



## **AGENDA**

**FOR BUDGET AND FINANCE COMMITTEE MEETING TO BE HELD ON  
20 MARCH 2017 AT THE CONCLUSION OF THE POLICY AND PLANNING  
COMMITTEE**

**IN THE COUNCIL CHAMBER, 12 JAMES STREET, SALISBURY**

### **MEMBERS**

Cr R Zahra (Chairman)  
Mayor G Aldridge  
Cr D Balaza  
Cr S Bedford  
Cr D Bryant  
Cr C Buchanan  
Cr G Caruso  
Cr L Caruso  
Cr R Cook  
Cr E Gill (Deputy Chairman)  
Cr D Pilkington  
Cr D Proleta  
Cr S Reardon  
Cr G Reynolds  
Cr S White  
Cr J Woodman

### **REQUIRED STAFF**

Chief Executive Officer, Mr J Harry  
Acting General Manager Business Excellence, Mr B Naumann  
General Manager City Development, Mr T Sutcliffe  
General Manager City Infrastructure, Mr M van der Pennen  
General Manager Community Development, Ms P Webb  
Manager Governance, Ms T Norman  
Manager Communications and Customer Relations, Mr M Bennington  
Team Leader Corporate Communications, Mr C Treloar  
Governance Coordinator, Ms J Rowett  
Governance Support Officer, Ms K Boyd

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## **APOLOGIES**

## **LEAVE OF ABSENCE**

## **PRESENTATION OF MINUTES**

Presentation of the Minutes of the Budget and Finance Committee Meeting held on 20 February 2017.

Presentation of the Minutes of the Confidential Budget and Finance Committee Meeting held on 20 February 2017.

## **REPORTS**

### *Administration*

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## **OTHER BUSINESS**

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## **CLOSE**



**MINUTES OF BUDGET AND FINANCE COMMITTEE MEETING HELD IN THE  
COUNCIL CHAMBER, 12 JAMES STREET, SALISBURY ON**

**20 FEBRUARY 2017**

**MEMBERS PRESENT**

Cr R Zahra (Chairman)  
Mayor G Aldridge  
Cr D Balaza  
Cr S Bedford  
Cr D Bryant  
Cr C Buchanan  
Cr G Caruso  
Cr L Caruso  
Cr R Cook  
Cr E Gill (Deputy Chairman)  
Cr D Pilkington  
Cr D Proleta  
Cr S Reardon  
Cr G Reynolds  
Cr S White  
Cr J Woodman

**STAFF**

Chief Executive Officer, Mr J Harry  
General Manager Business Excellence, Mr C Mansueto  
General Manager City Development, Mr T Sutcliffe  
General Manager City Infrastructure, Mr M van der Pennen  
General Manager Community Development, Ms P Webb  
Acting Manager Governance, Ms J Rowett  
Manager Communications and Customer Relations, Mr M Bennington  
Team Leader Corporate Communications, Mr C Treloar  
Governance Project Officer, Ms M Woods  
Governance Support Officer, Ms K Boyd

The meeting commenced at 6:45 pm.

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The Chairman welcomed the members, staff and the gallery to the meeting.

### **APOLOGIES**

There were no apologies.

### **LEAVE OF ABSENCE**

Nil.

### **PRESENTATION OF MINUTES**

Moved Cr R Cook

Seconded Cr D Pilkington

The Minutes of the Budget and Finance Committee Meeting held on 23 January 2017, be taken and read as confirmed.

**CARRIED**

### **REPORTS**

#### *Administration*

#### **6.0.1 Future Reports for the Budget and Finance Committee**

Moved Cr S Bedford

Seconded Cr S Reardon

1. The information be received.

**CARRIED**

#### **6.0.2 Appointment of Deputy Chairman - Budget and Finance Committee**

Moved Cr D Pilkington

Seconded Cr R Cook

1. Cr Betty Gill be appointed as Deputy Chairman of the Budget and Finance Committee for the remainder of the term of Council.

**CARRIED**



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**6.0.3 Minutes of the Program Review Sub Committee meeting held on Monday 13 February 2017**

**6.0.3-PRSC1 Appointment of Deputy Chairman - Program Review Sub Committee**

Moved Cr E Gill

Seconded Cr S Reardon

1. Cr L Caruso be appointed as Deputy Chairman of the Program Review Sub Committee for the remainder of the term of Council.

**CARRIED**

**6.0.3-PRSC2 Program Review Brief - Strategic Development Projects**

Moved Cr E Gill

Seconded Cr S Reardon

1. The information be received.
2. The Strategic Development Projects Program Review Project Brief and Background Paper as set out in Attachment 1 and 2 to the Program Review Sub-Committee Report (Item No. PRSC1, 13/02/2017) be endorsed.

**CARRIED**

**6.0.3-PRSC3 Program Review Budget Update**

Moved Cr E Gill

Seconded Cr S Reardon

1. That the information be noted.

**CARRIED**

*Finance*

**6.1.1 Council Finance Report - January 2017**

Moved Cr D Pilkington

Seconded Mayor G Aldridge

1. The information be received

**CARRIED**

## 6.1.2 Second Quarter Budget Review 2016/17

*Cr R Cook declared a perceived conflict of interest on the basis of owning a business in St Kilda which may benefit. Cr Cook managed the conflict by remaining in the meeting but not voting on the item.*

*Cr D Balaza declared a perceived conflict of interest on the basis of his employer tendering for the tube slide and received tender documents for the wave slide.- Cr D Balaza left the meeting at 06:49 pm.*

Moved Cr C Buchanan

Seconded Cr D Proleta

1. The budget variances identified in this review and contained in the Budget Variation Summary (Appendix 1) be endorsed and net operating \$143,850, net capital \$744,000 be debited to the Sundry Project Fund. This will bring the balance to **\$887,850**.
2. Funds be allocated for the following **non-discretionary** net bids:

### OPERATING

▪ Youth Sponsorship	\$ 27,900
▪ Network Modelling, East West Links	\$ 50,000

### CAPITAL

▪ Traffic Management Device – RM Williams Dr / Wright Rd	\$ 200,000
▪ St Kilda Tube Slide	\$ 146,000

**TOTAL \$ 423,900**

*(NB: If parts 1 & 2 of this resolution are moved as recommended this will bring the balance of the Sundry Projects Fund to \$463,950.)*

3. Funds be allocated for the following **discretionary** net bids:

### CAPITAL

▪ St Kilda Breakwater Lighting	\$ 46,000
▪ St Kilda Playground Wave Slide Renewal	\$ 270,000
▪ Pauls Drive Valley View	\$ 100,000

**TOTAL \$ 416,000**

*(NB: If parts 1,2 & 3 of this resolution are moved as recommended this will bring the balance of the Sundry Projects Fund to \$47,950.)*

4. Council approve the following transfers:
  1. Transfer \$49,700 from Employment Pathways within Economic Development to part fund the new position of Coordinator Economic Growth endorsed through the Program Review.
  2. A non-discretionary transfer of \$529,000 capital from Boardwalk MOSS Reimbursement to Mawson Lakes Interchange Pedestrian & Cycle Path. (Works and Services - January Item 2.6.1)

3. A non-discretionary transfer of \$300,000 capital from Acquisition Stanley Street to Mawson Lakes Interchange Pedestrian & Cycle Path. (Works and Services - January Item 2.61)
  4. Transfer \$37,000 capital from St Kilda Channel Renewal to St Kilda Sea Wall (Resolution 1338/2016)
  5. Transfer \$56,000 capital from City Pride Street Tree Renewal Program to St Kilda Playground. (Resolution 1338/2016)
  6. Transfer \$7,000 capital from Skytrust project to operating for Organisational Charter Fusion Add-in.
  7. Transfer of \$24,300 from Fleet to Wages & Salaries budgets due to the cessation of vehicles as part of Managers salary packaging.
  8. Transfer of \$53,400 from Fleet to Parks and Landscape due to the allocation of plant to Field Services.
5. Investments / Borrowings be varied to reflect the bids and transfers endorsed by Council detailed in parts 1 to 4 of this resolution.

*(NB: If parts 1 to 4 of this resolution are moved as recommended investments in 2016/17 will increase by \$47,950.)*

**CARRIED**

*Cr D Balaza returned to the meeting at 06:51 pm.*

#### *Business Units*

#### **6.7.1 Salisbury Water Hardship Policy for Residential Customers Review (00187/2015)**

Moved Cr D Pilkington  
Seconded Cr G Caruso

1. The information be received.
2. The Salisbury Water Hardship Policy for Residential Customers be approved.

**CARRIED**

#### **OTHER BUSINESS**

Nil

#### **CONFIDENTIAL ITEMS**

#### **6.9.1 Minutes of the Confidential Program Review Sub Committee meeting held on Monday 13 February 2017**

Moved Cr D Pilkington  
Seconded Cr J Woodman

1. *Pursuant to Section 90(2) and (3)(b)(i) and (b)(ii) and (d)(i) and (d)(ii) of the Local Government Act 1999, the principle that the meeting should be conducted in a place open to the public has been outweighed in relation to this matter because:*

- *it relates to information the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and*
- *information the disclosure of which would, on balance, be contrary to the public interest; and*
- *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*
- *commercial information of a confidential nature (not being a trade secret) the disclosure of which would, on balance, be contrary to the public interest.*

2. *In weighing up the factors related to disclosure,*

- *disclosure of this matter to the public would demonstrate accountability and transparency of the Council's operations*
- *Disclosure of this matter would enable information that may have implications for resourcing/service levels to be considered in detail prior to a Council position in relation to the matter being determined.*

*On that basis the public's interest is best served by not disclosing the **Minutes of the Confidential Program Review Sub Committee meeting held on Monday 13 February 2017** item and discussion at this point in time.*

3. *Pursuant to Section 90(2) of the Local Government Act 1999 it is recommended the Council orders that all members of the public, except staff of the City of Salisbury on duty in attendance, be excluded from attendance at the meeting for this Agenda Item.*

**CARRIED**

The meeting moved into confidence at 6:55 pm.

The meeting moved out of confidence at 7:02 pm.

The meeting closed at 7:03 pm.

CHAIRMAN.....

DATE.....

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<b>ITEM</b>	6.0.1
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Future Reports for the Budget and Finance Committee
<b>AUTHOR</b>	Michelle Woods, Projects Officer Governance, CEO and Governance
<b>CITY PLAN LINKS</b>	4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	This item details reports to be presented to the Budget and Finance Committee as a result of a previous Council resolution. If reports have been deferred to a subsequent month, this will be indicated, along with a reason for the deferral.

