres was applied to all calculations.

The trees were then “virtually” grown in the i-Tree Eco model over a nine-year period (to 2030) and a 29-year (to 2050) period to estimate ecosystem service benefits provided by the trees as a young and mature tree, and cumulatively over the time period.

This process demonstrated the appreciating value of growing healthy and mature trees. The i-Tree Eco assessments provide a range of structural and ecosystem services outputs for each tree modelled and the population as a whole, including:

- Amount (tonnes) and value (A$) of carbon stored.
- Annual amount (tonnes/yr.) and value (A$/yr.) of carbon sequestered.

Values are presented in the total carbon storage and sequestration values per tree species and as an average per tree total value.

2.4 Council staff and Elected Member workshops

Two workshops were conducted, firstly with Council staff on the 24th November and later Elected Members on the 7th December 2021. The purpose of the workshops were as follows:

- To present the findings from the carbon inventory baseline and projected 2030 business as usual emissions scenario.
- To gain a greater understanding of the emissions reduction initiatives already occurring at Council.
- To understand the technical, physical and financial restraints to emissions reduction initiative implementation.
- To explore and prioritise a range of emissions reduction initiatives that will provide Council with the greatest emissions reduction potential.

The workshops provided Edge staff with a list of potential emissions reduction initiatives to be considered for modelling and supportive actions. Over 35 emissions reduction activities, actions and programs were suggested by Council staff and Elected Members through the respective workshops. Emissions reduction initiatives were progressed to modelling stage, based on the findings from both Council’s and Alwyndor’s carbon inventory and Edge’s knowledge of the impact and benefit of the selected emissions abatement (reduction) initiatives.

This resulted in the modelling of four emissions reduction initiatives for Alwyndor and six emissions reduction initiatives for Council.

2.5 Emissions reduction modelling

Additional desktop research was conducted by Edge to explore the mitigation opportunities to model the high-level carbon abatement potential to assist with developing the pathway to carbon neutrality. Findings are outlined in Section 3.

Emissions were projected to 2030, to align with Council’s carbon neutral 2030 target. A variety of assumptions were applied to the modelling, these are discussed in detail in Appendix B. Key assumptions are as follows:

- An estimated population increase of 1.14% (Profile.id, 2022). It is assumed that Council’s delivery of services to the community will increase in line with population growth.
- Decarbonisation of the South Australian grid, aligned with the South Australian Government 2030 goal of net 100% renewable energy by 2030 (Government of South Australia, 2021).

2.6 Offsetting risks and benefits

Desktop research was conducted to supplement Edge’s existing knowledge of offsetting. Findings from the offsetting research have been included in Section 3.

2.7 Carbon Neutral Plan, Frequently Asked Questions (FAQ) and community case study development

In developing the draft Carbon Neutral Plan, desktop research was conducted to complement existing knowledge of what other Council's within Australia are achieving with regard to driving down organisational emissions and assisting the community to reduce their carbon footprints.

A FAQ document and two community case studies have been developed and are available as attachments to the Carbon Neutral Plan.

All documents were provided to Council staff in draft format. Feedback and commentary were sought and provided by Council staff. Feedback was incorporated where relevant and feasible to a finalised draft copy.

It is understood Council will apply graphic design elements to the plans, FAQ document and case studies prior to releasing to the public for community consultation purposes.

3 Findings – City of Holdfast Bay

This section outlines the findings resulting from the calculation of the City of Holdfast Bay's:

- 2020/21 financial year emissions inventory
- Modelled emissions reduction initiatives
- Marginal abatement cost curve - a cost benefit analysis tool outlining the financial benefits/costs of each modelled emissions reduction initiative in comparison to the emissions abatement potential of each modelled initiative
- Supportive actions required to assist Council to implement the modelled emission reduction initiatives
- Public tree carbon storage analysis

3.1 Council's emissions inventory

In 2020/2021 Council emitted 17,785 tonnes of carbon dioxide equivalent (t CO_2-e). By 2030 total emissions are projected to increase by almost 10% to 19,694 t CO_2-e. Growth in Council's emissions inventory is expected to increase in line with localised population growth and the increasing need of Council to service a growing population.

Emissions are categorised into three groups, called scopes. Each scope is defined below:

Scope 1: Direct emissions from activities owned or controlled by the council in the baseline year (e.g. fuel combustion from company vehicles, refrigerants, natural gas).

Scope 2: Indirect emissions associated with the council's consumption of purchased electricity in the baseline year.

Scope 3: All indirect emissions (not included in scope 2) that occur in the value chain of the council, including both upstream and downstream emissions.

Table 2 and Figure 4 show that 89% of Council's emissions sit within Scope 3. This includes Council's supply chain, purchased capital goods, waste, business travel and employee commuting, and represents 15,850 t CO_2-e. Scope 2 emissions are 1,214 t CO_2-e (7%) from purchased electricity. Scope 1 emissions represent 4% of Council's emissions inventory or 721 t CO_2-e (Table 2).

Table 2. The percentage and tonnage of emissions per Scope category produced by Council operations

Scope	Emissions sources	Total tonnes CO2-e	Proportion of overall emissions
1	Vehicle fuel, natural gas, refrigerants	721	4%
2	Purchased electricity	1,214	7%
3	Council's entire supply chain, waste, business travel, employee commuting	15,850	89%

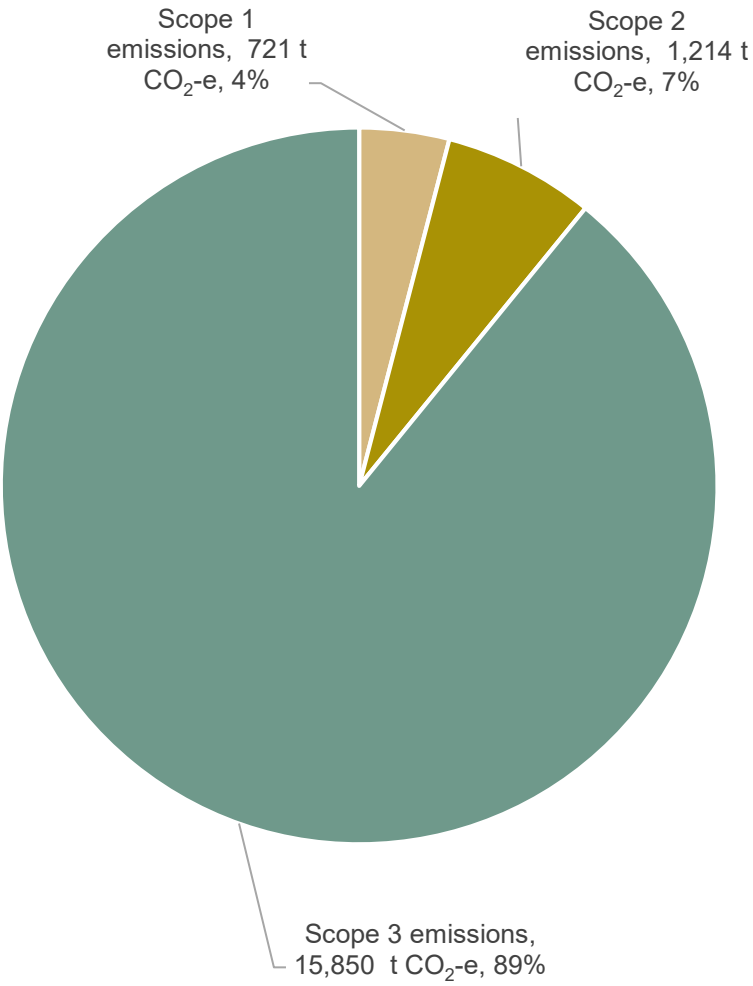

Figure 4. The City of Holdfast Bay emissions inventory, categorised by scope.

Appendix A shows a detailed breakdown of Scope 1, 2 and 3 emissions.

Further analysis of Council's Scope 3 emissions indicates that over two thirds (68%) of Council's Scope 3 emissions sit within Category 1: Purchased goods and services (Figure 5). This demonstrates the potential emissions reduction savings that may be generated through alterations to Council's supply chain through improved supplier engagement and procurement of lower carbon products and services.

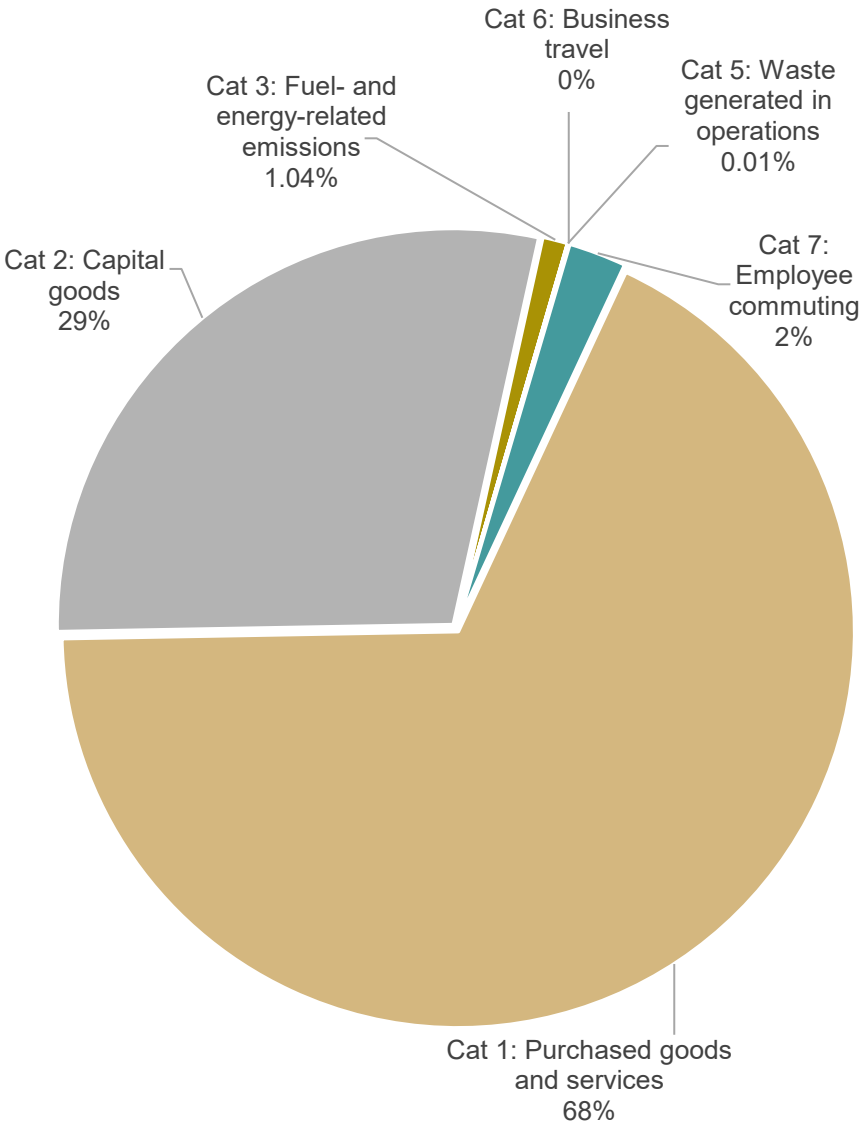

Figure 5. City of Holdfast Bay Scope 3 emissions by category type.

A breakdown of Council's Category 1 (purchased goods and services) profile is shown in Figure 6. It can be seen that 64% of emissions from purchased goods and services are across the following sectors:

- Repairs and maintenance (18%) including:
    - Hydraulic and plumbing
    - Hardware, fixtures and fittings
    - Painting
    - Signage
    - Small tools
- Water (17%) purchased from the mains supply.
- Landscaping and environmental services (15%)
    - Landscaping works
    - Environmental services
    - Pest Control

- Earthworks
- Corporate services (14%) including
  - Consulting services
  - OH&S services
  - General expenses
  - Security
  - Labour hire
  - Photography

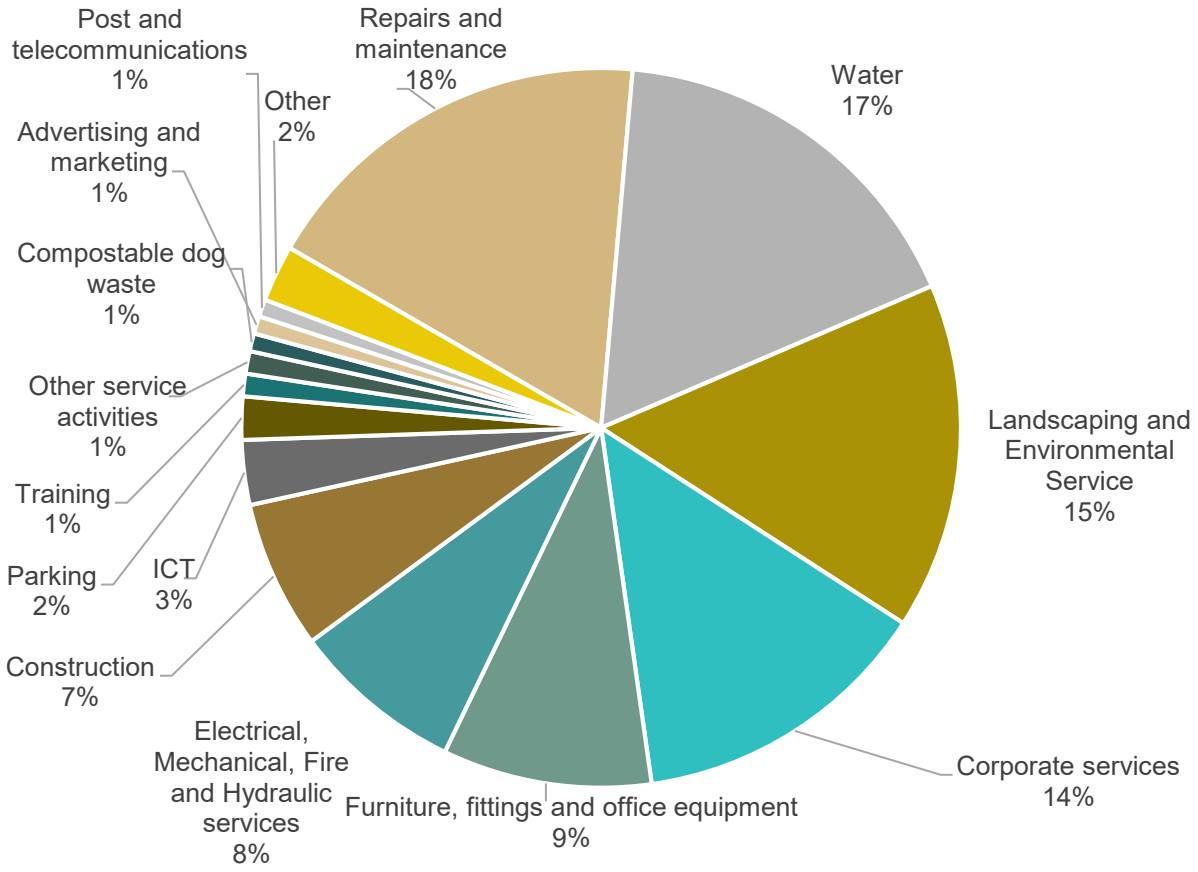

Figure 6. A breakdown of the City of Holdfast Bay's purchased goods and services emissions inventory.