#### **RECOMMENDATION**

1. The information be received.

#### **ATTACHMENTS**

There are no attachments to this report.

#### **1. BACKGROUND**

- 1.1 Historically, a list of resolutions requiring a future report to Council has been presented to each committee for noting.

#### **2. CONSULTATION / COMMUNICATION**

- 2.1 Internal
  - 2.1.1 Report authors and General Managers.
- 2.2 External
  - 2.2.1 Nil.

### 3. REPORT

- 3.1 The following table outlines the reports to be presented to the Budget and Finance Committee as a result of a Council resolution:

Meeting Item	- Heading and Resolution	Officer
29/04/2013 6.4.4	<b>Fees and Charges Report - Waste Transfer Station</b> 3. Subject to endorsement of the creation of the Program Review Sub Committee, the Program Review Sub Committee consider the cost structure and fee structure for residents/commercial vs. non-Salisbury residents/commercial accessing services at the Waste Transfer Station. <b>Due:</b> June 2017	Sam Kenny
26/04/2016 6.1.1	<b>Project Budget Delegations</b> 4. The Project Budget Delegation be reviewed during the 2017/18 Budget process. <b>Due:</b> April 2017	Kate George
28/11/2016 6.0.2-PRSC2	<b>Program Review Update</b> 2. A further report be brought back this financial year regarding the future of the Program Review Sub Committee, including alternative approaches to enable future reviews of levels of service. <b>Due:</b> March 2017 <b>Deferred to:</b> April 2017 <b>Reason:</b> Further time required to complete report.	Charles Mansueto
28/11/2016 6.0.2-PRSC2	<b>Program Review Update</b> 3. Following the conclusion of the current schedule of program review activity a report outlining the status of work undertaken by the Program Review Committee, including achievements, benefits and issues encountered through the course of the program review process be prepared. <b>Due:</b> June 2017	Charles Mansueto

### 4. CONCLUSION / PROPOSAL

- 4.1 Future reports for the Budget and Finance Committee have been reviewed and are presented to Council for noting.

### CO-ORDINATION

Officer: Exec Group GMBE GMCI  
Date: 14/3/17 9/3/17

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<b>ITEM</b>	6.0.2
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>HEADING</b>	Minutes of the Program Review Sub Committee meeting held on Tuesday 14 March 2017
<b>AUTHOR</b>	Bruce Nauman, A/General Manager Business Excellence, Business Excellence
<b>CITY PLAN LINKS</b>	4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	The minutes and recommendations of the Program Review Sub Committee meeting held on Tuesday 14 March 2017 are presented for Budget and Finance Committee's consideration.
<b>RECOMMENDATION</b>	<ol style="list-style-type: none"><li>1. The information contained in the Program Review Sub Committee Minutes of the meeting held on 14 March 2017 be received and noted.</li></ol>
	<b>PRSC1 Presentation - Community Planning and Vitality Review</b>
<b>ATTACHMENTS</b>	<p>This document should be read in conjunction with the following attachments:</p> <ol style="list-style-type: none"><li>1. Minutes Program Review Sub Committee - 14 March 2017</li></ol>
<b>CO-ORDINATION</b>	
Officer:	A/GMBE
Date:	16/03/2017







**MINUTES OF PROGRAM REVIEW SUB COMMITTEE MEETING HELD IN  
COMMITTEE ROOMS, 12 JAMES STREET, SALISBURY ON**

**14 MARCH 2017**

**MEMBERS PRESENT**

Cr E Gill (Chairman)  
Mayor G Aldridge  
Cr D Bryant  
Cr G Caruso  
Cr L Caruso (Deputy Chairman)  
Cr D Proleta (as deputy for Cr Buchanan)  
Cr R Zahra  
Cr S White  
Cr J Woodman (as deputy for Cr Bedford)

**STAFF**

Acting Chief Executive Officer, Mr M van der Pennen  
General Manager Community Development, Ms P Webb  
Manager Governance, Ms T Norman

The meeting commenced at 6:56pm.

The Chairman welcomed the members, staff and the gallery to the meeting.

**APOLOGIES**

Apologies were received from Cr S Bedford and Cr C Buchanan.

**LEAVE OF ABSENCE**

Nil

## **PRESENTATION OF MINUTES**

Moved Cr D Bryant  
Seconded Cr L Caruso

The Minutes of the Program Review Sub Committee Meeting held on 13 February 2017, be taken and read as confirmed.

**CARRIED**

Moved Cr L Caruso  
Seconded Cr G Caruso

The Minutes of the Confidential Program Review Sub Committee Meeting held on 13 February 2017, be taken and read as confirmed.

**CARRIED**

## **REPORTS**

### **PRSC1 Presentation - Community Planning and Vitality Review**

General Manager Community Development presented information relating to the Community Planning and Vitality Program Review for the information of the Committee.

## **OTHER BUSINESS**

Nil

## **CLOSE**

The meeting closed at 7:40pm.

CHAIRMAN.....

DATE.....

<b>ITEM</b>	6.1.1
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Salisbury Water Budget 2017/18 Report
<b>AUTHORS</b>	Bruce Naumann, Manager Salisbury Water, Business Excellence Roseanne Irvine, Salisbury Water Administration Coordinator, Business Excellence
<b>CITY PLAN LINKS</b>	2.1 Capture economic opportunities arising from sustainable management of natural environmental resources, changing climate, emerging policy direction and consumer demands. 4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	The following report details the performance of the Salisbury Water Business Unit (SWBU) to January 2017 of the 2016/17 financial year. The report also provides the proposed 2017/18 budget, fees and charges, for consideration by Council
<b>RECOMMENDATION</b>	
	1. The Salisbury Water 2017/18 Budget, including New Initiative Bids and Fees and Charges, be endorsed for consideration in the 2017/18 Council Budget
<b>ATTACHMENTS</b>	
	This document should be read in conjunction with the following attachments:
	1. Salisbury Water Fees and Charges 2017/18
<b>1. BACKGROUND</b>	
	1.1 As part of the budget deliberations of council, each business unit reports the most up to date results for the current year, and the proposed budget for the coming year.
<b>2. CITY PLAN CRITICAL ACTION</b>	
	2.1 Maximise the value of our water business in supporting community wellbeing and economic growth (including agriculture and industry).
<b>3. CONSULTATION / COMMUNICATION</b>	
	3.1 Internal
	3.1.1 Salisbury Water Management Advisory Board and Finance staff
	3.2 External
	3.2.1 N/A

## 4. REPORT

### 4.1 2016/17 Review

4.1.1. Financial Results for the 7 months to January 2017 and the forecast result for the full financial year are provided in the tables below.

#### Financial Results for the 7 months to 31st January 2017

Details	YTD Actual	YTD Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Sale of Water	605,085	1,178,105	(573,020)	-48.64%
Water Connections	15,900	0	15,900	100.00%
Internal Water Supply	604,493	819,500	(215,007)	-26.24%
External Grants & Subsidies				
Reimbursements	267	0	267	100.00%
Salisbury Water Rebate	(6,809)	(30,000)	23,191	-77.30%
<b>Total Revenue</b>	<b>1,218,936</b>	<b>1,967,605</b>	<b>(748,669)</b>	<b>-38.05%</b>
<b>Expenditure</b>				
Wages & Salaries	324,237	310,861	(13,376)	-4.30%
Contractual Services	627,399	681,922	54,523	8.00%
Materials	348,310	509,218	160,908	31.60%
Depreciation	1,201,350	1,201,350	0	0.00%
Other Expenses	428,348	413,789	(14,559)	-3.52%
<b>Total Expenditure</b>	<b>2,929,644</b>	<b>3,117,140</b>	<b>187,496</b>	<b>6.02%</b>
<b>Net Position</b>	<b>(1,710,708)</b>	<b>(1,149,535)</b>	<b>(561,173)</b>	<b>48.82%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

### Forecast Financial Results for the year ended 30<sup>th</sup> June 2017

Details	Revised Budget	Original Budget	Forecast EOY	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>					
Sale of Water	2,218,150	2,605,200	2,218,150	(387,050)	-14.86%
Water Connections	1,000	1,000	1,000	0	0.00%
Internal Water Supply	2,527,540	2,731,540	2,527,540	(204,000)	-7.47%
External Grants & Subsidies	75,000	75,000	75,000		
Reimbursements	0	0	0	0	100.00%
Salisbury Water Rebate	(63,000)	(75,000)	(63,000)	12,000	-16.00%
<b>Total Revenue</b>	<b>4,758,690</b>	<b>5,337,740</b>	<b>4,758,690</b>	<b>(579,050)</b>	<b>-10.85%</b>
<b>Expenditure</b>					
Wages & Salaries	552,950	574,050	552,950	21,100	3.68%
Contractual Services	1,114,700	1,019,100	1,114,700	(95,600)	-9.38%
Materials	802,450	875,450	802,450	73,000	8.34%
Depreciation	1,601,800	1,601,800	1,601,800	0	0.00%
Other Expenses	679,420	699,420	679,420	20,000	2.86%
<b>Total Expenditure</b>	<b>4,751,320</b>	<b>4,769,820</b>	<b>4,751,320</b>	<b>18,500</b>	<b>0.39%</b>
<b>Net Position</b>	<b>7,370</b>	<b>567,920</b>	<b>7,370</b>	<b>(560,550)</b>	<b>-98.70%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

- 4.1.2. The SWBU completed the 7 months to the end of January 2017 with an unfavourable variance against budget of \$561k.
- 4.1.3. The full year outlook is for a budget surplus of \$7k. The full year outlook assumes weather conditions, and hence irrigation demand, will follow a similar pattern to last year. (A net deficit of \$22k was forecast at this time last year. Due to an extended dry Autumn, the business went on to provide a net financial surplus of \$489k for the year)
- 4.1.4. 411mm of rainfall has been recorded at Parafield compared to an average of 247mm for this period. This has resulted in a record harvest, with 3,922ML of stormwater harvested from wetland systems, bringing the combined aquifer storage balance to 8,257ML.
- 4.1.5. Most rainfall has been received in several intense storm events, but there have been sufficient minor rain events during October and December to meet most irrigation needs, with only minor 'top-up' irrigation occurring during hot spells. Weather conditions for the third quarter appear to be following a more typical pattern. Hence, the full year outlook is based on weather conditions following the typical pattern of previous years.
- 4.1.6. Income totaling \$1,219k was received, which is \$749k below the YTD budget. This is due to lower usage by irrigation based customers as a consequence of the high summer rainfall, and contractual delays with a potential large scale customer.

4.1.7. Operational expenditure is \$187k below the YTD budget. This has resulted from:

- lower electricity charges for the period, attributed to timing of invoices and lower than anticipated customer demand.
- lower than anticipated chlorine purchase costs associated with the staged commissioning of schemes and lower customer demand.
- finance charges for loan borrowings being lower than anticipated due to continued low interest rates. It is anticipated that this may result in approximately \$20k savings if rates remain low for the remainder of the financial year.

4.1.8. The forecast for the full financial year is a net surplus of \$7k. This includes a \$1,601k allowance for depreciation.

4.1.9. Excluding depreciation, the Salisbury Water Business Unit should maintain a positive cash equivalent position for 2016/17 of **\$1,609,170**.

4.2 2017/18 Business Plan

4.2.1 The 2017/18 financial year will see a continued focus on sales and marketing, with a specific focus on securing higher water quality/high value customers.

4.2.2 The Salisbury Water Business Unit, Strategic Business Review 2016-2020 was presented to Council on 28<sup>th</sup> November 2016, with Council endorsing the guiding principles for inclusion in the Salisbury Water Strategic Action Plan. For 2017/18, the business will focus on the following objectives:

- further develop Salisbury Water through research and development to provide a competitive edge for firms located in the region (City Plan 2030 Key Direction – Prosperous City),
- ensure a strategy is in place to effectively manage actual and perceived water quality issues, including examining the costs and benefits of treating water to a higher quality standard.
- prepare a business case to supply bulk stormwater, by optimising the performance of existing schemes on Dry Creek and supplying to the Council Boundary in partnership with a third party provider.
- initiate planning and analysis for a potential large scale scheme at the bottom of the Dry Creek catchment.
- continue to pursue groundwater licences as they come onto the market in order to provide additional water supply security.

4.2.3 The following new operating initiatives have been proposed:

- Northern Urban Catchments Stormwater Yield Review - Stage 2. Stage 1 was completed in March 2016 and ascertained the ‘reliable’ volume of stormwater available from the urbanised catchments in the Northern Region. The Stage 1 study focused on reviewing, and investigating in more detail, the Urban Stormwater Harvesting Options Study (USHOS) which was carried out in 2009. The Stage 1 study (Aqueon 2016) has informed future opportunities for

harvesting, treatment and storage of urban stormwater in the Northern region. The study recommendations have also been incorporated into the Strategic Business Review 2016-2020 (Aither 2016).

Stage 2 of the study will provide detailed hydrological and hydrogeological modelling, preliminary design and financial modelling to optimise existing schemes on the Dry Creek catchment and to plan for a new large scale scheme at the base of the Dry Creek catchment, in conjunction with the proposed Salt Fields development. This project will contribute towards the strategic objectives outlined in 4.2.2 of this report.

- **Water Quality Treatment** – In order to ensure the ongoing operation of the water business, a strategy is required to effectively manage actual and perceived water quality issues, by undertaking detailed risk assessments and evaluation of cost-effective risk management solutions. In addition, there are numerous large water users, who could be targeted with ‘premium’ water quality. It is proposed to undertake R&D to desalinate brackish groundwater and MAR water to establish costs for inclusion in the water business long term financial model, in order to ‘examine the costs and benefits of treating water to a higher quality standard’. This budget bid is an extension to the current Salisbury Water R&D Program NIB22832 ie it is completely new work to the current R&D partnership with UniSA, which is focused on beneficial wastewater re-use opportunities in order to secure new industrial customers. This R&D will deliver on the strategic objectives outlined in 4.2.2 of this report.
- **New capital initiatives**, summarised in the table below, have been proposed to address water security issues, water quality, expansion of the distribution network to supply new customers, and asset renewal.

Bid No	Asset		'000's		
	Cat	Project Title	Exp	Inc	Net
21486	G/I	Salisbury Water - Water Licence Purchase	102	0	102
22161	I	Groundwater Community Bores - Tank & Booster Pump System	100	0	100
22828	R	Salisbury Water Recycled Water Signage – New / Renewal	10	0	10
23447	I/G	Salisbury Water Distribution Main Linkages	435	0	435
23453	I	Salisbury Water Emergency Backup Power Supply	20	0	20
23457	I/G	Salisbury Water Head Tank (formerly Kiekebusch Reserve - Pumping Station)	150	0	150
23472	G	Council Reserve Upgrades – Recycled Water Connections	100	0	100
23496	I	New – Salisbury Water, Water Quality Monitoring	150	0	150
20874	R	Salisbury Water - Minor Asset Renewal	195	0	195
<b>TOTAL NEW WATER BUSINESS UNIT</b>			<b>1,262</b>	<b>0</b>	<b>1,262</b>

(Asset Categorisation: G = Growth, I – Improvements, R = Renewal, RD = Research & Development)

- An additional \$200k is also being proposed for operating bids relating to R&D for emerging pollutants and treatment technologies, and the second stage of the Northern Urban Catchments Stormwater Yield Study. These bids are summarised in the table below.

Asset			'000's		
Bid No	Cat	Project Title	Exp	Inc	Net
23448	G/I	Northern Adelaide Stormwater Yield Analysis Study – Stg 2	200	100	100
23495	RD	New - Salisbury Water – Water Quality Treatment	100	0	100
<b>TOTAL WATER BUSINESS UNIT OPERATING</b>			<b>300</b>	<b>100</b>	<b>200</b>

(Asset Categorisation: G = Growth, I – Improvements, R = Renewal, RD = Research & Development)

### 4.3 Financial Analysis

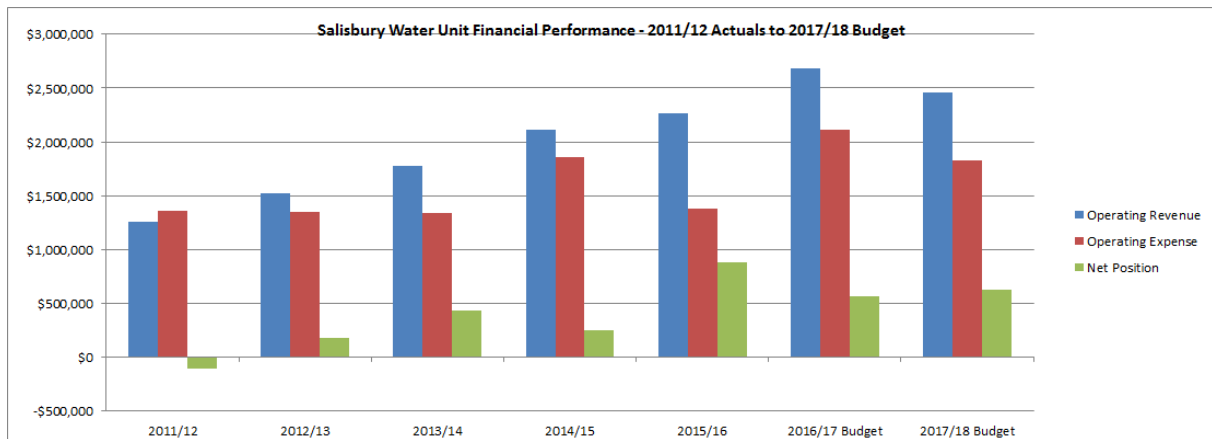
#### 2017/18 Draft Budget

Details	2016/17 Budget	2017/18 Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Sale of Water	2,605,200	2,413,400	(191,800)	-7.36%
Water Connections	1,000	1,000	0	0.00%
Salisbury Water Rebate	(75,000)	(75,000)	0	0.00%
External Grants & Subsidies	75,000			
Internal Water Supply	2,731,540	2,817,100	85,560	3.13%
<b>Total Revenue</b>	<b>5,337,740</b>	<b>5,156,500</b>	<b>-181,240</b>	<b>-3.40%</b>
<b>Expenditure</b>				
Wages & Salaries	574,050	581,700	(7,650)	-1.33%
Contractual Services	1,019,100	962,300	56,800	5.57%
Materials	875,450	729,585	145,865	16.66%
Depreciation	1,601,800	1,651,700	(49,900)	-3.12%
Other Expenses	699,420	688,070	11,350	1.62%
<b>Total Expenditure</b>	<b>4,769,820</b>	<b>4,613,355</b>	<b>156,465</b>	<b>3.28%</b>
<b>Net Position</b>	<b>567,920</b>	<b>543,145</b>	<b>(24,775)</b>	<b>-4.36%</b>
New Initiatives - Operating	100,000	200,000	(100,000)	-100.00%
<b>Net Position including 16/17 New Initiatives</b>	<b>467,920</b>	<b>343,145</b>	<b>(124,775)</b>	<b>-26.67%</b>
<b>CASH POSITION</b>	<b>2,069,720</b>	<b>1,994,845</b>	<b>(74,875)</b>	<b>-3.62%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

- 4.3.1 The 'Other Expenses' expenditure category includes: Interest on borrowings, legal expenses, water licences, vehicle hire, internal maintenance charges, finance overhead charges, advertising, insurance and telephone costs.





\*\*\* The 2016/17 budget included projections for a potential large scale customer. This supply contract is on hold and has not been included in the 2017/18 budget.

#### 4.4 Commentary on 2017/18 Budget

- 4.4.1 The 2017/18 budget for the SWBU forecasts a net position of \$543k. (\$343k when impact of proposed New Initiatives is included). This result includes a \$1,651,700 allowance for depreciation.
- 4.4.2 Excluding depreciation the Salisbury Water Business Unit should maintain a positive net cash equivalent position of **\$1,994,845** for 2017/18.
- 4.4.3 The cash surplus each year is used to pay down borrowings.
- 4.4.4 Sales volumes are predicted to reach 2,491 million litres. The predicted sales volumes have been reduced to reflect anticipated lower growth.
- 4.4.5 The substantive retail price of Salisbury Water is recommended to be raised to \$2.61/kl for 2017/18. This represents a 2.5% increase. The current price of \$2.55/KL has been held for the past 3 years. The price increase is proposed for the following reasons:
  - the City of Salisbury is currently regulated under a 'light handed' approach, with the Essential Services Commission of South Australia (ESCOSA) setting a Price determination that applies to Minor and Intermediate retailers for the regulatory period 1 July 2013 to 30 June 2017, through a framework that combines pricing principles and price monitoring. This determination has been based on the National Water Initiatives Pricing Principles. In alignment with these principles, it is appropriate to establish pricing based on the efficient operating, maintenance, planning and administration costs of the business; and a modest return on the businesses assets.
  - price stability for customers has been a very important marketing tool and has sent the right signals to the market regarding Salisbury's ability to provide fit-for-purpose water at an affordable price. Recent cost pressures relating to electricity use, increased water quality testing, deferral of new supply contracts and bringing forward capital works to cover supply short-falls associated with the closure of two major supply schemes, has meant that a further hold on prices cannot be sustained and would impact on the financial outlook for the business.