3.2 Emissions reduction initiatives

Six emissions reduction initiatives were modelled to assist the City of Holdfast Bay to better understand the projected benefits and costs of implementing a range of emissions reduction initiatives. Emissions reduction initiatives were selected based on the following criteria:

- The initiative can be controlled or influenced by Council.
- The initiative will position the City of Holdfast Bay as a leader in the local community.
- The initiative can be technically modelled.
- The initiative is likely to contribute to either cost savings and/or dramatically reduce emissions from Council's emissions profile.

- The initiative is supported by staff and Elected Members, as captured through one of the two workshops run with both staff and Elected Members.
- The initiative will drive down emissions produced by Council operations and service delivery, without causing disruption to operations.

Emissions reduction initiatives are modelled based on a range of assumptions and technical limitations and have been developed based on information provided to Edge by Council and in collaboration with Council staff.

The following six emissions reduction initiatives were modelled:

1. The use of 100% renewably sourced electricity via the Local Government Association Power Purchase Agreement (PPA).
2. The conversion of existing mercury vapour and fluorescent public lighting to LED lighting.
3. The transition of Council's fleet to electric or zero emissions vehicles (EV).
4. The use of lower carbon construction materials, based on a reduction of 5% of emissions every year.
5. Lower emissions procurement, based on a reduction of 5% of emissions every year.
6. The use of energy efficient buildings, based upon the increased efficiency of lighting and installation of solar panels (as outlined through The Energy Project Reports for Brighton Civic Centre and the Glenelg Library) (The Energy Project, 2019).

In addition to the above six emissions reduction initiatives, the decarbonisation of the South Australian electricity grid was also modelled, in line with the South Australian Government's goal of 100% renewable net electricity production of mains supply electricity by 2030. It is important to show this impact for Holdfast Bay to achieve carbon neutrality for the same period.

3.3 The impact of modelled emissions reduction initiatives

Carbon neutrality is defined as "when CO_2 emissions caused by humans are balanced globally by CO_2 removals over a specified period" (Source: IPCC SR15). Emissions reduction modelling indicates that the City of Holdfast Bay's pathway to carbon neutrality by the target date of 2030 is feasible with a combination of the implementation of a range of emissions reduction initiatives, supporting actions, the decarbonisation of the SA electricity grid and eventually offsetting. Table 3 outlines the projected reduction of carbon dioxide equivalent (t CO_2-e) emissions and the financial costs or savings of implementing the initiative. The costs/savings are presented in order of most cost effective to least.

The initiatives highlighted in green (100% renewable energy, EV fleet transition, energy efficient buildings and LED public lighting) represent cost savings to Council. The initiatives coloured orange are cost negative or the costs are unknown. The red coloured initiative (better procurement) represents a cost to council. Results from Table 3 demonstrate that the implementation of all the initiatives as a collective will reduce emissions and importantly reduce costs for Council by a total estimate of $912,925 from implementation to 2030. This is a net figure that is inclusive of cost savings, i.e., the green coloured initiatives, the cost neutral initiatives and the dark orange/red coloured initiatives that represent a cost to Council. The total savings from the green coloured initiatives more than offset the moderate costs of implementing an improved procurement system (a moderate cost of $60,888 from implementation in 2023 to 2030).

It can be seen that all emissions reduction initiatives will provide Council with emissions reduction benefits. Only one initiative represents significant cost savings over time, considering both capital costs and ongoing operational costs in comparison with business as usual (BAU) scenarios. BAU scenarios are considered a "do nothing" approach, whereby Council continues to implement the same operations and activities as are currently occurring. It can be seen that the green coloured initiatives (100% renewable energy, EV fleet transition, energy efficient buildings and LED public lighting) represent a total cost saving of over $842,443 dollars from implementation to 2030.

Table 3. The projected emissions reduction potential and costs/savings potential of each modelled emissions reduction initiative, compared to business as usual, between 2022/23 and 2029/30.

Rank	Reduction Initiative	t CO_2-e	$/t CO_2-e	Total savings/cost
1	100% renewable energy	2,774	-$229	-$635,994
2	EV fleet transition	1,724	-$65	-$111,321
3	LED public lighting	362	-$130	-$86,770
4	Energy efficient buildings	75	-$111	-$8,358
5	Grid decarbonisation	3,950	$0	$0
6	Lower carbon construction materials	1,078	Unknown	Unknown
7	Improved procurement	4,758	$13	$60,888

The implementation of the renewable energy PPA provide significant benefits to Council. However, due to the increasing percentage of renewable energy entering the SA electricity grid, the ongoing emissions reduction potential of this initiative decreases towards the 2030 carbon neutral target date. The modelling of the 100% renewable energy PPA has included the assumption of a linear reduction in emissions over time, resulting from grid decarbonisation. A total cost saving of $635,994 from implementation to 2030 can be expected based upon a very conservative electricity operating cost estimate of $0.228/kWh.

The selection of vehicles by Council is a measure that Council can directly control and can be used to drive down Scope 1 emissions. As part of a staged approach to transitioning to zero emissions transport, Council has recently purchased the first electric fleet vehicle. Modelling suggests that the conversion of all Council passenger vehicles, i.e., not heavy plant and equipment, to EVs will significantly drive down emissions and represent a cost saving of more than $111,321 to Council by 2030.

The conversion of public lighting to LED lamps represents a cost saving to Council of $130 per t CO_2-e and a total projected saving of $47,188. It must be noted that Council has already committed to changing LED lamps and has been conducting upgrades in a staged manner since 2018, with 76% of street lights already completed.

The use of energy efficient buildings, i.e., energy efficient lighting within buildings and additional solar capacity, is projected to create a minor reduction (75 t CO_2-e) in overall emissions and represents a projected cost saving to Council of $111 per t CO_2-e and a total saving to the 2030 target year of $8,358.

The decarbonisation of the SA electricity grid is not within Council's control. However, it is projected that by 2030, the grid will be sourcing net 100% renewable energy. The advent of grid decarbonisation will drastically reduce emissions from purchased electricity for all electricity users within South Australia, including the City of Holdfast Bay. A reduction of 3,950 t CO_2-e, the second largest modelled emissions reduction initiative resulting from grid decarbonisation is projected by 2030. Modelling of grid decarbonisation assumes a linear reduction of emissions from the grid from the 1st July 2021 to the 30th June 2030.

The use of lower carbon construction materials represents a considerable benefit to local governments, reducing emissions by a total of approximately 1,078 t CO_2-e. Modelling of the lower carbon construction materials has been conducted assuming that lower carbon construction materials are price equivalent to higher carbon construction materials. Companies supplying products and materials for construction purposes are increasingly offering lower carbon products such as the Downer Reconophalt road products, Holcim's ECOpact low carbon concrete product, geopolymer concrete and the use of recycled road and construction materials. The opportunity to substitute high embodied energy and carbon materials such as structural steel for lower carbon alternatives including cross-laminated timber has been proven for small and mid-scale developments and has been successfully utilised by developers, such as Lendlease (Waters, Worsley, & Richters, 2020). There is also the opportunity to utilise existing sustainability frameworks and certification systems to improve

the performance and longevity of infrastructure and the built environment. For example, Greenstar and Infrastructure Sustainability Council of Australia projects require building projects for the former and infrastructure projects for the latter to meet particular sustainability requirements that can be linked to a range of sustainability metrics including energy reduction and use of lower embodied carbon materials.

Better procurement, i.e. the sourcing of materials, products and services that are certified as carbon neutral, or have demonstrated a commitment to emissions reduction, represents the greatest emissions reduction initiative that Council can take to reduce the organisation's overall emissions profile. This initiative assumed an annual reduction of emissions through Council's supply chain of 5%. The potential reductions may be greater, if Council chooses a more aggressive emissions reduction target across purchased goods and services. The costs of implementing such a program, represent a moderate cost to Council at $13 per t CO_{2}-e and a projected total saving of $60,888.

3.4 Pathway to carbon neutrality

It is projected that by 2030, 12,580 t CO_2-e will require elimination, potentially through the implementation of more aggressive emissions reduction initiatives that may have an impact on Council's delivery of service or finances (Figure 8). Alternatively, Council may elect to offset the remainder of emissions. The FY30 BAU bar presented in Figure 8 represents the total projected emissions produced by Council by 2030. The grey coloured bars seen in Figure 8 represent the modelled emission reductions of the modelled initiatives in 2030 (LED lighting conversion, EV fleet transition, PPA, sustainable procurement, lower emissions construction materials, energy efficient buildings and mains electricity supply grid decarbonisation). The FY30 remaining emissions represent the remainder of emissions that require either further reductions or offsetting to achieve carbon neutral status.

Initiatives that target a reduction in Scope 2 (purchased electricity) emissions are impacted by the interrelationship between grid decarbonisation, energy efficiency, and the PPA. As such, the benefit of implementing many of these initiatives is limited from purely an emission reduction stand point, noting that there are significant financial benefits to implementing the conversion of lighting to LED, the PPA, a zero emissions fleet and energy efficiency programs.

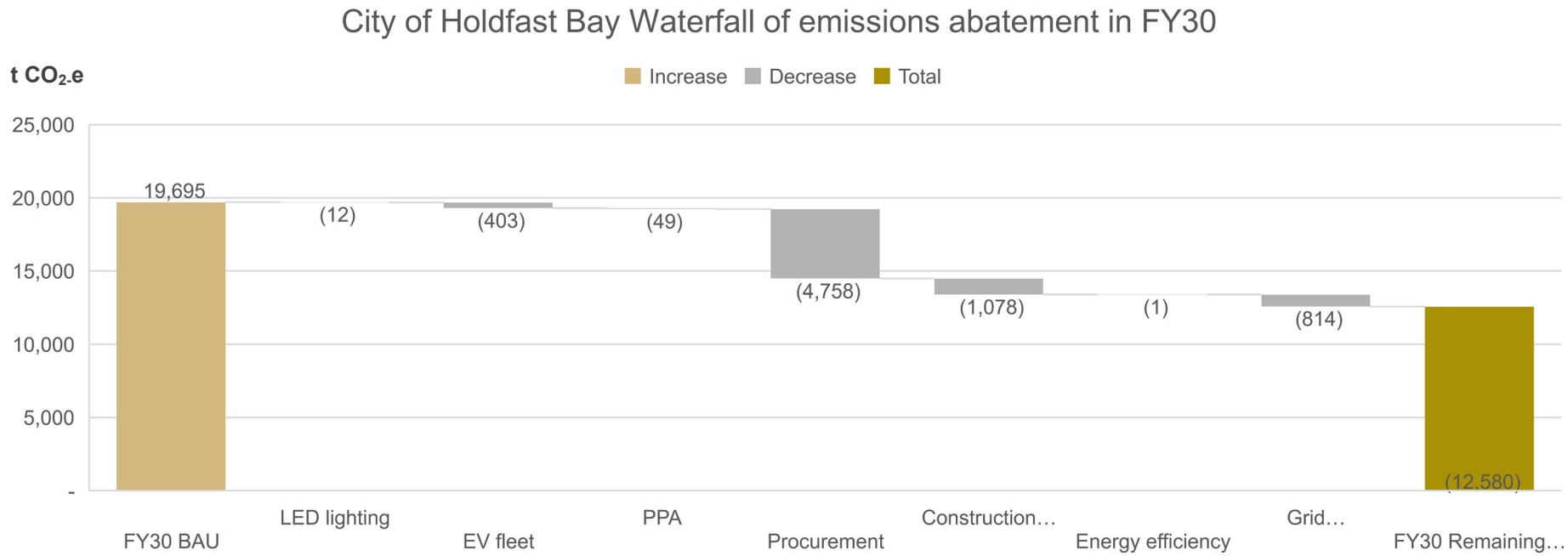

Figure 7. Council's waterfall chart outlining the projected total emissions produced by Council by 2030 (FY BAU) and the impact of emissions reduction initiatives in reaching carbon neutrality in 2030. The FY30 remaining cell shows the remaining emissions in 2030.

3.5 Carbon neutrality and offsetting

Offsetting refers to the process of purchasing carbon credits through carbon markets offered by organisations and businesses selling carbon credits. Carbon credits are the metric utilised by markets to determine the value of one tonne of carbon dioxide equivalent and can be earnt through conducting an activity deemed to compensate for the emission of GHGs released into the atmosphere.

Insetting is a form of offsetting and refers to an organisation offsetting emissions within their own operations, rather than purchasing credits through a market. To officially inset requires registration of the project and carbon accounting and has only so far been utilised in Australia by large agricultural companies. Registration is required to ensure that the project is registered and carbon stored through the insetting project cannot be accessed or sold within carbon markets as an offset to another company. This ensures that insetting projects are not counted two or more times by different organisations. The process is costly, as annual independent carbon accounting is required to calculate changes in soil or land based carbon sequestration and storage. Council has the ability to inset through strategic plantings of street trees and other public areas but only for increases in carbon sequestration and storage from the defined baseline year onwards. This can include an increase in carbon sequestration and storage from existing plant growth and newly planted vegetation.