- the long term financial model for the business demonstrates that in order to hold prices for 3 years, prices would need to rise in 2017/18 by 3.9% (with the following two years fixed). The Salisbury Water Management Advisory Board considered this at its last meeting and recommended to the CEO that an increase of 3.9% would not be acceptable to customers. An increase in-line with CPI, or with Council's own proposed increase, was recommended by the Board.
- it is considered likely that SA Water prices will increase by CPI in 2017/18. The price differential with SA Water's projected Tier 2 price (\$3.32) would increase from 69 cents in 2016/17 to 71 cents per kilolitre in 2017/18.

4.4.6 New operating initiatives of \$200k are proposed and relate to water treatment R&D and Stage 2 of the Northern Urban Catchments Stormwater Yield Study.

4.4.7 Total capital initiatives of \$1.26M are proposed. Of this \$1,112k is a continuation of bids approved in previous years and \$150k is related to new bids proposed for 2017/18.

Rainfall dependency and the cyclical nature of weather patterns is a key issue for the business. The majority of our customers utilise water for irrigation. Consequently, a wet season is useful for replenishing the aquifer stock but means that we do not sell as much water. The 2016/17 summer has been influenced by an El Niño neutral state, however it appears that we have experienced La Niña-like characteristics (higher rainfall/lower temperatures) for the first half of 2016/17. The long range forecast at this stage is indicating an El Niño WATCH state through to 2017/18. Ie lower than average rainfall, but increased likelihood of large storm events that can result in flooding.

#### 4.5 Fees and Charges

4.5.1 Council provides recycled stormwater to a range of customers including local business, schools, residential properties, and for its own use.

4.5.2 These fees are set in accordance with Section 188 of the Local Government Act 1999 and in line with National Water Initiative (NWI) pricing guidelines.

4.5.3 The 'Water Banking & Licenced Transfer of Credits (per kl) fee is proposed to be removed from the schedule and be replaced by negotiation on a case by case basis. No sales have been secured at the current price of \$1.90/kl, as it is significantly higher than the market price. Water brokers have made several enquiries on behalf of potential customers, but have baulked at the high fixed price.

4.5.4 The Credits are generated due to regulation of Managed Aquifer Recharge (MAR), where only 80% of injected water can be extracted. The remaining 20% can be traded, subject to Water Allocation Plan (WAP) rules, to provide temporary (12 month) extraction allocations on a customers own licence. The only additional cost to Council will be the Regulator's (DEWNR) transfer fees. Effectively any income we receive from the sale of Credits is a bonus.

## 4.5.5 The following fees and charges are proposed for 2017/18.

<b>Fees</b>	<b>2016/17 \$</b>	<b>2017/18 \$</b>	<b>Commentary</b>
<b>Non-Residential Properties</b>			
Substantive Retail Water Supply (per kL)	2.55	2.61	2.5% increase in line with regulatory pricing guidelines
Day Time Supply to Tank Only *	2.32	2.38	2.5% increase in line with regulatory pricing guidelines
Water Banking & Licenced Transfer of Credits (per kL)	1.90	By Negotiation	To be negotiated on a case by case basis as outlined in Item 4.5.3
Community Based Not for Profit Organisation (upon application) (per kL)	1.65	1.69	2.5% increase in line with regulatory pricing guidelines
Bulk Water Supply (negotiated) (per kL)	1.65	1.69	2.5% increase in line with regulatory pricing guidelines
Supply Charge (to cover meter reading, cross connection audits etc) per annum	50.00	40.00	Regulations extended from 4 years to 5.
<b>Residential Properties</b>			
Substantive Retail Water Supply - allotment sizes over 300m2 (per kL)	2.55	2.61	2.5% increase in line with regulatory pricing guidelines
Supply Charge (to cover meter reading, cross connection audits etc) per annum	50.00	40.00	Regulations extended from 4 years to 5.
Fixed Annual Charge - allotment size up to 300m2 (External Supply Only)	103.00	103.00	No changed proposed
Fixed Annual Charge - allotment size up to 300m2 (Internal/External supply)	123.00	123.00	No changed proposed
<b>Other</b>			
Non Payment – Flow Restrictor	184.00	184.00	No changed proposed
Disconnection – non payment - Plumbing works + plus - Administration costs	Actual contractor cost + \$177	Actual contractor cost + \$177	No changed proposed
Connection Fee - 20mm meter / 50 mm meter	Fee to be quoted per connection	Fee to be quoted per connection	No change proposed

\* This is an off-peak/tank incentive offered to customers to compensate for their investment in tanks or dams and pumps. They receive a reduced sized connection, limiting the distribution pressure impact on the Salisbury Water network. Their consumption volume does not entitle them to the lower bulk water supply price.

## 4.5.6 Negotiated Price Scheme (for upfront Capital Contribution)

Council may offer an Industry, a Commercial Enterprise, Business, Sporting Complex, or Community Organisation (i.e. non-residential user) that is a major user of mains water, an incentive to become a Salisbury Water user. In return for the Non-Residential Entity partially or completely funding the costs to install Salisbury Water infrastructure to their property, Council may by agreement offer a conditional discounted price on Salisbury Water to that customer for a limited discount period.

Any negotiated price offered to a non-residential user must be justified and approved by the Chief Executive Officer

## 4.5.7 Who Should Pay?

Public Benefit v Private Benefit

Provision of recycled water for irrigation of open space provides improved amenity to the suburbs. This improves the image of the City and makes this a very important part of the City Pride agenda.

High levels of community irrigation are now seen as increasingly important in combatting the 'urban heat island effect' where research has shown that urban temperatures can be up to 10 degrees higher than neighbouring rural areas. Irrigation has a significant impact on local climate by supporting the growth of shade trees and lawns. This improves evapo-transpiration rates and can reduce the local temperature by several degrees. This, in turn, reduces the energy required to run air-conditioners in homes and offices.

Establishing and maintaining high quality turf for sports facilities and school ovals has flow-on benefits to the community by facilitating sport and active play, helping to support a healthy lifestyle and combat obesity. This helps to reduce health costs associated with obesity, diabetes etc. It also encourages social inclusion by encouraging group sports and the strong social connections developed in sporting clubs. Active sports participation, especially by youth, has been shown to dramatically reduce negative social issues such as graffiti and vandalism.

Provision of recycled water to local business and industry can help to attract and sustain these businesses, keeping them in the area, where they provide jobs for local residents. This has a significant flow-on effect to the local economy, generating more job opportunities.

However, despite these significant broader community benefits, all levels of government currently support the 'user-pays' principle for water pricing ie the general ratepayer should not be required to subsidise water consumers.

Therefore, in accordance with guidelines established by the National Water Initiative (NWI) several years ago, which are now endorsed by ESCOSA, water prices are set at a level to recover the full cost of providing the service.

**Competitive Forces / Market Forces**4.5.8 Comparison with Competitors

The only current market competitor for Salisbury Water is mains water supplied by SA Water. Larger customers pay a tier 2 price for mains water. The tier 2 mains water price (\$3.24) is currently higher than Salisbury Water (\$2.55) by 69c/kl. There is a strong market perception that the price difference between mains water and recycled water should be greater to reflect the difference in quality.

The Salisbury Water retail water price in 2011/12 was \$2.48/kl. This price was maintained for 3 years, providing existing and prospective customers confidence in the price stability of our water and the maintenance of a significant differential to mains water. In 2014/15 the price was adjusted to \$2.55/kl in line with CPI expectations and in consideration of increases in power costs and mandatory testing and reporting that occurred over the preceding 3 year period when the water price was fixed. This price was maintained for 2015/16 and for 2016/17. For 2017/18 it is proposed that the price be increased to \$2.61/kl taking into consideration increases in operating costs and deferral of a large volume supply contract which have occurred during this 3 year period.

Our current major customers are engaged under pre-existing contracts, with a wide range of substantially discounted prices. Therefore, the \$2.61/kl price to new customers has only a modest impact on the overall performance of the business unit.

Mandatory cross connection audits have changed from a 4 year to 5 year regime in line with changed regulations. The annual supply charge covers the cost of providing the cross connection auditing service and other fixed expenses. With the audit period being extended by 1 year, this has facilitated a reduction of the annual supply charge from \$50 to \$40 per year. This will help off-set the impact of price increases, especially to 'low-use' customers.

While sales will continue to be grown by conventional marketing, this will be a steady and incremental improvement. The success of the Salisbury Water Business Unit has been built on a history of working closely with industry/community partners to provide 'tailored' outcomes. This process continues and remains the best path for expanding the customer base and to improve our financial position.

Pricing needs to be managed carefully. Our network infrastructure has expanded over recent years and is reaching a stage of maturity. With this in mind, our objective is to achieve significant sales volume increases. Higher sales volumes will create the potential to maintain extended periods of fixed pricing in the future. However, we need to be mindful that future competition may also come from the use of bore water, rainwater tanks, dams and technological innovation (recycling) to reduce the need for water. Capacity to pay is also a factor.

## 4.5.9 Cost Structure

*The Cost Structure reflects the following*

## Variable Costs:

- Maintenance (pumps, pipe flushing, desilting etc)
- Repairs (pumps, pipe bursts, blocked meters etc)
- Electricity (pumping power demand)
- Water Quality and Environmental Monitoring
- Licensing

## Fixed Costs:

- Wages
- Financing Costs (loan borrowings to fund asset construction)
- Depreciation (impacts of increasing Assets due to the various projects eg WNA/SSH/WFF)
- Rental Charges (to Parafield Airport Limited)

**5. CONCLUSION / PROPOSAL**

- 5.1 The Salisbury Water Business Unit will continue its steady growth approach in 2017/18 by supplying the local community and businesses with over 2,491 million litres of recycled stormwater and will continue to pursue contractual negotiations with a number of high volume consumers in order to secure the long term viability of the business.
- 5.2 The business continues to move forward with improved performance.
- 5.3 Council is asked to endorse the proposed Salisbury Water 2017/18 operating budget, new budget initiatives and fees and charges, for further consideration in the 2017/18 Council budget.

**CO-ORDINATION**

Officer: Executive Group  
Date: 14/03/2016

## Salisbury Water Retail - Marketing / Sales

Fee Type	17/18Fee (Incl GST)	16/17Fee (Incl GST)	Variance	% Variance	17/18 Volume	16/17 Volume	Variance	17/18 Income (Excl GST)	16/17 Income (Excl GST)	Fee Income Variance
<b>Non-Residential Properties</b>										
Bulk Water Supply ( negotiated per kL)	\$1.71	\$1.65	\$0.06	4%	463,302	639,768	-176,466	\$792,200.00	\$1,055,600.00	-\$263,400.00
Community Based Not for Profit Organisation (upon application)(per kL)s	\$1.71	\$1.65	\$0.06	4%	47,250	47,250	0	\$80,800.00	\$78,000.00	\$2,800.00
Daytime Supply to Tank Only	\$2.41	\$2.32	\$0.09	4%	36,225	36,225	0	\$87,300.00	\$84,000.00	\$3,300.00
Substantive Retail Water Supply - allotment sizes over 300m2 (per kL)	\$2.65	\$2.55	\$0.10	4%	551,086	528,693	22,393	\$1,460,400.00	\$1,348,200.00	\$112,200.00
Supply Charge (to cover meter reading, cross connection audits etc) per annum	\$50.00	\$50.00	\$0.00	0%	600	600	0	\$27,300.00	\$27,300.00	\$0.00
Water Banking & Licenced Transfer of Credits (per kL)	\$1.90	\$1.90	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
<b>Other Fees</b>										
Connection Fee - 20mm/50 mm meter (fee to be quoted per connection)	\$0.00	\$0.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
Non Payment - Disconnection	\$177.00	\$177.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
Non Payment - Flow Restriction	\$184.00	\$184.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
<b>Residential Properties</b>										
Fixed Annual Charge - allotment size up to 300m2 (External Supply)	\$107.00	\$103.00	\$4.00	4%	40	40	0	\$4,300.00	\$4,100.00	\$200.00
Fixed Annual Charge - allotment size up to 300m2 (Internal/External supply)	\$128.00	\$123.00	\$5.00	4%	0	0	0	\$0.00	\$0.00	\$0.00
Supply Charge (to cover meter reading, cross connection audits etc) per annum	\$50.00	\$50.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00





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<b>ITEM</b>	6.1.2
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Building Rules Certification Unit Budget 2017/2018 Report
<b>AUTHOR</b>	Chris Zafiropoulos, Manager Development Services, City Development
<b>CITY PLAN LINKS</b>	4.4 Embed long term thinking, planning and innovation across the organisation.

**SUMMARY** The Development Services Division, through the Building Rules Certification Unit, delivers building approval services through its statutory role as the Development Authority under the Development Act for development within the City of Salisbury, and provides a fee-for-service for building rules certification to clients undertaking development outside the City of Salisbury.

An increase in applications outside the city boundaries is expected to result in an increase in total projected income for the Building Rules Certification Unit for 2016/17.

The 2017/18 Certification Unit Business Plan projects a small increase in total applications lodged, with a corresponding increase in income. A reapportionment of costs has been made to the Certification Unit during this period to better capture Wages and Salaries that has changed the net position on the financial statement. The reapportionment is within the overall Development Services Division budget and therefore the overall net effect on the Division is neutral.

## **RECOMMENDATION**

1. The Building Rules Certification Unit Budget be endorsed for consideration in the 2017/18 Council Budget.

## **ATTACHMENTS**

This document should be read in conjunction with the following attachments:

1. Development Services Fees and Charges 2017/18

## **1. BACKGROUND**

- 1.1 The Building Rules Certification Unit was established to provide Building Rules Consent for development applications within the City of Salisbury, as well as outside the boundaries of the City as a Private Certifier under the Development Act. This service is provided by the Certification Unit to clients that include builders, Roxby Downs Council, and support services on an ad-hoc basis for other Councils.

- 1.2 Council has a statutory requirement to provide an internal service to the Salisbury Community. The statutory component of our service does not achieve full cost recovery, reflecting that Council has roles in compliance, customer service and advice etc. that do not generate income. It is also a recognition that there is a community benefit from the statutory service and therefore full cost recovery from applicants is not achieved.
- 1.3 The external service to clients provides Council an additional income stream on a fee for service basis, and has the added benefit of building a skill capacity within the administration to serve the Salisbury community through the statutory services we provide.

## 2. CONSULTATION / COMMUNICATION

### 2.1 Internal

- 2.1.1 Consultation with representatives of the Financial Services Division was undertaken in the formulation of the Draft Budget.

### 2.2 External

- 2.2.1 N/A

## 3. REPORT

### 2016/2017 Review

The following table outlines financial results for the first seven months of the current financial year, indicating a significant improvement in net result thus far compared to budget.

### Financial Results for the 7 months to 31<sup>st</sup> January 2017

Details	YTD Actual	YTD Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Building Fees	381,197	286,863	94,334	32.88%
Roxby Downs	5,818	5,831	(13)	-0.22%
<b>Total Revenue</b>	<b>387,015</b>	<b>292,694</b>	<b>94,321</b>	<b>32.23%</b>
<b>Expenditure</b>				
Wages & Salaries	121,913	120,636	(1,277)	-1.06%
Contractual Services	15,239	25,081	9,842	39.24%
Other Expenses	19,802	26,428	6,626	25.07%
<b>Total Expenditure</b>	<b>156,954</b>	<b>172,145</b>	<b>15,191</b>	<b>8.82%</b>
<b>Net Position</b>	<b>230,061</b>	<b>120,549</b>	<b>109,512</b>	<b>90.84%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

Income from the Building Rules Certification Unit for the current year is trending above Business Plan projections, and will be captured through budget reviews.

### Forecast Financial Results for the year ended 30<sup>th</sup> June 2017

Details	Revised Budget	Original Budget	Forecast EOY	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>					
Building Fees	534,400	474,400	534,400	60,000	12.65%
Roxby Downs	10,000	10,000	10,000	0	0.00%
<b>Total Revenue</b>	<b>544,400</b>	<b>484,400</b>	<b>544,400</b>	<b>60,000</b>	<b>12.39%</b>
<b>Expenditure</b>					
Wages & Salaries	208,500	208,500	208,500	0	0.00%
Contractual Services	43,000	43,000	43,000	0	0.00%
Other Expenses	45,660	45,660	45,660	0	0.00%
<b>Total Expenditure</b>	<b>297,160</b>	<b>297,160</b>	<b>297,160</b>	<b>0</b>	<b>0.00%</b>
<b>Net Position</b>	<b>247,240</b>	<b>187,240</b>	<b>247,240</b>	<b>60,000</b>	<b>32.04%</b>

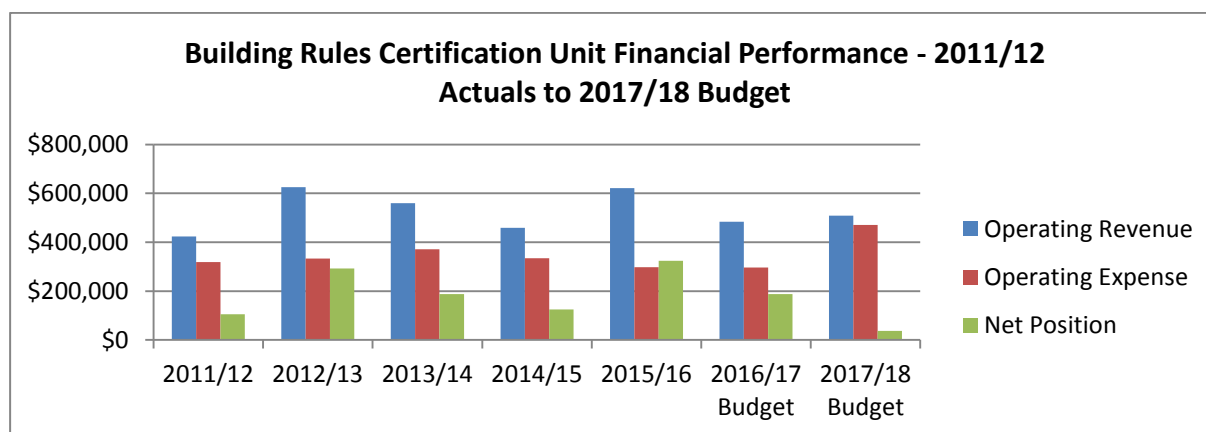
Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

It is anticipated that expenditure will closely align with Budget projections.

### 2017/18 Draft Budget (Excluding impact of New Initiatives)

Details	2016/17 Budget	2017/18 Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Building Fees	474,400	498,300	23,900	5.04%
Roxby Downs	10,000	10,000	0	0.00%
<b>Total Revenue</b>	<b>484,400</b>	<b>508,300</b>	<b>23,900</b>	<b>4.93%</b>
<b>Expenditure</b>				
Wages & Salaries	208,500	377,400	(168,900)	-81.01%
Contractual Services	43,000	43,000	0	0.00%
Other Expenses	45,660	50,900	(5,240)	-11.48%
<b>Total Expenditure</b>	<b>297,160</b>	<b>471,300</b>	<b>(174,140)</b>	<b>-58.60%</b>
<b>Net Position</b>	<b>187,240</b>	<b>37,000</b>	<b>(150,240)</b>	<b>-80.24%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.