Offsets are broadly defined across two categories – nature-based removals and industrial removals (The Grattan Institute, 2021). Nature-based removals include removals of atmospheric carbon dioxide by nature-based carbon cycle processes (The Grattan Institute, 2021). This includes vegetation planting and growth, soil carbon and ocean-stored, or blue carbon.

Industrial removal systems involve using technology to capture carbon dioxide from industrial processes or from the air and lock it away in geological formations or through chemical bonds, effectively forever (The Grattan Institute, 2021). This technology is currently not financially viable, given current prices of offsets.

Purchasing offsets can be conducted through the Australian Government managed Emissions Reduction Fund or through alternative voluntary carbon markets. The Emissions Reduction Fund establishes a price for Australian Carbon Credit Units (ACCU) through bi-yearly reverse auctions, whereby eligible offsetting projects may be bought by the Australian Government (The Grattan Institute, 2021). In turn, the Australian Government sells ACCUs to eligible organisations wishing to offset the emissions they produce. This market is considered highly regulated and predictable. However, purchasing offsets in this way may mean paying a premium price. One ACCU is equivalent to one tonne of sequestered carbon (The Grattan Institute, 2021).

Offsets can also be purchased for projects that assist in the avoidance of the release of emissions into the atmosphere. For example, an organisation may purchase offsets to help finance a renewable energy project that will increase the percentage of renewable energy entering the mains supply grid, thus reducing reliance on emissions producing electricity production, such as the use of thermal coal. In the case of the City of Adelaide, one of the ways that the organisation utilises the purchase of offsets is to support wind energy projects in India and Mongolia (Climate Active, 2022).

3.5.1 Risks and limitations associated with offsetting

Offsetting presents risks when purchasing carbon credits. An overview of some of the risks and limitations of offsetting are listed below:

- The price of carbon offsets is highly likely to increase over time. This represents a considerable risk for those currently purchasing offsets, as the commitment to continue to offset emissions is likely to require increased financing over time. Demand for ACCU's increased by 52% in the March quarter of 2021, compared to the previous year's March quarter (MacDonald-Smith & Greber, 2021). The International Monetary Fund (IMF) estimates prices may increase to $70/tonne by 2030. It must be noted that this is an estimate and prices may exceed this price.

- Offsets are an ongoing cost that do not have a financial return on investment. This is unlike emissions reduction initiatives, such as the conversion of lighting to LED, the installation of solar panels or the use of energy efficiency technology upgrades. Emissions reduction

initiatives can reduce operational costs and emissions, thus reducing the need to purchase as many offsets.

- Offsetting is not considered best practice and is one of the lower order climate mitigation priorities. Reducing and avoiding emissions is considered best practice. However, offsetting is essential in slowing climate change to reduce and avoid emissions production (The Grattan Institute, 2021).

- Some offsetting activities, such as carbon sequestration (i.e. tree and other vegetation planting) are at risk of unintentional release of carbon back to the atmosphere through natural hazards, such as fire, disease and pests. When purchasing offsets, it is important to consider the goal of the offsets. It may be better to purchase offsets that assist organisations to reduce emissions, rather than carbon sequestration and storage. For example, the City of Adelaide purchase offsets across a range of nature-based and renewable energy offsetting projects. This assists the organisation to mitigate the risk of offsetting failure and supports biodiversity and conservation projects across Queensland and Cambodia, and renewable energy transition in Mongolia and India (Climate Active, 2022).

- In order for carbon credits to be generated, there is a need to quantify the potential for land-based carbon sequestration. The quantification of insets can be an expensive and time-consuming process that requires a commitment to continue to monitor insets over time. Current carbon accounting methods, approved by the Australian Government ERF are not widely understood and require specialists to conduct the quantification process. Furthermore, the availability of land within the highly developed and relatively small LGA of Holdfast Bay is highly unlikely to provide the capacity to inset to effectively reduce the remaining emissions requiring offsetting/insetting.

- Some organisations are anticipating the use of blue carbon to increase over time, i.e., sequestration and storage of carbon through coastal and marine vegetation. In South Australia, the opportunities are seen as primarily across mangrove, saltmarsh and seagrass environments. However, it is important to note that marine heatwaves cause seagrass meadows to release carbon at an accelerated rate. Projections of increased ocean temperatures as a result of elevated average and extreme temperatures caused by climate change will likely cause a redistribution of seagrass meadows. Planting seagrass meadows in areas of seagrass meadow loss may be expensive and ineffective in sequestering carbon because of increased marine temperatures (The Grattan Institute, 2021).

3.6 Key learnings

This section highlights the key learnings and primary messages for Council resulting from emissions reduction modelling.

- By 2030 the decarbonisation of the SA electricity grid is projected to eliminate Scope 2 emissions, however engaging in a PPA now will help to dramatically reduce emissions and assist Council toward its target of carbon neutrality between now and 2030 as well as resulting in significant cost savings.
- Electric vehicles will help mitigate Scope 1 emissions and will result in cost savings over the period to 2030 in reduced fuel and maintenance costs. The modelling assumed renewable energy (zero emissions) is used to power the vehicles, i.e. electricity used to charge the vehicles is sourced via the 100% renewable electricity PPA.
- Switching to LED lighting will result in a cost saving of reduced electricity cost but the carbon abatement amount reduces over time as the grid decarbonises, or as soon as the PPA is purchased. The greatest benefit in transitioning all public lighting to LED is a financial saving, resulting from a reduced electricity demand from LED lamps (see Figure 7).
- Building more energy efficient buildings will be helpful from a reputational standpoint as it can assists Council to position itself as a sustainability leader with the community and will provide significant cost savings over time resulting from energy efficiencies.

- The greatest opportunity and source of emissions is Scope 3, Category 1 (purchased goods and services) and Category 2 (purchased capital costs).
- The 5% reduction every year associated with Category 1 and Category 2 emissions will require an alteration to Council's procurement policies and systems, and supplier engagement.
- Offsetting will be required to achieve carbon neutrality. This has ongoing financial consequences for Council and should be considered against the implementation of further emissions reduction initiatives.
- Council can dramatically reduce Scope 1 and 2 emissions, however, the elimination of Scope 3 emissions remains problematic. As such, Council may like to consider whether Scope 3 emissions are excluded within the carbon neutral status of the organisation, i.e. carbon neutral status only applies to Scope 1 and 2. Other SA Councils have produced carbon neutral plans that do not include Scope 3 or only include limited scope 3 emissions. This is not consistent with the GHG Protocol, the global standard for calculating emissions, however, it may be required to help Council achieve carbon neutral status.

3.7 Tree carbon storage analysis

In order to better understand the storage and sequestration potential of street trees and publicly planted trees (planted in reserves and parks), i-Tree Eco modelling was conducted. Due to a lack of available forward planting data, it was decided that data from previously planted trees would be conducted to demonstrate the potential of carbon sequestration and storage within the City of Holdfast Bay.

Carbon sequestered is the amount of carbon dioxide the tree "absorbs" during photosynthesis. Carbon storage refers to the amount of carbon stored in tree wood through the carbon sequestration process and is calculated on an annual basis. For Climate Active carbon neutral certification processes, carbon sequestration and storage may only be utilised for offsetting purposes if the project is registered through the Australian Government Emissions Reduction Fund and undergoes auditing processes to capture change in carbon sequestration and storage over time.

Table 4 and Table 5 outline the carbon storage potential of the eight most commonly planted public space tree species within the City of Holdfast Bay over the 2014-2021 period. These tables summarise the carbon storage and sequestration of immature trees (roughly 1.5 metres in height and 2.5 centimetres in diameter (measured at 1.3 metres from the ground) at planting, and again at 2030 and 2050. Carbon stored is the quantity of carbon dioxide that the tree stores in its woody material over time to allow it to grow. The carbon storage and sequestration potential of trees at 2030 compared to 2050 is greatly diminished due to the limited growth and establishment period of the planted trees. Of the total 2,655 trees planted from 2014 to 2021, it can be seen that the total carbon storage capacity of the trees increases from 2,066 kilograms at planting to over 90,000 kilograms (90 tonnes) by 2030 and 662,000 kilograms (662 tonnes) by 2050 (Table 4).

It can be seen that sequestered carbon at planting is over 1,386 kilograms, rising to 13,083 kilograms (13 tonnes) by 2030 and 44,311 kilograms (44 tonnes) by 2050 (Table 4).

Table 4. Carbon storage (Store) and carbon sequestration (Seq) classified by kg and dollar value and represented at planting, 2030 and at 2050*.

		At Planting				At 2030				At 2050			
Species	No. planted	C Store (kg)	C Store ($)	C Seq (kg/yr)	C Seq ($/yr)	C Store (kg)	C Store ($)	C Seq (kg/yr)	C Seq ($/yr)	C Store (kg)	C Store ($)	C Seq (kg/yr)	C Seq ($/yr)
Banksia integrifolia (Coast Banksia)	374	370.00	$8.44	149.60	$3.41	9,867.21	$224.97	1,355.68	$30.91	67,559.4	$1,540.3	4,459.4	$101.68
Brachychiton rupestris (Narrow-leaf Bottle Tree)	191	210.10	$4.79	152.80	$3.48	6,949.72	$158.45	1,132.85	$25.83	58,915.0	$1,343.2	4,102.3	$93.53
Cupaniopsis anacardioides (Tuckeroo)	536	589.69	$13.44	375.20	$8.55	27,458.38	$626.05	3,744.07	$85.36	183,490.1	$4,183.5	11,960.9	$272.71
Eucalyptus leucoxylon (SA Blue Gum)	244	122.00	$2.78	48.80	$1.11	3,375.03	$ 76.95	469.63	$10.71	27,869.3	$635.42	1,765.8	$40.26
Jacaranda mimosifolia (Jacaranda)	376	225.60	$5.14	225.60	$5.14	15,161.82	$345.69	2,108.3	$48.07	98,768.2	$2,251.9	6,204.7	$141.47
Lagerstroemia indica 'Natchez' (White Crepe Myrtyle)	385	269.50	$6.14	192.50	$4.39	9,774.55	$222.86	1,602.1	$36.53	82,994.4	$1,892.2	5,754.2	$131.20
Pistacia chinensis (Chinese Pistache)	301	150.50	$3.43	120.40	$2.75	5,591.58	$127.49	813.80	$18.55	39,407.5	$898.49	2,559.0	$58.35
Sapium sebiferum (Chinese Tallow)	258	129.00	$2.94	103.20	$2.35	11,979.60	$273.14	1,857.1	$42.34	103,064.7	$2,349.8	7,504.9	$171.11
TOTAL	2,665	2,066.3	$47.11	1,368.1	$31.19	90,157.90	$2,055.6	13,083.6	$298.31	662,068.6	$15,095.1	44,311.5	$1,010

*Note these values include different numbers of each species planted at different times.

Table 5 presents the average carbon sequestration and storage value per tree species. Different tree species provide different carbon storage and sequestration potential. It can be seen that certain species of trees will sequester and store carbon more at different points in their growth and development, with many trees listed in Table 5, not reaching maturity until 2100 or beyond. For example, *Eucalyptus leucoxylon* (SA blue gum) has a reduced carbon storage and sequestration rate compared to that of the *Pistacia chinensis*. However, given the right environment the *Eucalyptus* species will grow much larger than the *Pistacia* species over time. If Council are seeking to plant public tree species that represent the greatest carbon storage and sequestration potential

by 2030, *Sapium sebiferum* (Chinese tallow) and *Cupaniopsis anacardioides* (Tuckeroo) are fast growing species and, on average, will provide the greatest carbon storage benefits.

Table 5. Average per tree carbon storage (store) and carbon sequestration (Seq) classified by kg and dollar value and represented at planting, 2030 and at 2050*.

	At Planting				At 2030				At 2050			
Species	C Store (kg)	C Store ($)	C Seq (kg/yr)	C Seq ($/yr)	C Store (kg)	C Store ($)	C Seq (kg/yr)	C Seq ($/yr)	C Store (kg)	C Store ($)	C Seq (kg/yr)	C Seq ($/yr)
Banksia integrifolia (Coast Banksia)	0.99	$0.02	0.40	$0.01	26.38	$0.60	3.62	$0.08	180.64	$4.12	11.92	$0.27
Brachychiton rupestris (Narrow-leaf Bottle Tree)	1.10	$0.03	0.80	$0.02	36.39	$0.83	5.93	$0.14	308.46	$7.03	21.48	$0.49
Cupaniopsis anacardioides (Tuckeroo)	1.10	$0.03	0.70	$0.02	51.23	$1.17	6.99	$0.16	342.33	$7.81	22.32	$0.51
Eucalyptus leucoxylon (SA Blue Gum)	0.50	$0.01	0.20	$0.00	13.83	$0.32	1.92	$0.04	114.22	$2.60	7.24	$0.17
Jacaranda mimosifolia (Jacaranda)	0.60	$0.01	0.60	$0.01	40.32	$0.92	5.61	$0.13	262.68	$5.99	16.50	$0.38
Lagerstroemia indica 'Natchez' (White Crepe Myrtyle)	0.70	$0.02	0.50	$0.01	25.39	$0.58	4.16	$0.09	215.57	$4.91	14.95	$0.34
Pistacia chinensis (Chinese Pistache)	0.50	$0.01	0.40	$0.01	18.58	$0.42	2.70	$0.06	130.92	$2.99	8.50	$0.19
Sapium sebiferum (Chinese Tallow)	0.50	$0.01	0.40	$0.01	46.43	$1.06	7.20	$0.16	399.48	$9.11	29.09	$0.66

It should be noted that this analysis excluded consideration of maintenance requirements, canopy benefits and habitat benefits.

4 Findings – Alwyndor

This section outlines the findings resulting from the calculation of the following for the Alwyndor aged care facility:

- 2020/21 financial year emissions inventory.
- Modelled emissions reduction initiatives.
- Marginal abatement cost curve - a cost benefit analysis tool outlining the financial benefits/costs of each modelled emissions reduction initiative in comparison to the emissions abatement potential of each modelled initiative.
- Supportive actions required to assist Alwyndor to implement the modelled emissions reduction initiatives.

4.1 Alwyndor's emissions inventory

The Alwyndor 2020/21 financial year emissions profile is 3,963 t CO_2-e. By 2030 total emissions are projected to increase to 4,388 t CO_2-e. Similar to Council, the overwhelming majority (86%, 3,396 t CO_2-e) of Alwyndor's emissions arise from Scope 3 (Figure 9). Scope 1 represents 3% (135 t CO_2-e), whilst emissions from Scope 2 represent 11% (432 t CO_2-e) (Figure 9).