### Commentary on 2017/18 Budget

- 3.1 The 2017/18 Business Plan projects a very slight increase in applications lodged, with a corresponding increase in income.
- 3.2 The Wages and Salaries expenditure has been reapportioned across the *Building Control* function, with \$169k reallocated from *Management and Administration* to the *Building Rules Certification* for both within the City and External Client Services. The re-apportionment has been undertaken to ensure we are tracking true costs relating to the Private Certification Service, which operates in a competitive environment. The reapportionment does not increase the total Wages and Salaries expenditure for the Division.
- 3.3 The building rules certification for External Clients Services will continue to return a net surplus to Council. This return offsets the cost of the statutory service that Council is required to provide within the City to the Salisbury Community (which otherwise incurs a net deficit budget), providing a projected net surplus for the combined service of \$37,000 for 2017/18.
- 3.4 It is anticipated that services provided to Roxby Downs Council will be maintained at current budget levels.
- 3.5 Statutory application fees are to be set by the State Government as part of the State Budget, and are expected to be known in June. The Unit Private Certification fees will be set at that time, having regard to budget projections for 2017/18 and industry trends.

### Fees & Charges

#### Who Should Pay?

- 3.6 All applicants are required by regulation to pay fees, to a maximum as established by the State Government, to obtain the required Building Rules Consent.

#### Competitive Forces/Market Forces

- 3.7 As fees are set by the State Government, all Councils are limited in charging no more than the gazetted fees for statutory building rules certification services within the Council area.

- 3.8 In relation to fees for private certification services, the statutory fees do not determine the private certification fees but are a factor for consideration in setting those fees.

#### **Cost Structure**

- 3.9 Fees are established by the State Government and Gazetted in late June annually. These are fixed for the 2017/18 financial year.
- 3.10 The Building Rule Certification Unit provides Private Certification services, by means of issuing Building Rules Consents under the Development Act 1993, for development applications for projects outside the boundaries of the City of Salisbury. Subject to the nature, size and complexity of the application fees vary and will be set having regard to market rates, our cost base, and the State Government's statutory fees when they are set in June 2017.
- 3.11 The reapportionment of Wages and Salaries has been made following a review of the building services provided by the Development Services Division. The adjustment reflects the re-allocation of resources to align with the priorities for the Division, following the program review.

#### **4. CONCLUSION / PROPOSAL**

- 4.1 A small increase in applications outside the City boundaries has enabled an increase in income for 2016/17.
- 4.2 The reapportioning of costs in the financial statements between the *Administration and Management* and *Building Certification Unit* functions has been made to more accurately reflect cost structures for the 2017/18 financial period. The reapportionment is within the total Development Services Division budget and therefore the overall net effect on the Division is neutral.
- 4.3 The 2017/18 Business Plan projects a small increase in applications lodged, with a corresponding increase in income with an overall net position of \$37k surplus for the combined service, which is consistent with the medium term trend.

#### **CO-ORDINATION**

Officer: EXECUTIVE GROUP  
Date: 14.03.17



Building Rules Certification Unit

Fee Type	17/18Fee (Incl GST)	16/17Fee (Incl GST)	Variance	% Variance	17/18 Volume	16/17 Volume	Variance	17/18 Income (Excl GST)	16/17 Income (Excl GST)	Fee Income Variance
Building Rules Assessment Fees										
Average Lodgements at \$64 per lodgement	\$70.40	\$70.40	\$0.00	0%	2250	2257	-7	\$144,000.00	\$144,400.00	-\$400.00
Building Rules Consents - Private Certification	\$10,000.00	\$10,000.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
Certificate of Occupancy	\$43.75	\$43.75	\$0.00	0%	5	0	5	\$200.00	\$0.00	\$200.00
Class 1,2 & 4 - per square metre	\$2.95	\$2.95	\$0.00	0%	95	0	95	\$300.00	\$0.00	\$300.00
Class 10 - per square metre	\$0.88	\$0.88	\$0.00	0%	880	0	880	\$700.00	\$0.00	\$700.00
Class 3,5 & 6 - per square metre	\$3.92	\$3.92	\$0.00	0%	2	0	2	\$0.00	\$0.00	\$0.00
Class 7 & 8 - per square metre	\$2.60	\$2.60	\$0.00	0%	20	0	20	\$0.00	\$0.00	\$0.00
Class 9a & 9c - per square metre	\$4.45	\$4.45	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
Class 9b - per square metre	\$3.91	\$3.91	\$0.00	0%	15	0	15	\$100.00	\$0.00	\$100.00
Demolition	\$66.50	\$66.50	\$0.00	0%	50	0	50	\$3,000.00	\$0.00	\$3,000.00





<b>ITEM</b>	6.1.3
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Waste Transfer Station Budget 2017/2018 Report
<b>AUTHOR</b>	Sam Kenny, Deputy Manager Civil & Waste, City Infrastructure
<b>CITY PLAN LINKS</b>	1.3 Have a thriving business sector that supports community wellbeing, is globally oriented and creates job opportunities.
<b>SUMMARY</b>	<p>The Transfer Station continues to provide a facility to the community and a surplus to Council. Patronage of the site is approximately 40,000 paying customers per annum.</p> <p>The 2016/17 surplus is forecast to be \$63k, compared to an original budget surplus of \$91k. Whilst income exceeded budget forecast, the reduction in surplus is largely related to temporary higher wage costs resulting from retaining flexible staffing options whilst the program review is underway and the need to maintain skilled staffing at the site over the 7 day operations.</p> <p>Capital works to develop the site to a Resource Recovery Park have been fully completed.</p> <p>Projections for the 2017/18 budget note a surplus of \$163k compared to the EOY forecast of \$63k in 2016/17. The increased surplus will result from an increase in customer volumes, reduced staff costs and higher international scrap metal pricing than realised in 2016/17.</p> <p>Fees have been increased by an average of 3.0%.</p> <p>The program review of the Waste Transfer Station commenced in November 2015 and is expected to be completed by early 2018. The review will provide future direction for the site, resident and fee structures and management arrangements.</p>
<b>RECOMMENDATION</b>	<ol style="list-style-type: none"> <li>1. The Waste Transfer Station 2017/18 Budget including the New Initiative Bid and Fees and Charges be endorsed for consideration in the 2017/18 Council Budget.</li> </ol>
<b>ATTACHMENTS</b>	<p>This document should be read in conjunction with the following attachments:</p> <ol style="list-style-type: none"> <li>1. Waste Transfer Station Fees and Charges 2017/18</li> </ol>

## 1. BACKGROUND

- 1.1 As part of the budget deliberations of Council, each business unit reports its results for the current year, and the proposed budget for the coming year including proposed fees and charges.

## 2. CONSULTATION / COMMUNICATION

### 2.1 Internal

- 2.1.1 General Manager City Infrastructure  
2.1.2 Finance staff in the Business Excellence Department

### 2.2 External

- 2.2.1 Nil

## 3. REPORT

### 3.1 2016/2017 Review

#### Financial Results for the 7 months to 31<sup>st</sup> January 2017

Details	YTD Actual	YTD Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Garbage Fees	848,581	713,100	135,481	19.00%
Internal Income	306,777	270,117	36,660	13.57%
Sundry Income	56,399	19,900	36,499	183.41%
<b>Total Revenue</b>	<b>1,211,757</b>	<b>1,003,117</b>	<b>208,640</b>	<b>20.80%</b>
<b>Expenditure</b>				
Wages & Salaries	368,847	269,660	(99,187)	-36.78%
Contractual Services	500,653	472,051	(28,602)	-6.06%
Materials	9,561	10,595	1,034	9.76%
Depreciation	15,075	15,075	0	0.00%
Other Expenses	88,621	74,458	(14,163)	-19.02%
<b>Total Expenditure</b>	<b>982,757</b>	<b>841,839</b>	<b>(140,918)</b>	<b>-16.74%</b>
<b>Net Position</b>	<b>229,000</b>	<b>161,278</b>	<b>67,722</b>	<b>41.99%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

**Forecast Financial Results for the year ended 30<sup>th</sup> June 2017**

Details	Revised Budget	Original Budget	Forecast EOY	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>					
Garbage Fees	1,181,900	1,181,900	1,301,000	119,100	10.08%
Internal Income	425,500	425,500	508,373	82,873	19.48%
Sundry Income	67,500	33,600	67,500	33,900	100.89%
<b>Total Revenue</b>	<b>1,674,900</b>	<b>1,641,000</b>	<b>1,876,873</b>	<b>235,873</b>	<b>14.37%</b>
<b>Expenditure</b>					
Wages & Salaries	466,025	466,025	623,309	(157,284)	-33.75%
Contractual Services	921,200	921,200	1,001,306	(80,106)	-8.70%
Materials	18,240	18,240	18,240	0	0.00%
Depreciation	20,100	20,100	20,100	0	0.00%
Other Expenses	124,100	124,100	151,000	(26,900)	-21.68%
<b>Total Expenditure</b>	<b>1,549,665</b>	<b>1,549,665</b>	<b>1,813,955</b>	<b>(264,290)</b>	<b>-17.05%</b>
<b>Net Position</b>	<b>125,235</b>	<b>91,335</b>	<b>62,918</b>	<b>(28,417)</b>	<b>-31.11%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

- 3.1.1 The EOY forecast of \$63k for this financial year is \$28k below the original budget of \$91k.
- 3.1.2 In considering the forecast outcome the following matters need to be taken into account;
- i) Total revenue is forecast to be \$236k greater than budgeted. This is largely due to additional gate fees and higher than expected internal income.
  - ii) Increased customer volume resulted in an additional \$119k in gate fees. Also contributing was an increase in internal income associated with ongoing illegally dumped rubbish collection above predictions and increased green waste disposal arising from storm cleanup activity (\$83k).
  - iii) Scrap metal income forecast was increased by \$34k following an unexpected recovery in international scrap metal price. Additional sundry income was declared in February 2017 as part of the second quarter budget review.
  - iv) The increased income is offset through higher than expenditure of \$264k resulting largely from higher than anticipated staffing costs due to maintaining flexibility for the program review (explained in further detail later below) and increased waste bin cartage resulting in increased contractor costs. Higher salaries and wage costs were also incurred during the peak periods to handle the higher customers volumes.

- v) Over the current financial year, staffing flexibility was maintained whilst the Program Review was underway. The use of short term staff contracts and agency staff to backfill vacancies in addition to the use of existing resources within Field Services staff was used to cater for additional patronage and processing of materials. This has resulted in a \$160k overspend in the salary and wages provision. This is offset against increased revenue and the salary and wages savings within the Field Services budget. The engagement of 2 short term contract staff will continue to improve this position.
- vi) Contractual services expenditure has increased by approximately \$80,000 due to an increase in bin collections despite negotiations with the service provider resulting in a decrease in cartage rates. This increase is expected in line with the increase in customer volumes.

### 3.2 2017/18 Business Plan

- 3.2.1 To ensure the ongoing safe operation of the Waste Transfer Station there is a need for existing provision of yard staff resources and machinery to be maintained. A new mini sweeper has been purchased to assist with dust control and hardstand cleaning resulting in improved amenity for staff and customers.
- 3.2.2 Landscaping and traffic flow improvement works have been completed. Realignment of the entrance driveway resulted in a new cashier hut not being required. A new canopy has been installed over the cashier hut to improve customer amenity and completing the works required to develop the site into a Resource Recovery Park (RRP).
- 3.2.3 Market research of recyclable material outlets continues to be ongoing to ensure best value for money is achieved in the disposal of recyclables.
- 3.2.4 A number of service contracts including general and green waste disposal and e-waste recycling take advantage of economies of scale arising from Council's close relationship with NAWMA. Synergies between the NAWMA facility and the Salisbury RRP continue to be sought to ensure materials are handled in an efficient manner.
- 3.2.5 The Waste Transfer Station Program review is underway and recommendations for options available to Council concerning future ownership, management and usage of the site have been put to Council. Further investigations are ongoing and remain confidential items of Council.
- 3.2.6 At the Council meeting of the 29<sup>th</sup> April 2013 (Item 6.4.4) Council requested that 'subject to the endorsement of the creation of the Program Review Sub Committee, the Committee consider the cost structure and fee structure for residents/commercial customers accessing the Transfer Station. An informal briefing was provided to Council on 7 June 2016 regarding this request however further investigation is on hold pending the outcome of the Program Review.

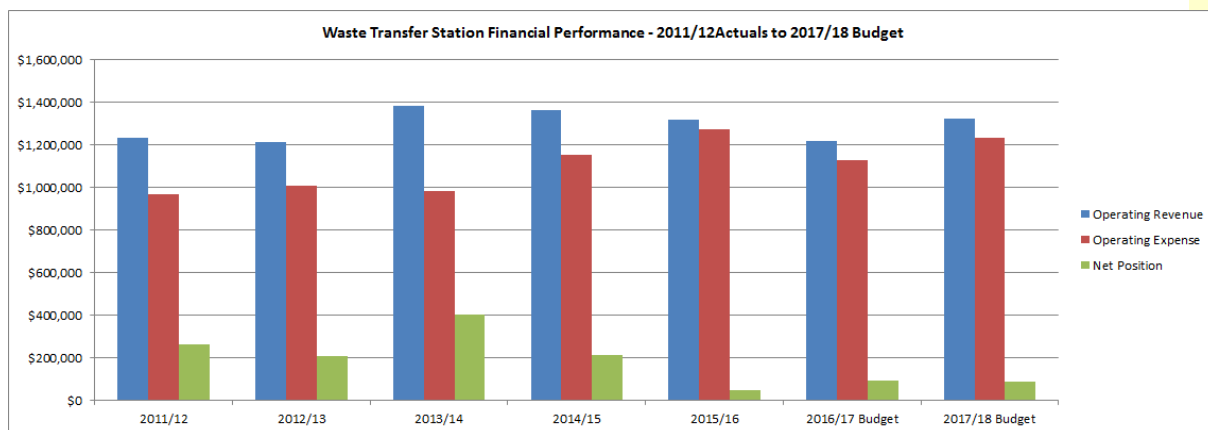
## 3.3 Financial Analysis

**2017/18 Draft Budget (Excluding impact of New Initiatives)**

Details	2016/17 Budget	2017/18 Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Garbage Fees	1,181,900	1,323,000	141,100	11.94%
Internal Income	425,500	471,800	46,300	10.88%
Other Revenue	33,600	69,700	36,100	107.44%
<b>Total Revenue</b>	<b>1,641,000</b>	<b>1,864,500</b>	<b>223,500</b>	<b>13.62%</b>
<b>Expenditure</b>				
Wages & Salaries	466,025	475,125	(9,100)	-1.95%
Contractual Services	921,200	1,071,600	(150,400)	-16.33%
Materials	18,240	17,000	1,240	6.80%
Depreciation	20,100	20,100	(0)	0.00%
Other Expenses	124,100	117,110	6,990	5.63%
<b>Total Expenditure</b>	<b>1,549,665</b>	<b>1,700,935</b>	<b>(151,270)</b>	<b>-9.76%</b>
<b>Net Position</b>	<b>91,335</b>	<b>163,565</b>	<b>72,230</b>	<b>79.08%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

\*2016/17 Budget is the Original Budget



## 3.4 Commentary on 2017/18 Budget

- 3.4.1 Fees have been increased by 3.0% (CPI) and are detailed in the table below.
- 3.4.2 Forecast revenue is higher in real terms than the original 2016/17 budget.

- 3.4.3 Scrap metal prices are expected to decrease in early 2017/18 by approximately 30% from current rates. Actual income from scrap metal will continue to be monitored as there remains ongoing uncertainty regarding the future returns from this area.
- 3.4.4 Internal income has increase due to a minor increase in the forecast uptake of the hard waste voucher service.
- 3.4.5 During the second half of 2016/17, the transfer station was staffed by 3 permanent staff, 2 fixed term contract staff and 1 contract labour staff who work across a 7 day roster. Allowance has been made to convert the contract labour position to a fixed term contract position which will reduce the staffing cost in 2017/18, particularly on weekends.
- 3.4.6 Contractual services costs are expected to increase in line with increased waste volumes.
- 3.4.7 Other expenditure has decreased in 2016/17 as a result of reduced vehicle recovery costs due depreciation of plant.
- 3.4.8 The Waste Transfer Station shows a net surplus of \$153k next financial year in comparison to the \$63k predicted in the current financial year.
- 3.5 Fees and Charges – Refer to attachment for details of proposed fees.
  - 3.5.1 Fees at the Waste Transfer Station are structured to provide incentive for patrons to separate recyclable and general waste streams. Considerations of the cost structure and fee structure for resident/Salisbury commercial customers versus non-resident/non-Salisbury commercial customers accessing the Transfer Station are part of the Program Review.
  - 3.5.2 As the Waste Transfer Station is a business unit it is appropriate that its operation is not subsidised by the general rate.
- 3.6 Competitive Forces/Market Forces
  - 3.6.1 The transfer station remains competitive in the northern region with most of its fees comparable to neighboring transfer stations. It is currently not known what fee increases are proposed at these sites for the 2017/18 financial year. In considering the fee base of other sites it is noted that direct comparisons are often not possible due to the variety of load type definitions.
  - 3.6.2 The completion of the Resource Recovery Park will complement demand for improved recycling facilities and should assist in providing a competitive advantage.
- 3.7 New initiative bids
  - 3.7.1 Nil

#### **4. CONCLUSION / PROPOSAL**

- 4.1 The Waste Transfer Station operations have been reviewed and modified to ensure safe procedures are in place. Waste continues to be deposited on the tarmac and placed mechanically into waste bins. The requirement for additional staffing at the site compared to historical staffing is ongoing.
- 4.2 Taking into account the additional operating costs, the anticipated surplus of \$62,918 in 2016/17 is considered to be a favourable result. It is forecast that there will be a significant improvement to surplus of \$163k for 2017/18.
- 4.3 Works to develop the site into a Resource Recovery Park have now been completed.
- 4.4 The program review of Waste Services including the Waste Transfer Station commenced in November 2015 and is ongoing but remains a confidential item of Council. The outcome of ongoing discussions will give direction to the continued use of the site, fee structures and management arrangements.
- 4.5 Fees have been adjusted by an average of 3.0% in the ensuing financial year.