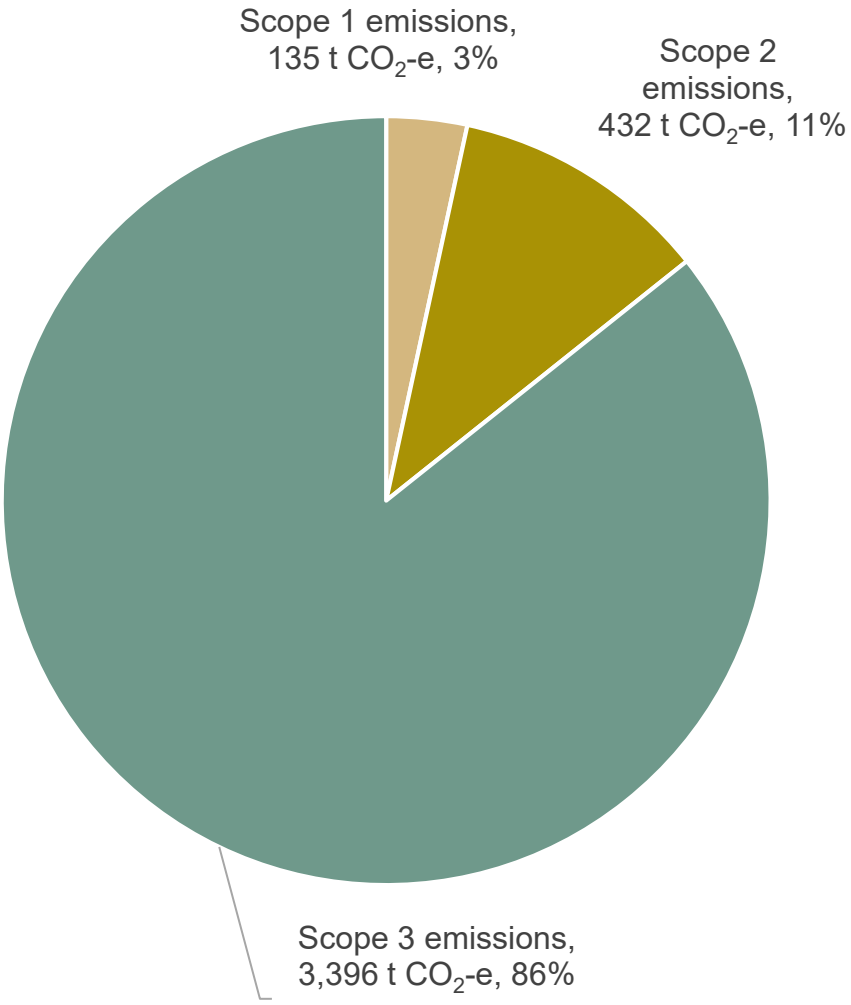

Figure 8. Alwyndor's emissions inventory, categorised by Scope.

Further analysis of Alwyndor's Scope 3 emissions indicates that over 70% of Council's Scope 3 emissions sit within Category 1: Purchased goods and services (Figure 10). In similar circumstances to Council, it is apparent that there are significant potential emissions reduction savings that may be generated through alterations to Alwyndor's supply chain.

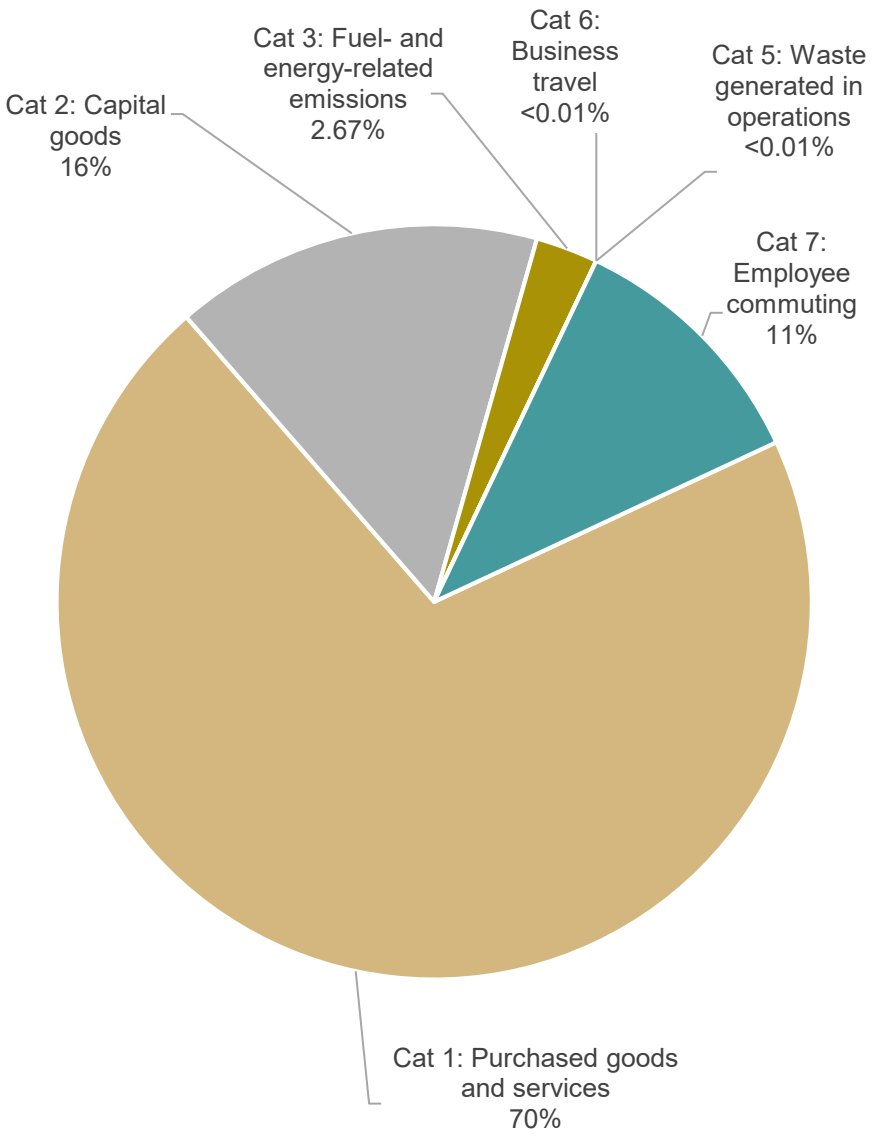

Figure 9. Alwyndor's Scope 3 emissions categorised by category type

Almost half (49%) of Alwyndor's purchased goods and services consist of health care and corporate services (Figure 11). Corporate services include activities such as:

- Training
- Labour hire
- Legal fees
- Consulting services
- Security
- Photography

- Miscellaneous professional services

Health care consists of a range of services and medical products and consumables including:

- Labour hire
- Health Consulting services
- Mobility equipment
- Pharmaceutical products
- Health and medical technology products

Insurance through one insurance provider represented 11% of Scope 3 emissions. There is the potential to advocate for insurance providers to offer lower emissions products. This is likely to reduce the emissions associated with insurance.

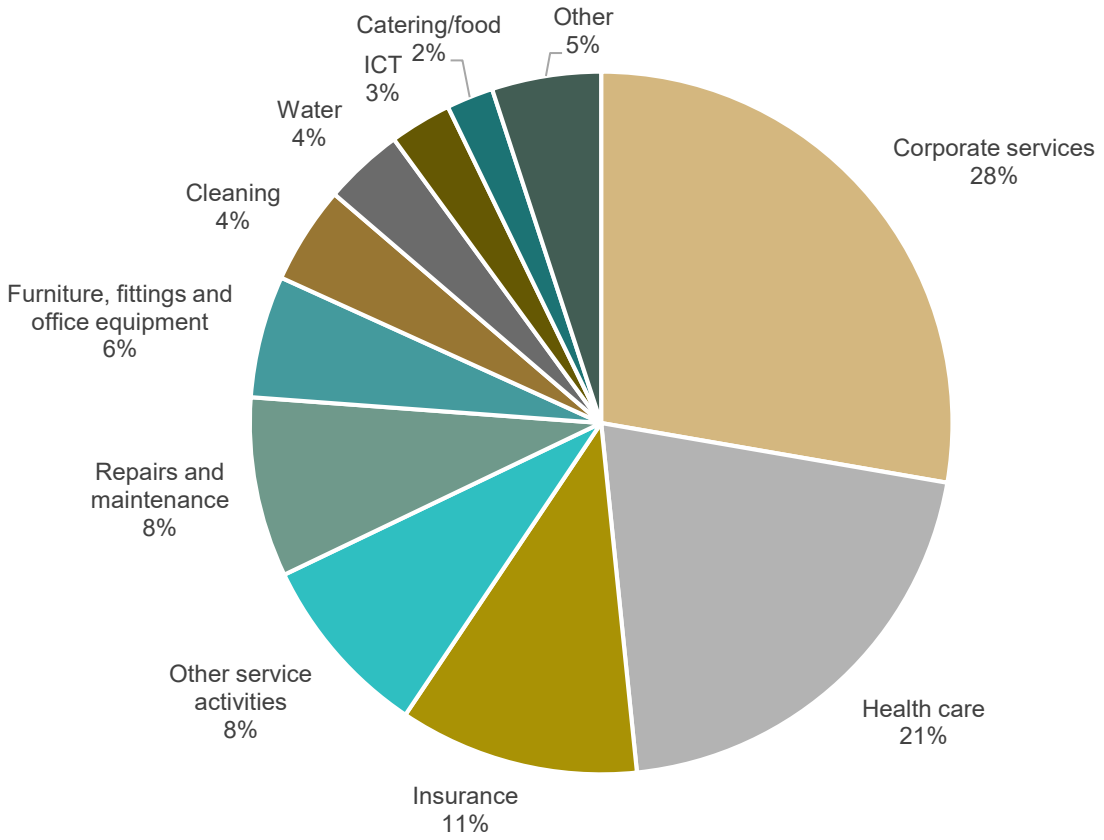

Figure 10. A breakdown of Alwyndor's purchased goods and services emissions inventory.

4.2 Emissions reduction initiatives

Four emissions reduction initiatives were modelled to help Alwyndor to better understand the projected benefits and costs of implementing a range of emissions reduction initiatives. Emissions reduction initiatives were selected based on the following criteria:

- The initiative can be controlled or influenced by Alwyndor.
- The initiative can be technically modelled.

- The initiative is likely to contribute to either cost savings and/or dramatically reduce emissions from Alwyndor's emissions profile.
- The initiative will drive down emissions produced by Alwyndor's operations and service delivery, without causing disruption to operations.

Emissions reduction initiatives are modelled based on a range of assumptions and technical limitations and have been developed based on information provided to Edge by Alwyndor staff and in collaboration with Council staff.

The following four emissions reduction initiatives were modelled:

1. The use of 100% renewably sourced electricity.
2. The conversion of natural gas-powered appliances to electric appliances.
3. The transition of Alwyndor's fleet to electric vehicles (EV).
4. Lower emissions procurement, based on a reduction of 5% of emissions over 3 years.

In line with modelling conducted for Council, modelling of the decarbonisation of the South Australian electricity grid was also included.

4.3 The impact of modelled emissions reduction initiatives

Table 6 outlines the projected reduction of carbon dioxide equivalent (t CO_2-e) and the financial costs or savings of implementing the initiative (presented in the \$/t CO_2-e column). The green coloured initiatives (renewable energy, conversion of gas appliances and EV fleet transition) represent cost savings per tonne of carbon dioxide, initiatives coloured yellow represent (grid decarbonisation) a cost neutral initiative and orange/red coloured initiatives represent costs to Alwyndor. The costs/savings are presented as costs per t CO_2-e.

All modelled initiatives represent some form of emissions reduction, as represented by the t CO_2-e column, displaying the total cumulative projected emissions reductions resulting from the initiative implementation date to 2030.

Table 6. The projected emissions reduction potential and costs/savings potential of each modelled emissions reduction initiative.

Rank	Reduction initiative	t CO2-e	$/t CO2-e	Total savings/costs
1	100% renewable energy	1,537	-$227	-$348,899
2	Conversion of gas appliances	786	-$759	-$596,574
3	EV fleet transition	43	-$351	-$15,093
4	Grid decarbonisation	2,189	$0	$0
5	Better procurement	379	$136	$51,544

The adoption of a 100% renewable energy contract will assist Alwyndor to drastically reduce emissions over time. Whilst there is a projected increase in the percentage of renewables entering the South Australian electricity grid over time, the importance of using renewable energy now cannot be overstated. It will assist Alwyndor with emissions reduction (1,537 t CO_2-e) and provide Alwyndor with a projected cost saving of over \$348,899 from implementation to 2030, based on a very conservative electricity cost of \$0.228/kWh.

The conversion of all gas appliances at Alwyndor to electric represents a total reduction of 786 t CO_2-e. This is based on a range of assumptions, including the use of 100% renewable energy, the use of electric hot water through a heat pump and electric appliances such as an electric bratt pan and electric fryer. This also represents a significant cost saving of almost \$600,000 over the implementation period. However, the dependence of Alwyndor to one source of energy, i.e. electricity, does leave the organisation exposed to the risk of blackout events. As such, the use of battery storage

in combination with solar arrays is an option. An alternative to this is the use of electric vehicle car batteries to store electricity for use at a later time.

Due to Alwyndor's small vehicle fleet and associated limited Scope 1 emissions profile, the conversion of the fleet to electric vehicles represents only a minor emissions reduction potential of 43 t CO_2-e and a moderate modelled cost saving of $15,093.

The projected grid decarbonisation, described further in the Glossary and Section 2.5, provides the greatest potential for reduced emissions. This is not a measure that Alwyndor controls but will benefit Alwyndor in reducing the emissions profile by 2,189 t CO2-e.

The sourcing of lower carbon intensity products and services through alterations to procurement (a 5% reduction in emissions from the supply chain on a tri-annual basis) will assist Alwyndor to lower their emissions inventory by 379 t CO_2-e and represents a projected cost to the organisation of $51,544 from implementation in 2023 to 2030.

4.4 The Alwyndor carbon neutral pathway

To achieve carbon neutrality, Alwyndor will require a combination of emissions reduction initiatives, supporting actions and ultimately offsets. It is projected that by 2030, 3,365 t CO_2-e will still require elimination to achieve carbon neutral status. This can be achieved either through the implementation of further and more aggressive emissions reduction initiatives or via offsetting.

The grey coloured bars in Figure 13 represent the emission reductions of the modelled initiatives (EV fleet transition, 100% renewable electricity, sustainable procurement, conversion from gas to electric appliances and mains electricity supply grid decarbonisation). The FY30 remaining emissions represent the remainder of emissions. By 2030, the emissions reduction potential of 100% renewable electricity is minimal, as by this time it is expected that the electricity grid will be net 100% renewable energy. Initiatives that target a reduction in Scope 2 (purchased electricity) emissions are impacted by the interrelationship between grid decarbonisation, electrification of appliances and the 100% renewable electricity purchase. As such, the benefit of implementing many of these initiatives is limited from purely an emission reduction stand point, noting that there are significant financial benefits to implementing the 100% renewable electricity commitment. The move to eliminate natural gas as a form of heating or energy and the implementation of sustainable procurement will provide significant savings at the 2030 time period.

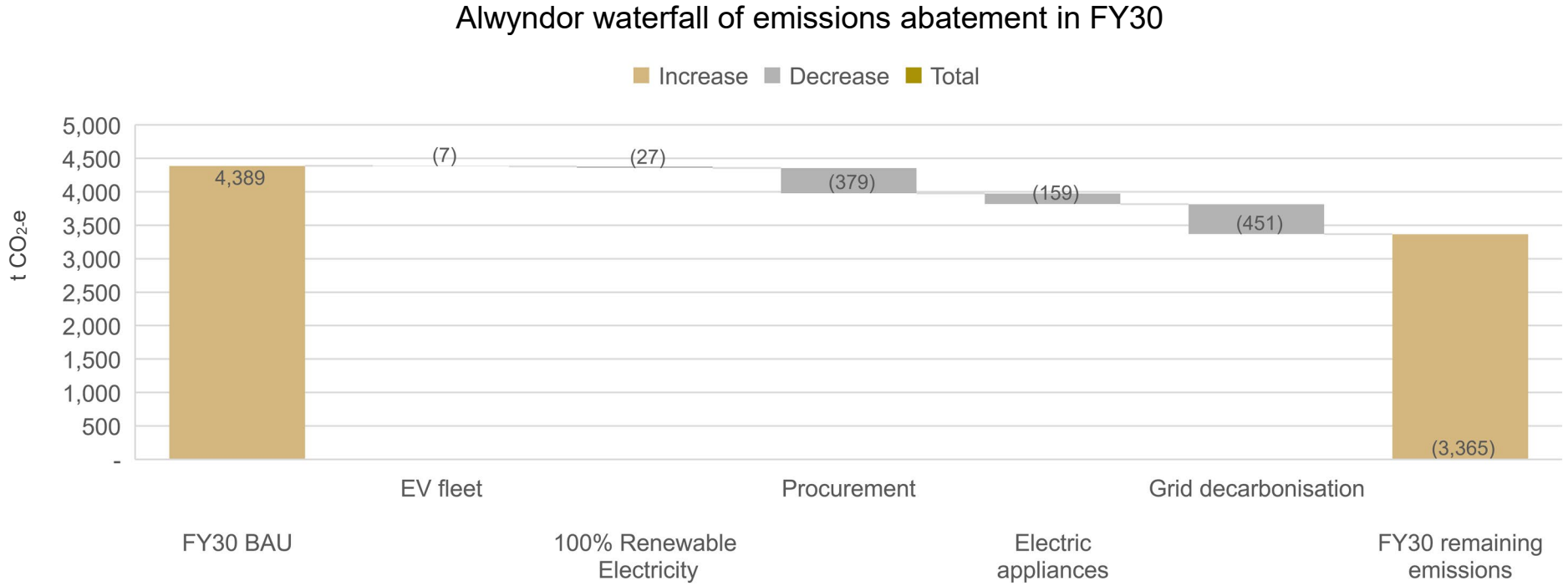

Figure 11. Alwyndor's emissions reduction potential of each modelled emissions reduction initiative in 2030.

The decision for Alwyndor to either offset emissions or not has significant financial consequences for both Council and Alwyndor. These are discussed in more detail in Section 3.5.

4.5 Key learnings

This section highlights the key learnings and primary messages for Alwyndor resulting from emissions reduction modelling.

- By 2030 the decarbonisation of the SA electricity grid is projected to eliminate Scope 2 emissions, however engaging in a 100% renewable electricity contract now will help to dramatically reduce emissions and costs, and assist Alwyndor toward its target of carbon neutrality between now and 2030.
- Due to Alwyndor's small fleet, the adoption of electric vehicles will provide a limited emissions reduction benefit. However, modelling indicates there are significant cost savings resulting from a staged transition to electric vehicles.
- The conversion of gas water heating and appliances to electric, positions Alwyndor as a leader in emissions reduction. Furthermore, there is a financial justification for doing so, with the projected operational savings over time being greater than the projected capital replacement costs.
- As with Council, the greatest opportunity and source of emissions is Scope 3, Category 1 (Purchased goods and services) and Category 2 (Purchased capital costs). This limits the emissions reductions initiatives that Alwyndor can undertake and have direct control over.
- The 5% reduction every 3 years, associated with Category 1 and Category 2 emissions will require an alteration to Alwyndor's procurement policies and systems, and supplier engagement.
- Offsetting will be required to achieve carbon neutrality. This has ongoing financial consequences for Alwyndor and should be considered against the need to implement further emissions reduction initiatives.
- The elimination of both Scope 1 and Scope 2 emissions by Alwyndor is achievable via the implementation of emissions reduction initiatives and offsetting a small amount of Scope 1 and Scope 2 emissions. However, the elimination of Scope 3 emissions remains a challenge. As such, at a time closer to 2030, Alwyndor may like to consider whether Scope 3 emissions are included within the carbon neutral status of the organisation, i.e. carbon neutral status only applies to Scope 1 and 2.

5 Next steps – City of Holdfast Bay

This section outlines the next steps for Council in achieving carbon neutrality. Section 5.2 includes a proposed implementation plan, describing the implementation of modelled emissions reduction initiatives and supporting actions to assist Council to reduce emissions. The implementation plan includes projects that are designed to place downward pressure on high emitting practices, particularly those practices that are within the control of Council, i.e. practices influencing Scope 1 and Scope 2.

There are also emissions reduction initiatives that will assist in the reduction of Scope 3 emissions, noting that these emissions are not directly controlled by Council but do contribute the majority of emissions to Council's emissions inventory.

The following recommendations are provided to assist Council in achieving carbon neutrality.

- Achieving carbon neutrality requires a focus on elimination, avoidance and reduction of emissions. Doing so often contributes financial savings to organisations over time and in most cases produces a greater financial return than the continued purchase of carbon offsets. It is recommended that Council seek to reduce emissions as much as is feasible, as outlined in Table 7, prior to considering the purchase of offsets.
- Conduct a staged implementation of a range of emissions reduction initiatives and supporting actions (as outlined in the implementation plan, see Section 5.2). Planning will be essential. It is recommended to implement both initiatives and supporting actions in order to maximise emissions reductions.
- Council has an important role in the community to act as a leader and to undertake projects and activities that have high perceived value within the community. It is recommended that emissions reduction activities that are visual and in sight (e.g. EVs, solar panels, installing LEDs) be promoted to the community as a representation of Council's commitment to lowering costs for rate payers and to carbon neutrality. A simple communication plan is recommended in order to achieve this, releasing the details of each action as the initiatives are realised, or close to completion.
- With many SA Councils now committed to carbon neutrality, it is highly likely that the LGA PPA agreement will utilise 100% renewable energy, in order to assist all SA Councils in reducing their emissions inventory. It is recommended that Council continue to support and advocate for the use of 100% renewable energy through the PPA, which is critical. It has high value up to 2030, at which point it is likely to become somewhat redundant, due to the decarbonisation of the SA grid.
- The offsetting market will continue to alter over time. Council would benefit from conducting research into offset markets and seek to engage offsetting brokers in order to discover and learn the benefits and consequences of offsetting in 2030 and at earlier points in time. There are options to "lock-in" prices for offsets, based on current pricing, rather than paying the expected premium of $70/tonne by 2030. It is recommended that independent quotes and advice on the purchase of carbon offsets be investigated sooner rather than later, to minimise the associated financial risks.
- Supplier engagement and selecting low carbon suppliers will provide the greatest opportunity for Scope 3 emissions reduction. Some current suppliers are already reducing their carbon footprint. Of note, SA Water is seeking to achieve net zero emissions by 2050, with an ambitious goal to secure a third of the organisation's energy needs from company controlled renewable energy sources by 2030 (SA Water, 2022). This will have flow-on benefits for Council, as a major purchaser and user of mains water supply. Scope 3 emissions are likely to reduce, as suppliers focus on reducing their impact. It is recommended that Council develop a procurement policy that is aligned with ISO 20400 requirements for Sustainable Procurement. This includes the development of policy that allows the City of Holdfast Bay to better understand and access information related to the embodied and operational emissions associated with products and services that they procure. The following are recommendations aligning with ISO 20400.
    - Ensure that a Supplier Code of Conduct and Procurement Policy are developed. Both documents must link back to Council's Sustainability Policy and be specifically mentioned

within Council's strategic documents, such as Holdfast Bay 2050+ and other organisational strategies.

- In addition to the recommendation listed above, the Sustainability Policy must align with risk management, with the risks of continuing to utilise suppliers of high embodied and operational goods and services specifically captured through Council Risk Management Frameworks. Figure 14 displays the recommended governance pathway for sustainability from organisational strategy to supplier code of conduct. A sustainable procurement policy and supplier code of conduct are required to effectively and meaningfully reduce the emissions profile of the purchased goods and services and capital goods.

Figure 12. Strategic pillars for a sustainability governance framework.

Low emissions transport

As outlined in Table 7, the transition to a low emissions transport system will require the procurement of electric vehicles but also supporting infrastructure and actions. These are as follows:

- A fleet transition plan to ensure that the staged transition away from combustion engine vehicles aligns with the rollout of supporting infrastructure, training and the development of policy. This has already been identified as a high priority action in Council's Environment Strategy.
- The installation of electric charging stations, and if required, additional power points, to ensure vehicles can be charged when needed. Council may like to consider the use of mobile and fixed charging stations. There are a range of mobile charging units available for sale through retail outlets.
- The procurement of electric vehicles across the required asset replacement cycles.
- The procurement of other non-passenger electric vehicles as they become available on the market.

Sustainable street and public lighting

The conversion of high energy demand public lighting to LED lighting within the City of Holdfast Bay has been occurring since 2016. It is recommended that the following actions occur prior to 2030 in

order to provide further emissions reductions and cost savings to Council as well as position Council as a leader in the energy efficiency space.

- Investigate and plan for upgrades of all public lighting.
- Complete the conversion of all streetlights to LED by 2027/28.
- Replace all other high energy demand public lighting with LED by 2027/28.
- The removal of all high energy demand lighting and replacement in Council buildings to LED by 2023.

Renewable energy

As previously described, the importance of the LGA PPA prior to 2030 cannot be overstated, as such the following actions are recommended:

- Continue to advocate for the purchase of 100% renewable energy as part of the upcoming LGA PPA. This may take the form of collaborating with other Councils who have committed to carbon neutrality to ensure that access to renewable energy is fairly weighted in procurement discussions and decision-making frameworks.
- The purchase of 100% renewable energy as part of the LGA PPA.

Reduced emissions procurement

Council's greatest method of reducing Scope 3 emissions is through alterations to Council's supply chain. Council currently seeks information related to a supplier's approach to sustainability but could also require proof of an organisation's sustainability policy as part of the procurement process. In addition to this, Council rank locally sourced producers and services higher (these organisations typically have a reduced footprint when compared to interstate and internationally sourced products and services). To enhance current procurement processes, Council would benefit from engaging with suppliers and requesting lower GHG emissions products and services, asking questions regarding a business's ability to source products and services with lower GHG emissions, whether the company is certified carbon neutral and approaching the market to determine if there are other providers. The following are also recommended:

- As previously discussed align Council's procurement policy to the sustainability policy, risk management frameworks and organisational strategies (as per ISO 20400 standard practice).
- The implementation of a 5% annual reduction of scope 3 emissions through Category 1 and 2 purchases.
- Targeting specific materials in the construction, repair and maintenance of roads, kerb and gutter, footpaths, stormwater systems and other Council managed infrastructure to achieve a 5% annual reduction in emissions. This will require engagement with suppliers and perhaps the need to increase capital expenditure to access either lower carbon products and materials, or increase the longevity of infrastructure, in order to reduce ongoing operational costs. It should be noted that the increased capital costs of products and materials that provide greater longevity are likely to also be offset by the savings from the implementation of the PPA, LED lighting conversion and transition to electric vehicles.

Advocacy and behaviour change

One of Council's key roles is to support the community to reduce emissions. Council can do so through several levers, for example financial incentives, information and attitudinal and behaviour change, creating infrastructure to encourage behaviour change, creating more walkable and cooler suburbs and streets. This is discussed in more detail in the Community Carbon Neutral Plan. The following three specific items are listed within the implementation plan:

- Educate, liaise and support the community and businesses to move towards carbon neutrality.

- Implement a community energy program. It is recommended that the City of Holdfast Bay monitor other community energy programs, such as the City of Mitcham Community Solar Program, and that key learnings from these programs are captured and applied to the City of Holdfast Bay.
- Continue to partner in the Resilient South Climate Partnership, allowing for the sharing of information and knowledge with state government and southern metropolitan Adelaide Councils and to partner across climate change projects.

Events

Council managed events are often high profile and a great method of engaging with the community. Events act as an opportunity to engage with rate payers and to promote progress towards carbon neutrality through signage and information. It is recommended that Climate Active certification (the Australian Government carbon neutral certification system) be purchased for all Council managed events. Fees for this are based on the emissions inventory of the event. This is captured through the proposed implementation plan.

Tracking and reporting emissions

It is important that ongoing monitoring and reporting of emissions occurs over time. This allows for the organisation to track changes over time and assess the efficacy of emissions reduction initiatives. In turn this can allow for the alteration of targets and goals, and the implementation of more aggressive emissions reduction initiatives. The following are included in the proposed implementation plan:

- Continue to track scopes 1 and 2 carbon emissions and update the emissions tracking system to include additional Scope 3 emissions.

Improve annual reporting of Council's emissions through the use of GHG Protocol aligned methodologies, inclusive of Scope 3 emissions.

Offsetting emissions and certification

The benefits and risks of offsetting are discussed in Section 3.5. Council will need to decide whether to choose to purchase offsets, the source of the offsets and the timing of the offsets purchase. This decision can be made closer to 2030/

Separate to the purchase of carbon offsets, it is recommended that Council also:

- Work with private landowners to retain and increase tree canopy on private land. This may be through offering rate subsidies for properties that are retaining or increasing tree canopy coverage, offering tree vouchers to subsidise the cost of purchasing advanced trees for private properties, subsidising the costs of arborists to assess tree condition and discuss tree management options for canopy retention.
- Develop an Urban Forest Strategy to increase tree canopy cover across the private and public realms to ensure that Council's target to increase tree canopy cover by 10% between 2018 and 2030 is achieved. This has been identified as a high priority action in Council's Environment Strategy.

Certification to demonstrate carbon neutrality is optional. There are several choices of certification, as well as the option to self-declare using the GHG Protocol and offsets. Climate Active certification for the City of Holdfast is available for purchase. Fees are ongoing and require ongoing auditing, technical assessment and third party validation.

5.1 Proposed implementation plan

Table 7. Council's proposed implementation plan outlining the implementation of modelled emissions reduction initiatives and supporting actions.

o = Council decision or endorsement required ** = Already occurring and/or included within existing budgets

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
1. Low Emissions Transport													
1.1 Fleet Transition Plan	Complete plan and endorsed by Council by June 2023	New initiative bid for 2022/23, $20,000	✓	✓		o							
1.2 Install electric charging stations for charging of fleet vehicles	N/A	35 charging stations = $35,000 over 4 years	✓										
1.3 Purchase electric passenger vehicles	All passenger vehicles to be 100% electric by 2027	17 vehicles @ $25,000 = $425,000 net cost after trade in)	✓										
1.4 Purchase other electric fleet (e.g. utes, vans, buses, sweeper)	Key vehicles to be low CO2 by 2030 (electric, hydrogen, hybrid)	Unknown, pending technology improvements.	✓							o			
2. Sustainable Street and Public Lighting													
2.1 Investigate and plan for the implementation of sustainable street and public lighting	Complete plan and endorsed by Council by June 2023	Within existing resources		✓	✓	o							

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
2.2 Continue to implement sustainable public lighting	100% completion by 2028	Estimated cost $800,000 over 5 years. Cost saving with LED through lower power use.	✓										
3. Renewable Energy													
3.1 Advocate for the purchase of 100% accredited renewable energy as part of LGA procurement for a new electricity contract due early 2023**	N/A	Within existing resources		✓									
3.2 Purchase of 100% accredited renewable energy as part of LGA new electricity contract (commencing early 2023)	N/A	Within existing resources. Cost details to be determined in late 2022.			✓								
4. Tracking and Reporting Emissions													
4.1 Track carbon emissions and update the emissions inventory**	N/A	Additional staff time 0.25 FTE.		✓									
4.2 Improve annual reporting of Council's emissions**	N/A	Within existing resources		✓									
5. Reduced Emissions Procurement													
5.1 Reduce supply chain emissions	5% annual reduction of	0.25 FTE	✓	✓									

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	scope 3 emissions												
5.2 Reduce road and other infrastructure emissions through improving the materials and methods used for construction	5% annual reduction of scope 3 emissions	TBA - likely ~ 5% additional costs initially, reducing over time.	✓	✓									
6. Advocacy and Behaviour Change													
6.1 Educate, liaise and support community and businesses to move towards carbon neutrality**	N/A	Within existing resources		✓	✓								
6.2 Implement a community energy program	N/A	Estimated $10,000 as start-up funding.	✓	✓									
6.3 Participate in the Resilient South climate partnership**	N/A	Within existing resources		✓	✓								
7. Events													
7.1 Certify all council events as carbon neutral.	All major council events certified carbon neutral. (e.g., NYE.)	~$10,000 per annum	✓	✓				o					
8. Offsetting Emissions													

Initiative description	Targets	Estimated Costs	Additional Cost	Staff time	Existing Budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
8.1 Develop and implement an Urban Forest Strategy to increase tree canopy cover. ***	Targets to be set in Urban Forest Strategy. Complete strategy and endorsed by Council by June 2023.			✓		o							
8.3 Seek independent expert advice and quotes about purchasing carbon offsets.	N/A	Cost unknown - to be determined.	✓										
8.4 Implement purchase of carbon offsets		Likely to be >$70/tonne CO_2 equivalent by 2030	✓	✓									o
9. Certification													
9.1 Climate Active Certification		Fees required annually, and 3rd party re-assessment every 3 years. Current estimate $13,250 over 3 years including audit, technical assessment, 3rd party validation and certification fees.	✓	✓									o

6 Next steps – Alwyndor

The push to reduce GHG emissions is currently being driven globally by money markets, risk analysts, insurers, re-insurers and governments. It is highly likely that a price will be placed on carbon in the coming years. Alwyndor is one of many health and aged care providers who are currently determining their emissions profile and assessing options for emissions reduction. Edge has worked with more than five aged care providers in developing sustainability strategies and reducing emissions.

In order for Alwyndor to align itself with other leading aged care providers, the implementation of emissions reduction initiatives is required. The following are key next steps recommended for Alwyndor:

- Alwyndor, as a Council managed and associated organisation, has an important role in the community to act as a leader and to undertake projects and activities that have high perceived value within the community.
- Purchasing 100% renewable electricity should be a high priority for Alwyndor. It has high value up to 2030, at which point it is likely to become somewhat redundant, due to the decarbonisation of the SA electricity grid. Hence, the short-term adoption of 100% renewable electricity should be considered, especially, noting the conservation costs used within modelling. Utilising the cost data from the modelling will allow Alwyndor to inform decision making.
- Selecting low carbon suppliers will have the greatest opportunity for Scope 3 emissions reduction. Scope 3 emissions are likely to reduce, as suppliers focus on reducing their impact.
- While it has a lower impact, the purchase of EVs will be a reputational win for Alwyndor.
- Confirming the activities and timelines in the implementation plan will be key to maximising emissions reduction opportunities. For most activities earlier action is recommended in order to have the most beneficial outcome for Alwyndor.
- Independent quotes and advice on the purchase of carbon offsets is recommended to be investigated sooner rather than later, to minimise the associated financial risks.

Below is a list of recommendations related specifically to the Alwyndor implementation plan (see Table 8**Error! Reference source not found.**).

Low emissions transport

Alwyndor's fleet is very small. As such the impact of driving combustion engine vehicles from an emissions perspective is minor, when compared to the organisation's Scope 3 inventory. However, there are overall cost benefits to converting to electric vehicles and the need to be seen to align with Council's carbon neutral target. As such, the following is recommended in Alwyndor's proposed implementation plan, seen in Table 8:

- Ensuring Council's fleet transition plan incorporates learnings that apply to Alwyndor.
- The installation of electric charging stations, or additional power points, to ensure vehicles can be charged when needed. Alwyndor may like to consider the use of mobile and fixed charging stations. There are a range of mobile charging units available for sale through retail outlets.
- The procurement of electric vehicles across the asset renewal cycles.
- The procurement of other non-passenger electric vehicles.

Renewable energy

The purchase of 100% renewable energy is strongly recommended.

Reduced emissions procurement

Much like Council, Alwyndor's greatest method of reducing emissions is through alterations to the supply chain. This means engaging with suppliers and requesting lower emissions products and services, asking questions regarding a business's ability to source lower emissions products and services, whether the company has a sustainability policy or guidance, whether a company is certified carbon neutral, and approaching the market to determine if there are other providers. Locally sourced producers and services typically have a reduced footprint when compared to interstate and internationally sourced products and services. The following is also recommended:

- The implementation of a 5% annual reduction of scope 3 emissions through Category 1 and 2.

Conversion of gas appliances

Natural gas or methane is a commonly used non-renewable source of energy. A key leadership and emissions reducing initiative is to discontinue the use of gas for hot water heating and other gas appliances. One emissions reduction initiative and one supporting action is listed in the Alwyndor implementation plan. These are:

- Conversion of gas to electric appliances and infrastructure, to use renewably sourced electricity.
- The staged approach to replacing first gas appliances and later the gas hot water system, through the development of a gas replacement plan.

Tracking and reporting emissions

Alwyndor will need to track and monitor changes to emissions over time, if the organisation is included within Council's carbon neutral plans. This will require auditing of operations at least once every three years to update Alwyndor's emissions profile and ensure the efficacy of emissions reduction initiatives. The following actions are listed in Alwyndor's proposed implementation plan.

- Track carbon emissions and update the emissions inventory to include Scope 3 emissions. This could potentially happen as part of Council's current emissions tracking system.
- Include Alwyndor in annual reporting of Council's emissions through the use of GHG Protocol aligned methodologies, inclusive of Scope 3 emissions.

Offsetting emissions and certification

The benefits and risks of offsetting are discussed in Section 3.5. Alwyndor will need to collaborate with Council regarding the choice of offset purchase, the source and timing of the purchase of offsets.

Climate Active certification for Alwyndor is available for purchase and will need to be either included within the City of Holdfast Bay certification or applied for separately. Fees are ongoing and require ongoing auditing, technical assessment and third-party validation. It is also possible to self-declare using the GHG Protocol and offsets.

6.1 Alwyndor's proposed implementation plan

Table 8. Alwyndor's proposed implementation plan outlining the implementation of modelled emissions reduction initiatives and supporting actions.

o = Council decision or endorsement required ** = Already occurring and/or included within existing budgets

Aligned to Council's plan	Initiative description	Estimated costs	Additional cost	Staff time	Existing budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Y	1.1 Fleet Transition Plan		This would be separate from council.	✓	✓				o				
Y	1.2 Install electric charging stations/power points for charging of fleet vehicles		$700 / charging station x 1 charging station	✓									
Y	1.3 Purchase electric passenger vehicles	All passenger vehicles to be 100% electric by 2028. Alwyndor has 2 SUV petrol passenger vehicles	Additional $25,000 per EV passenger car.	✓									
	1.4 Purchase other electric fleet (e.g., utes, vans, buses)	Key vehicles to be low CO2 by 2030 (electric, hydrogen, or hybrid)	4 x diesel utes, 2 x vans - 1 diesel, 1 petrol.	✓							o		
Y	2.2 Purchase of 100% accredited renewable electricity		Within existing resources. Maybe additional cost but unknown at this stage. As above.	✓		✓			o				

Aligned to Council's plan	Initiative description	Estimated costs	Additional cost	Staff time	Existing budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Y	3.1 Track carbon emissions and update the emissions inventory to include Scope 3 emissions**		Council has a system and can provide training to Alwyndor to use to track emissions.	✓	✓								
Y	3.2 Improve annual reporting of Alwyndor's emissions**		Within existing resources. As above.		✓								
Y	4.1 Reduce supply chain emissions	5% reduction of scope 3 emissions every 3 years		✓	✓								
N	5.1 Stage transition from gas to electric through the development of a gas replacement plan	2 x gas hot water systems in Alandale and Alandale Secure have just recently been replaced with an expected lifespan of 12 years, so not looking to replace these.	Conversion of all appliances and infrastructure to electric.	✓	✓								
N	5.2 Conversion of gas to electric appliances / infrastructure transition plan	2 x gas fryers in kitchen 1 x gas brat pan in kitchen; 2x gas comfort heaters in Cheater Suite; 5 x gas hot water systems throughout facility	The 5 hot water systems are nearing the end of their lifecycle and are due to replaced soon.	✓	✓								

Aligned to Council's plan	Initiative description	Estimated costs	Additional cost	Staff time	Existing budget	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Y	6.1 Implement purchase of carbon offsets		Likely to exceed $70/tonne CO_2 equivalent by 2030	✓	✓								
7. Certification													
Y	7.1 Climate Active Certification		Fees required annually, and 3rd party re-assessment every 3 years. Current estimate $2,630 including audit, technical assessment, 3rd party validation and certification fees.	✓	✓								

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Appendix A – Modelling assumptions

City of Holdfast Bay's modelling assumptions

Table 9. A description of each initiative for Holdfast Bay and the key benefits, estimated capital costs, operations and maintenance costs, payback period, key risks, modelling assumptions and key risks

Initiative number:	1	2	3	4	5	6	7
Initiative name:	LED Street lighting	EV fleet transition	Renewable energy (PPA)	Better procurement	Lower carbon construction materials	Energy efficient buildings	Grid decarbonisation
Description	Complete the LED street lighting conversion (streetlight report already provided)	Fleet transition to EV only for passenger vehicles; excluding public charging stations in the community (these will almost certainly be owned by commercial entities, not council) but including council charging stations for council vehicles.	Renewable energy sourced power purchase (PPA/Green power) 100%.	Procurement improvement, 5% emissions reduction per year.	Construction materials improvement, 5% per year (based on Fulton Hogan products).	Council building energy upgrades: energy & lights; includes other recommendations from 2019 audit (see attached docs), e.g., insulation,	Impact of SA grid decarbonising to be carbon neutral through renewable energy by 2030.
Key Benefits	Energy efficiency is significant enough to drive emissions down with	A swift transition has the ability to reduce all associated transport emissions with cost savings.	Immediate emissions reduction, pricing may be contracted to be less than current	Supplier engagement can strengthen the supply chain and lead to greater reductions. Reputational	No significant action or investment required directly by Council	Lower energy consumption requirements as a permanent change	This is no cost to Holdfast Bay and is on track to occur

Initiative number:	1	2	3	4	5	6	7
Initiative name:	LED Street lighting	EV fleet transition	Renewable energy (PPA)	Better procurement	Lower carbon construction materials	Energy efficient buildings	Grid decarbonisation
	cost savings.		electricity rates.	improvement from engagement.			
Estimated Capital Cost	$311,200	$1,063,500	N/A	$10k for a consultant to complete a plan	N/A	$58,100	N/A
Operations and Maintenance costs	Electricity costs starting at $175k per year reduced to $90k per year in 2030	Total OPEX starting at $200k per year reduced to $60k per year in 2030	Operating cost: $150K/year for electricity	N/A	None. Work with suppliers to select lower carbon materials and construction methods.	Electricity consumption costs for remaining electricity requirements.	N/A
Payback	Between 2 - 3 years	Between 3 - 4 years	1 year	N/A	N/A	Between 2.5 - 4.5 years	N/A
Cost Assumptions	Cost of lamps are between $24 to $228.79 depending on lamp type. Labour estimated.	Energy used to charge EVs comes from retail PPA Vehicle proxy costs in initiative as adjustable parameters. Average fuel prices - Diesel = $1.46; Petrol = $1.64	Retail PPA can be contracted to be around $0.08/kWh	External consultants may be required to support supplier engagement program	External consultants may be required to validate emissions reduction in construction products.	Capital costs are as per the Energy Project reports	N/A

Initiative number:	1	2	3	4	5	6	7
Initiative name:	LED Street lighting	EV fleet transition	Renewable energy (PPA)	Better procurement	Lower carbon construction materials	Energy efficient buildings	Grid decarbonisation
Delivery timing	100% completion by 2027/28	Transition is one vehicle per year until FY2024. All remaining vehicles transitioned by 2029 (average the transition of vehicles from FY2025 to FY2029). Passenger vehicles are replaced every two years.	Immediate, dependent on contract negotiations	Continuous program out to 2030	Continuous program out to 2030	As per the Energy Project reports	In process to 2030.
Key risks	None	Need strategic positioning of charging stations to ensure correct operation of electric fleet	Constant energy pricing fluctuations and lock in period	May take a while before improvements are seen and can be captured as emissions reduction by Holdfast Bay	Reliant on supplier to make improvements and offer low carbon products	Air conditioning improvements may not factor be sufficient to manage expected climate change with higher average temperatures.	If the SA Government encounter hurdles and are unable to decarbonise by 2030.
Modelling Assumptions	Public lighting numbers as per the 2020 report	Excludes embodied emissions from vehicles. Sedans use petrol, all other vehicles use diesel.	Activation year is 2023 and that a retail price of $0.08/kWh could be negotiated	5% reduction is achievable year on year and is ambitious.	No price premium on low carbon products.	Current electricity rate of $0.32/kWh remains the same until 2030. Needs to be aligned with the projected costs of 100% renewable energy contract - i.e., $0.23/kWh	Emissions factors are calculated by Edge based on state-by-state commitments towards decarbonisation and current grid

Initiative number:	1	2	3	4	5	6	7
Initiative name:	LED Street lighting	EV fleet transition	Renewable energy (PPA)	Better procurement	Lower carbon construction materials	Energy efficient buildings	Grid decarbonisation
							emissions for FY21 (NGA factors).

Further assumptions

LED Lighting Conversion

- Assuming public light type breakdown is the same as latest report for Jan 2020 adapted to a total of 778 SAPN non-LED lights
- Average lifetime from range in lamps of each type
- High pressure sodium and mercury vapour use same efficiency and lifetime
- Lifetime of LED lighting constant regardless of nominal capacity
- Input conversion is reached until 2030
- 100% completion by 2028

Electric Vehicles for Passenger Fleet

- Excludes embodied carbon/emissions in the manufacture of vehicles
- Sedans use petrol; all other vehicles use diesel
- Replacement cycle of current Internal Combustion Engine (ICE) fleet same as purchase of new Electric Vehicle (EV) fleet
- Fuel consumption per vehicle was considered to be the same across fleet, while the distance travelled per year varies according to the particular vehicle's fuel efficiency
- Electricity used for charging EV is green power (PPA)
- Charging stations installed half on first transition of vehicles and half at the second transition (programmed by the transition of UTEs)
- All passenger vehicles to be 100% electric by 2026
- Key vehicles to be low CO_2 by 2030 (electric, hydrogen, hybrid)
- Purchase other electric fleet (e.g. utes, vans, buses) from 2026
- Passenger vehicles are replaced every two years.
- Current vehicles are kept until the EV transition ready year

Switch to Renewable Energy (PPA)

- Start date for a PPA is January 2023
- Emissions factors used are from federal government projections, decarbonisation impact is significant

Improved Procurement

- No cost reductions from supplier engagement has been applied, however it may be cost neutral from savings vs outlay to engage suppliers
- No growth in cost applied to supplier engagement services, immaterial impact
- No cost assumed in the business as usual case to do nothing.

Lower Carbon Construction Materials

- No price premium has been applied to low carbon products.
- External services may be required to support validation of Fulton Hogan or other suppliers' emissions reduction. This cost is not included.
- All labour costs are assumed to be internalised as part of Holdfast Bay existing staff roles.

Energy Efficient Council Buildings

- Costings and energy reduction estimates are still accurate from 2019 reports by the Energy Project
- Solar power installations have not been included as the impact is best seen separately with the battery maintenance costs included.
- No operating costs have been assumed to be required for lighting and air conditioning improvements costs. Assumed BAU repairs and maintenance costs will cover any repairs required
- Grid decarbonisation is factored into the BAU energy consumption for these locations.
- PPA price is effective from 2023 for both BAU and upgrade case

Grid Decarbonisation

- Emissions factors used are from federal government projections, decarbonisation impact is significant
- There is no cost associated to Holdfast Bay for the grid's decarbonisation

Alwyndor's modelling assumptions

Table 10. The modelling assumptions applied to Alwyndor's emissions reduction initiatives

Initiative number:	1	2	2	4	5
Initiative name:	Renewable energy (PPA)	Conversion of gas appliances	EV fleet transition	Better procurement	Grid decarbonisation
Description	100% Renewable energy sourced power purchase (PPA/Green power).	Conversion of gas appliances to electric appliances/conversion of gas hot water to electric hot water powered by 100% renewable energy.	Fleet transition to EV only for Alwyndor fleet	Procurement improvement, 5% scope 3 emissions reduction every 3 years (targeting health related products and services).	Impact of SA grid decarbonising to be carbon neutral through renewable energy by 2030.
Key Benefits	Immediate emissions reduction, pricing may be contracted to be less than current electricity rates.	Energy efficiencies and improved environmental impact (assuming renewable energy powered)	A swift transition has the ability to reduce all associated transport emissions with cost savings.	Supplier engagement can strengthen the supply chain and lead to greater reductions. Reputational improvement from engagement.	This is no cost to Alwyndor and is on track to occur.
Estimated Capital Cost	N/A	50,278.75	$629,851	$10k for a consultant to complete a plan	N/A
Operations and Maintenance costs	Operating cost: $85K/year for electricity with a PPA	Assumed to be the same as current repairs and maintenance for existing systems	Total OPEX starting at $200k per year reduced to $31k per year in 2030	N/A	N/A
Payback	1 year	1 year	Between 3 - 4 years	N/A	N/A

Initiative number:	1	2	2	4	5
Initiative name:	Renewable energy (PPA)	Conversion of gas appliances	EV fleet transition	Better procurement	Grid decarbonisation
Cost Assumptions	Retail PPA can be contracted to be around $0.08/kWh	Cost of a heat pump and electric fryer is about $5K, a bratt pan is about $9K. Gas cost is assumed to be $0.06/MJ.	Energy used to charge EVs comes from retail PPA Vehicle proxy costs in initiative as adjustable parameters. Average fuel prices - Diesel = $1.46; Petrol = $1.64. Installation costs of charging stations not included.	External consultants may be required to support supplier engagement program	N/A
Delivery timing	Immediate, dependent on contract negotiations	2025 for switch over of all appliances, for maximum efficiencies gained.	Transition is 2 SUVs in 2025. All remaining vehicles transitioned in 2027. Vehicles are replaced every 4 years. 2 charging stations installed in 2025.	Continuous program out to 2030	In process to 2030.
Key risks	Constant energy pricing fluctuations and lock in period	Heat pumps may require extra maintenance and repair, typical warranty is for 5 years.	Need strategic positioning of charging stations to ensure correct operation of electric fleet	May take a while before improvements are seen and can be captured as emissions reduction by Alwyndor	If the SA Government encounter hurdles and are unable to decarbonise by 2030.

Initiative number:	1	2	2	4	5
Initiative name:	Renewable energy (PPA)	Conversion of gas appliances	EV fleet transition	Better procurement	Grid decarbonisation
Modelling Assumptions	Activation year is 2023 and that a retail price of $0.08/kWh could be negotiated	The existing hot water systems that will not be replaced have the same energy consumption as the gas systems that are replaced. 2 gas heaters in the Cheater Suite have been excluded as no details were provided by Alwyndor.	Excludes embodied emissions from vehicles. SUVs use petrol, all other vehicles use diesel.	5% reduction in scope 3 emissions is achievable every three years.	Emissions factors are calculated by Edge based on state by state commitments towards decarbonisation and current grid emissions for FY21 (NGA factors).

Further assumptions

Renewable energy PPA

- The start date for the PPA is 2023.
- Emissions factors used are from federal government projections, decarbonisation impact is significant

Conversion of gas appliances

- Costings and energy reduction estimates are still accurate from 2019 reports by the Energy Project.
- Assumed BAU repairs and maintenance costs will cover any repairs required.
- Grid decarbonisation is factored into the BAU energy consumption for these locations.
- PPA price is effective from 2023 for both BAU and upgrade case.
- Electricity price is assumed to be stable and not increase for the purpose of this model.
- Dean 110MJ Deep fryer has a 21L oil capacity (for electric replacement)
- 51MJ Bratt Pan is a 60L device for an (electric replacement)
- Assume that the 2 x Gas Hot Water Systems in Alandale and Alandale Secure have similar energy consumption as the ones provided.
- Hot water systems are used 365 days a year.
- Heat pumps are assumed to be the lowest energy alternative to gas hot water systems.

Electric vehicles

- Excludes embodied carbon/emissions in the manufacture of vehicles.
- Sedans use petrol/gasoline; all other vehicles use diesel.
- Replacement of current Internal Combustion Engine (ICE) fleet same as purchase of new Electric Vehicle (EV) fleet.
- Fuel consumption per vehicle was considered to be the same across fleet, while the distance travelled per year varies according to the particular vehicle's fuel efficiency.
- Electricity used for charging EV is green power (PPA).
- Charging stations installed half on first transition of vehicles.
- Extra van assumed to be required in 2027.

Improved procurement

- No cost reductions from supplier engagement has been applied, however it may be cost neutral from savings vs outlay to engage suppliers
- No growth in cost applied to supplier engagement services, immaterial impact
- No cost assumed in the business as usual case to do nothing.

Grid decarbonisation

- Emissions factors used are from federal government projections, decarbonisation impact is significant
- There is no cost associated to Holdfast Bay for the grid's decarbonisation

Appendix B: City of Holdfast Bay and Alwyndor Carbon Footprint Assessment Table

The following table represents the calculated emissions (tCO_2-e) for both Alwyndor and the City of Holdfast Bay. Emissions have been calculated based on information provided to Edge by Alwyndor staff and City of Holdfast Bay staff, respectively. Scope 3 Categories 8-15 have not been included within the assessment as agreed upon when defining the emissions scope boundaries and/or the categories are not deemed as relevant and material to both organisations.

Table 11. The City of Holdfast Bay and Alwyndor Carbon Footprint Assessment Table.

2021 Carbon footprint assessment

Scope 1 emissions

	Type	Alwyndor	City of Holdfast Bay	Unit	Alwyndor tCO_2-e FY21	City of Holdfast Bay tCO_2-e FY21
Fuel combustion - Mobile	Petrol/Gasoline	1,232.46	14,269.29	L	2.9	34.0
	Diesel	1,086.81	121,260.33	L	3.0	329.5
	LPG			L	-	-
	Natural gas	2,180.18	19.24	GJ	128.6	1.1
					134.5	**364.6**

	Type	Alwyndor	City of Holdfast Bay	Unit	tCO_2-e	tCO_2-e
Fugitive emissions (refrigerants)	R-134a			kg	-	-

	R-11			kg	-	-
	R-12			kg	-	-
	R-113			kg	-	-
	R-114			kg	-	-
	R-22			kg	-	-
	R-123			kg	-	-
	R-407C			kg	-	-
	R-410a			kg	-	-
	R-115			kg	-	-
	R-404a			kg	-	-
	OR					
	Refrigerants - GFA air conditioned area		24,088.00	m2 GFA	-	356.7
					-	**356.7**

Scope 2 emissions

					Alwyndor	City of Holdfast Bay
Purchased electricity	**State**	**Alwyndor**	**City of Holdfast Bay**	**Unit**	**tCO_2-e**	**tCO_2-e**
	SA	1,004,767	1,813,216	kWh	432.0	779.7

432.0	**1,214.1**	

Scope 3 emissions

	Category	Alwyndor	City of Holdfast Bay	Unit	Alwyndor tCO_2-e	City of Holdfast Bay tCO_2-e
Cat 1: Purchased goods and services	Advertising and marketing	-	357,482	AUD	-	85
	Appliances	29,453	28,685	AUD	24	23
	Books/magazines	-	42,089	AUD	-	15
	Care hire/taxi	-	13,415	AUD	-	6
	Catering/food	157,172	47,114	AUD	52	16
	Cleaning	109,932	58,194	AUD	108	49
	Compostable dog waste	-	46,906	AUD	-	86
	Construction	-	1,024,986	AUD	-	715
	Corporate services	2,659,187	3,982,328	AUD	664	1,463
	Electrical, Mechanical, Fire and Hydraulic services	32,566	652,321	AUD	42	831
	Entertainment	14,889	81,730	AUD	3	19
	Equipment, materials and appliances	-	72,513	AUD	-	48

	Financial intermediation	56,577	128,948	AUD	3	6
	Furniture, fittings and office equipment	175,558	878,858	AUD	134	1,010
	Health care	686,378	53,460	AUD	495	13
	Hotels and restaurants	-	12,047	AUD	-	16
	ICT	411,873	1,689,976	AUD	68	313
	Insurance	399,791	55,823	AUD	264	3
	Landscaping and Environmental Service	9,910	2,021,423	AUD	8	1,674
	Other land transport	-	14,355	AUD	-	6
	Other service activities	808,064	546,449	AUD	203	109
	Parking	-	152,945	AUD	-	208
	Playgrounds	-	58,552	AUD	-	13
	Post and telecommunications	9,147	329,114	AUD	3	84
	Recreational, cultural and sporting activities	-	25,000	AUD	-	6
	Repairs and maintenance	142,341	1,370,333	AUD	198	1,941
	Training	62,084	272,988	AUD	25	109
	Uniforms	21,048	57,093	AUD	12	34
	Waste	8,011	-	AUD	Covered by Cat 5	Covered by Cat 5
	Waste services	-	4,918,245	AUD	Covered by Cat 5	Covered by Cat 5
	Water	30,811	644,252	AUD	88	1,843

		5,824,792.7	**19,637,625.2**		**2,396.1**	**10,741.9**

					Alwyndor	City of Holdfast Bay
	Category	**Alwyndor**	**City of Holdfast Bay**	**Unit**	**tCO_2-e FY21**	**tCO_2-e FY21**
Cat 2: Purchased Capital goods	Civil works	-	236,246	AUD	-	54
	Construction	56,850	10,330,551	AUD	28	2,433
	Corporate Services	-	101,991	AUD	-	98
	Furniture, Fittings and Office Equipment	-	248,423	AUD	-	296
	Motor Vehicles	74,769	1,302,345	AUD	63	1,095
	Other land transport	-	49,114	AUD	-	47
	Other service activities	-	23,018	AUD	-	35
	Repairs and maintenance	27,995	-	AUD	33	-
	Solar	-	347,863	AUD	-	498
	Solar Installation	287,660	-	AUD	412	-
		447,274	**12,639,551**		**536.3**	**4,556.4**

						Alwyndor	City of Holdfast Bay
Cat 3: Fuel- and energy-related emissions	**Category**	**Type**	**Alwyndor**	**City of Holdfast Bay**	**Unit**	**tCO_2-e FY21**	**tCO_2-e FY21**
	Fuel combustion - mobile	Petrol/Gasoline (transport)	1,232.46	14,269	L	0.2	1.8

		Diesel (transport)	1,086.81	1,260	L	0.2	0.2
	Purchased electricity	SA	1,004,767	1,813,216	kWh	90.4	163.2
		Renewable energy	0%		% of total electricity used		
						90.7	**165.1**

Cat 4: Upstream transport (from suppliers)	**Assumed to be included in Cat 1.**	

					Alwyndor	City of Holdfast Bay
	Type of Waste	**Alwyndor**	**City of Holdfast Bay**	**Unit**	**tCO_2-e FY21**	**tCO_2-e FY21**
Cat 5: Waste generated in operations	Paper recycling			tonnes	-	-
	Organics recycling		1,253.30	tonnes	-	0.0765
	Commingled recycling		3.35	tonnes	-	0.0006
	Soft plastics recycling			tonnes	-	-
	Hazardous waste			tonnes	-	-
	General waste landfill (dry)		1,082.57	tonnes	-	0.9191
	General waste landfill (wet)	0.15	6.38	tonnes	0.0003	0.0109
	OR:Spend ($)			$	-	-
					0.0003	**1.0070**

					Alwyndor	City of Holdfast Bay
	Type	Alwyndor	City of Holdfast Bay	Unit	tCO_2-e FY21	tCO_2-e FY21
Cat 6: Business travel	Car hire / taxi		19,983.27	AUD	-	8.6
	Air travel domestic			AUD	-	-
	Other			AUD	-	-
					-	**8.6**

					Alwyndor	City of Holdfast Bay
	Type	Alwyndor	City of Holdfast Bay	Unit	tCO_2-e FY21	tCO_2-e FY21
Cat 7: Employee Commuting	SA	174.00	175.60	FTE	373.3	376.7
		174.00	**175.60**		**373.3**	**376.7**

Categories 8 – 15 (upstream leased assets; downstream transportation and distribution; processing of sold products; use of sold products; end-of-life treatment of sold products; downstream leased assets; franchises; investments) have not been assessed as agreed upon when defining the boundaries of emissions modelling scope and are assumed not relevant and material to the City of Holdfast Bay and Alwyndor..

Item No: 7.5

Subject: **2021/22 ANNUAL REVIEW OF INVESTMENTS**

Date: 17 August 2022

Written By: Manager Financial Services

General Manager: Strategy and Corporate, Ms P Jackson

SUMMARY

Section 140 of the *Local Government Act 1999* (the Act) requires Council to review the performance of its investments on an annual basis. This report explains the process for investing funds, amount of funds invested during 2021-22, average interest rate earned and investment performance against budget for Council's municipal activities.

RECOMMENDATION

That Council receive and note this report comprising a performance review of 2021-22 municipal investments, as required under Section 140 of the *Local Government Act 1999*.

STRATEGIC PLAN

Culture: financially accountable

COUNCIL POLICY

Treasury Management Policy

STATUTORY PROVISIONS

Local Government Act 1999, Sections 139 and 140

BACKGROUND

The Act requires Councils to review the performance of its investments annually. Council invests its funds in accordance with its Treasury Management Policy ensuring funds are preserved and invested within legislative requirements and sound prudential requirements.

Section 139 of the Act details the investment powers of a Council. It requires a Council to exercise care, diligence and skill in placing and managing investments, while avoiding speculative or hazardous investments. It also stipulates matters to be taken into account when placing investments including the nature of risk, likely income return, effect of inflation, the costs of making the investment and any anticipated community benefit.

Council's 2021/22 Treasury Management Policy requires all surplus municipal funds to be invested with secure financial institutions with the Local Government Finance Authority (LGFA) being the preferred institution.

REPORT

This report deals with cash investments resulting from the investing of day-to-day surplus funds (operating funds) and specific purpose cash backed reserves.

Investment Policy Framework

For 2021/22 Council's investment policy states that the LGFA is the preferred financial institution for municipal cash investments. It is guaranteed by the State and is managed and administered by a Board of Trustees, working for the benefit of Councils and other Local Government Bodies within South Australia.

The LGFA offers an annual bonus payment which enables it to share its financial success with member councils. It is calculated in relation to the average deposit and loan levels held by the LGFA during the financial year.

Other approved municipal investment types include SA or Commonwealth Government Bonds and interest bearing deposits or bank bills with a credit rating from Standard & Poor's of not less than A1 for investments up to 12 months and not less than AA- for longer investments.

2021/22 Investment Placement

All of Council municipal cash investments were placed with the LGFA. Due to cash flow requirements and the utilisation of cash advance debentures, no new major fixed term investment opportunities arose during the financial year. All short-term investments were held with the LGFA due to non-quantifiable factors including transaction processing efficiency and the level of service provision.

LGFA Bonus Payments

The Board of Trustees of the LGFA annually determines that a bonus payment be made from surplus funds to councils and prescribed authorities who used the LGFA services. The allocation and amounts are calculated in relation to individual council deposit and debenture loan levels maintained with the LGFA over the financial year. The bonus payments equate to approximately 0.35% pa additional interest earned on average deposits. Council received a $16,884.55 bonus payment for Municipal funds in 2021/22.

Cash Backed Reserve Fund Investments

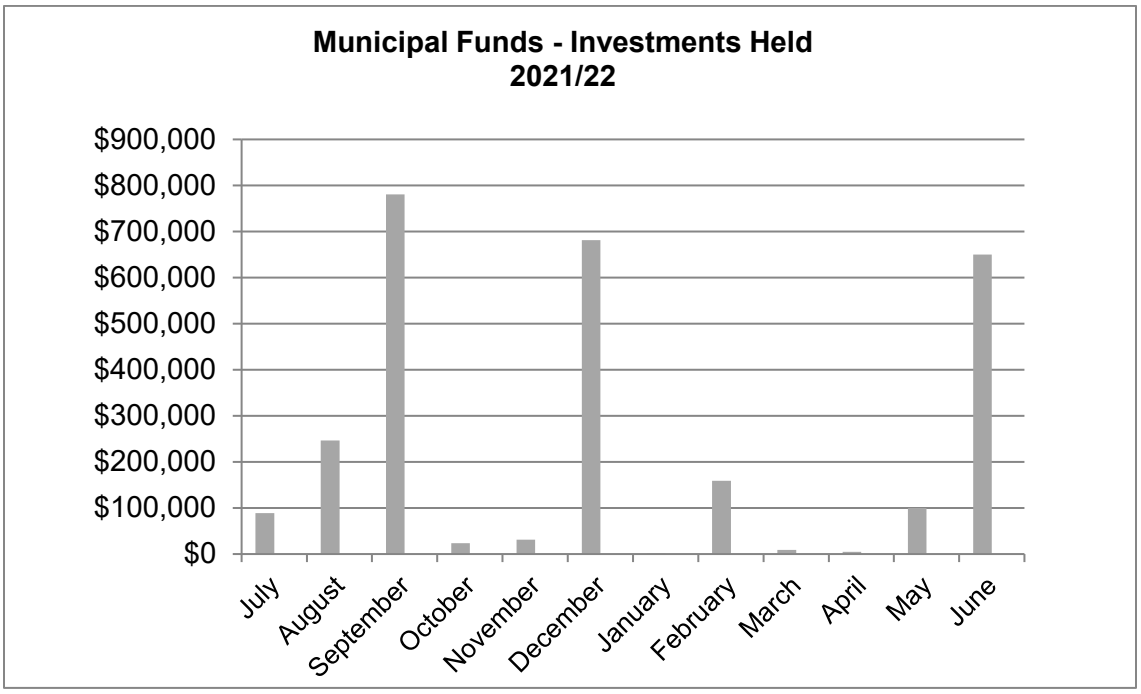
Council's Treasury Management Policy states that cash-backed municipal reserves will not be maintained unless required by legislation or agreed to with third parties. The reserves that are legally required to be maintained include developer contributions.

2021-22 Overall Budget Result

The original total forecast for investment income was $35,800 for Municipal operations. The Municipal budget forecasts were decreased to $20,000 due to reduced interest rates and the impact on cash flow due to the timing of recurrent operational and major capital expenditure. The final 2021/22 actual result was $19,742 for Municipal operations.

Levels of Investment

The level of municipal invested funds held as at 30 June 2022 was $650,000 compared with $100,000 as at 30 June 2021. The following chart highlights the level of investments held for Municipal funds peaking during the rates due date instalment months and upon receipt of significant grants.



Municipal Funds Investment Performance

2021-22 Interest rate movements

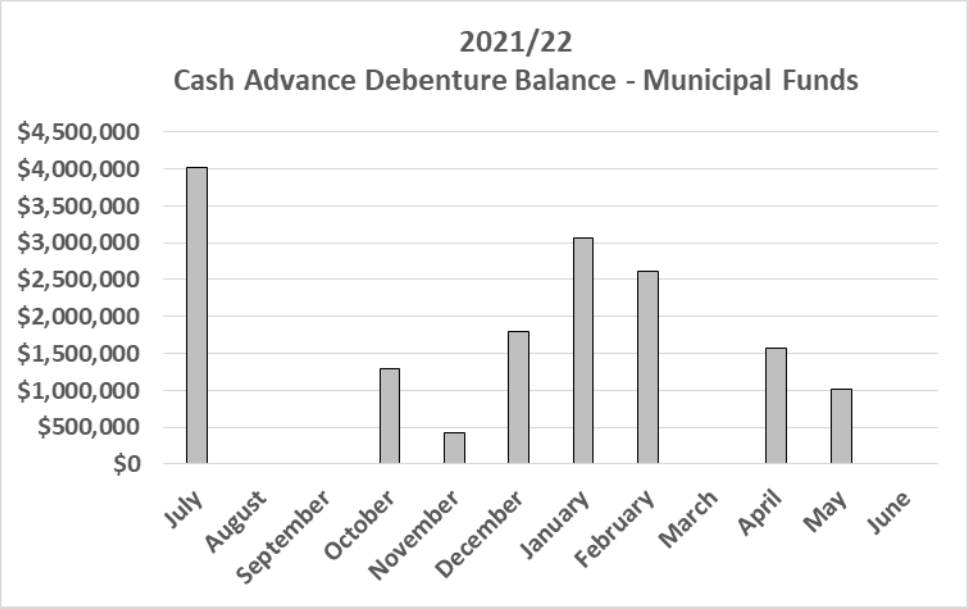
During 2021-22 official interest rates were increased by the Reserve Bank of Australia (RBA). They increased by 0.25% on 3 May 2022 (from 0.30% to 0.55%), and on 7 June 2022 by 0.50% (from 0.55% to 1.05%). These were the first official cash rate increases since the RBA ended its easing cycle with the last rate cut on 4 November 2020. On 5 July 2022 the rate increased by a further 0.5% to 1.55%.

The RBA's decisions to increase interest rates are due to the withdrawal of the extraordinary monetary support that was put in place to help the Australian economy during the COVID-19

pandemic. The RBA Board has also indicated that they expect to take further steps in the process of normalising monetary conditions in Australia over the months ahead.

Cash Advance Debenture movement during 2021/22

During 2021-22 available cash was utilised to meet regular operational cash flow requirements and capital expenditure. The Treasury Management Policy for municipal funds states that available funds are to be first used to repay debt and to avoid raising new debt. During 2021-22 low-interest (1.3% to 1.55%) short term cash advance debenture (CAD) borrowings where utilised and there was no new funding requirement for new fixed term borrowings. The CAD draw-down timings reflect the cash flow requirements. CAD repayments occurred during the rate instalment payment peaks in September, December, March and June with no outstanding amounts due as at 30 June 2022.



During 2021/22 a total loan principal amount of $1,115,754 was repaid on fixed term loan borrowings. The total fixed term principal outstanding as at 30 June 2022 is $14.4m with a weighted average interest rate of 3.97%.

BUDGET

The 2022/23 municipal investments budget has been set after taking into consideration the Treasury Management Policy, interest rate environment, and surplus operational funds. The original municipal budget has been set at $20,000.

LIFE CYCLE COSTS

This report deals with 2021-22 investment performance it does not have any full life cycle cost implications.