#### **CO-ORDINATION**

Officer: Executive Group  
Date: 16/03/2017





## Transfer Station Operations

Fee Type	17/18Fee (Incl GST)	16/17Fee (Incl GST)	Variance	% Variance	17/18 Volume	16/17 Volume	Variance	17/18 Income (Excl GST)	16/17 Income (Excl GST)	Fee Income Variance
<b>Sorted Loads</b>										
Green Waste Disposal - All other vehicles, over 2 metres	\$66.00	\$64.00	\$2.00	3%	0	0	0	\$0.00	\$0.00	\$0.00
Green Waste Disposal - All other vehicles, up to 1 metre	\$37.00	\$36.00	\$1.00	3%	24	18	6	\$800.00	\$600.00	\$200.00
Green Waste Disposal - All other vehicles, up to 2 metres	\$57.00	\$55.00	\$2.00	4%	1	12	-11	\$100.00	\$600.00	-\$500.00
Green Waste Disposal - Trailer over 7' x 4', up to 10' x 6', over 2 metres	\$46.00	\$45.00	\$1.00	2%	1	2	-1	\$0.00	\$100.00	-\$100.00
Green Waste Disposal - Trailer over 7' x 4', up to 10' x 6', up to 2 metres	\$29.00	\$28.00	\$1.00	4%	1030	830	200	\$27,200.00	\$21,100.00	\$6,100.00
Green Waste Disposal - Trailer up to 7' x 4'	\$22.00	\$21.00	\$1.00	5%	4052	3594	458	\$81,000.00	\$68,600.00	\$12,400.00
Mulch - Sale of mulch per cubic metre (7' x 4' trailer)	\$29.00	\$28.00	\$1.00	4%	262	332	-70	\$6,900.00	\$8,500.00	-\$1,600.00
Sorted Vans - Commercial	\$41.00	\$40.00	\$1.00	2%	10	2	8	\$400.00	\$100.00	\$300.00
Sorted Vans - Passenger	\$32.00	\$31.00	\$1.00	3%	14	30	-16	\$400.00	\$800.00	-\$400.00
Trailer - Sorted - 8' x 5' level	\$39.00	\$38.00	\$1.00	3%	1206	940	266	\$42,800.00	\$32,500.00	\$10,300.00
Trailer - Sorted - 8' x 5' over 2m high	\$59.00	\$57.00	\$2.00	4%	14	6	8	\$800.00	\$300.00	\$500.00
Trailer - Sorted - 8' x 5' up to 1m high	\$45.00	\$44.00	\$1.00	2%	2344	2040	304	\$95,900.00	\$81,600.00	\$14,300.00
Trailer - Sorted - 8' x 5' up to 2m high	\$52.00	\$50.00	\$2.00	4%	600	394	206	\$28,400.00	\$17,900.00	\$10,500.00
Trailers - Sorted - 7' x 4' level	\$32.00	\$31.00	\$1.00	3%	2904	2890	14	\$84,500.00	\$81,400.00	\$3,100.00
Trailers - Sorted - 7' x 4' over 2 metres high	\$49.00	\$48.00	\$1.00	2%	4	4	0	\$200.00	\$200.00	\$0.00
Trailers - Sorted - 7' x 4' up to 1 metre high	\$37.00	\$36.00	\$1.00	3%	2442	2034	408	\$82,100.00	\$66,600.00	\$15,500.00
Trailers - Sorted - 7' x 4' up to 2 metres high	\$41.00	\$40.00	\$1.00	2%	188	146	42	\$7,000.00	\$5,300.00	\$1,700.00
Trailers - Sorted - over 10' x 6' Tray Trucks over 2 metres	\$74.00	\$72.00	\$2.00	3%	2	2	0	\$100.00	\$100.00	\$0.00
Trailers - Sorted - over 10' x 6' Tray Trucks to 1metre	\$60.00	\$58.00	\$2.00	3%	110	86	24	\$6,000.00	\$4,500.00	\$1,500.00
Trailers - Sorted - over 10' x 6' Tray Trucks to 2 metres	\$71.00	\$69.00	\$2.00	3%	68	54	14	\$4,400.00	\$3,400.00	\$1,000.00
Trailers - Sorted - up to 10' x 6' level	\$41.00	\$40.00	\$1.00	2%	116	66	50	\$4,300.00	\$2,400.00	\$1,900.00
Trailers - Sorted - up to 10' x 6' over 2 metres	\$61.00	\$59.00	\$2.00	3%	2	4	-2	\$100.00	\$200.00	-\$100.00
Trailers - Sorted - up to 10' x 6' to 1 metre	\$50.00	\$49.00	\$1.00	2%	122	66	56	\$5,500.00	\$2,900.00	\$2,600.00
Trailers - Sorted - up to 10' x 6' to 2 metres	\$59.00	\$57.00	\$2.00	4%	92	32	60	\$4,900.00	\$1,700.00	\$3,200.00
Vehicle - Sorted - Car Boot/Single Item (TV, fridge, stereo etc)	\$15.00	\$14.00	\$1.00	7%	1026	1008	18	\$14,000.00	\$12,800.00	\$1,200.00
Vehicle - Sorted - Drop down ute - Level Only	\$41.00	\$40.00	\$1.00	2%	248	338	-90	\$9,200.00	\$12,300.00	-\$3,100.00
Vehicle - Sorted - Panel Vans - solid side utes	\$32.00	\$31.00	\$1.00	3%	420	308	112	\$12,200.00	\$8,700.00	\$3,500.00
Vehicle - Sorted - Station Wagon all sizes	\$31.00	\$30.00	\$1.00	3%	70	34	36	\$2,000.00	\$900.00	\$1,100.00
<b>Unsorted Loads</b>										
Miscellaneous Items - Gas Cylinder	\$10.00	\$10.00	\$0.00	0%	92	82	10	\$800.00	\$700.00	\$100.00
Miscellaneous Items : Car/motorcycle, tyres off rim (per tyre)	\$7.00	\$6.00	\$1.00	17%	342	268	74	\$2,200.00	\$1,500.00	\$700.00
Miscellaneous Items : Car/motorcycle, tyres on rim (per tyre)	\$10.00	\$9.00	\$1.00	11%	328	218	110	\$3,000.00	\$1,800.00	\$1,200.00
Miscellaneous Items : Ensemble base (if not part of general load)	\$13.00	\$12.00	\$1.00	8%	296	258	38	\$3,500.00	\$2,800.00	\$700.00
Miscellaneous Items : Fluoro tubes	\$1.00	\$1.00	\$0.00	0%	438	954	-516	\$400.00	\$900.00	-\$500.00
Miscellaneous Items : Mattresses (all sizes)	\$23.00	\$22.00	\$1.00	5%	1154	1076	78	\$24,100.00	\$21,500.00	\$2,600.00
Miscellaneous Items : Other than listed	\$0.00	\$0.00	\$0.00	0%	1100	0	1,100	\$0.00	\$0.00	\$0.00
Miscellaneous Items : Skips (2 cubic metres) - per skip	\$100.00	\$97.00	\$3.00	3%	0	0	0	\$0.00	\$0.00	\$0.00
Miscellaneous Items : Skips (3 cubic metres) - per skip	\$126.00	\$122.00	\$4.00	3%	0	0	0	\$0.00	\$0.00	\$0.00
Miscellaneous Items ; Truck, tyre off rim (per tyre)	\$16.00	\$15.00	\$1.00	7%	16	10	6	\$200.00	\$100.00	\$100.00
Miscellaneous Items ; Truck, tyre on rim (per tyre)	\$27.00	\$26.00	\$1.00	4%	2	0	2	\$0.00	\$0.00	\$0.00
Trailer - Unsorted - 7' x 4' level	\$57.00	\$55.00	\$2.00	4%	2388	2340	48	\$123,700.00	\$117,000.00	\$6,700.00
Trailer - Unsorted - 7' x 4' over 2 metres high	\$111.00	\$108.00	\$3.00	3%	2	2	0	\$200.00	\$200.00	\$0.00
Trailer - Unsorted - 7' x 4' up to 1 metre high	\$65.00	\$63.00	\$2.00	3%	4148	3776	372	\$245,100.00	\$216,300.00	\$28,800.00
Trailer - Unsorted - 7' x 4' up to 2 metres high	\$96.00	\$93.00	\$3.00	3%	158	184	-26	\$13,800.00	\$15,600.00	-\$1,800.00
Trailer - Unsorted - 8' x 5' level	\$75.00	\$73.00	\$2.00	3%	710	596	114	\$48,400.00	\$39,600.00	\$8,800.00
Trailer - Unsorted - 8' x 5' over 2m high	\$148.00	\$144.00	\$4.00	3%	1	2	-1	\$100.00	\$300.00	-\$200.00
Trailer - Unsorted - 8' x 5' up to 1m high	\$88.00	\$85.00	\$3.00	4%	1206	1404	-198	\$96,500.00	\$108,500.00	-\$12,000.00
Trailer - Unsorted - 8' x 5' up to 2m high	\$128.00	\$124.00	\$4.00	3%	142	130	12	\$16,500.00	\$14,700.00	\$1,800.00
Trailer - Unsorted - Light load to 10' x 6'	\$74.00	\$72.00	\$2.00	3%	4	18	-14	\$300.00	\$1,200.00	-\$900.00
Trailer - Unsorted - Light load to 7' x 4'	\$47.00	\$46.00	\$1.00	2%	1216	1126	90	\$52,000.00	\$47,100.00	\$4,900.00
Trailer - Unsorted - over 10' x 6' Tray Trucks over 2 metres	\$200.00	\$197.00	\$3.00	2%	1	2	-1	\$200.00	\$400.00	-\$200.00
Trailer - Unsorted - over 10' x 6' Tray Trucks to 1metre	\$134.00	\$130.00	\$4.00	3%	126	86	40	\$15,300.00	\$10,200.00	\$5,100.00
Trailer - Unsorted - over 10' x 6' Tray Trucks to 2 metres	\$157.00	\$152.00	\$5.00	3%	24	22	2	\$3,400.00	\$3,000.00	\$400.00
Trailer - Unsorted - up to 10' x 6' level	\$80.00	\$78.00	\$2.00	3%	42	78	-36	\$3,100.00	\$5,500.00	-\$2,400.00
Trailer - Unsorted - up to 10' x 6' over 2 metres	\$170.00	\$165.00	\$5.00	3%	0	0	0	\$0.00	\$0.00	\$0.00
Trailer - Unsorted - up to 10' x 6' to 1 metre	\$102.00	\$99.00	\$3.00	3%	144	150	-6	\$13,400.00	\$13,500.00	-\$100.00



Trailer - Unsorted - up to 10' x 6' to 2 metres	\$141.00	\$137.00	\$4.00	3%	64	46	18	\$8,200.00	\$5,700.00	\$2,500.00
Unsorted Vans - Commercial	\$71.00	\$69.00	\$2.00	3%	114	90	24	\$7,400.00	\$5,600.00	\$1,800.00
Unsorted Vans - Passenger	\$57.00	\$55.00	\$2.00	4%	84	70	14	\$4,400.00	\$3,500.00	\$900.00
Vehicle - Unsorted - Car Boot/Single Item (TV, fridge, stereo etc)	\$30.00	\$29.00	\$1.00	3%	1644	1544	100	\$44,800.00	\$40,700.00	\$4,100.00
Vehicle - Unsorted - Drop down ute - Level Only	\$71.00	\$69.00	\$2.00	3%	344	360	-16	\$22,200.00	\$22,600.00	-\$400.00
Vehicle - Unsorted - Panel Vans - solid side utes	\$57.00	\$55.00	\$2.00	4%	456	478	-22	\$23,600.00	\$23,900.00	-\$300.00
Vehicle - Unsorted - Station Wagon all sizes	\$43.00	\$42.00	\$1.00	2%	536	516	20	\$21,000.00	\$19,700.00	\$1,300.00
Wheelie Bins - General Waste	\$21.00	\$20.00	\$1.00	5%	208	92	116	\$4,000.00	\$1,700.00	\$2,300.00



<b>ITEM</b>	6.1.4
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Salisbury Memorial Park Budget 2017/2018 Report
<b>AUTHORS</b>	Karen Pepe, Manager Property and Buildings, City Infrastructure Brian Gillies, Contracts and Project Officer, City Infrastructure
<b>CITY PLAN LINKS</b>	4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	This report provides an overview of the performance of the Salisbury Memorial Park (SMP) against the 2016/17 budget for the seven months to January, 2017 and proposes a new operating budget and fees and charges for 2017/18.
<b>RECOMMENDATION</b>	<ol style="list-style-type: none"> <li>1. The Salisbury Memorial Park 2017/18 Budget and Fees and Charges be endorsed for consideration in the 2017/18 Council Budget.</li> <li>2. The General Manager City Infrastructure be given delegated authority to vary fees up to a maximum of \$300 (+/-) on the approved Salisbury Memorial Park fee schedule for special circumstances.</li> </ol>
<b>ATTACHMENTS</b>	<p>This document should be read in conjunction with the following attachments:</p> <ol style="list-style-type: none"> <li>1. Salisbury Memorial Park 2017/18 Fees and Charges</li> </ol>
<b>1. BACKGROUND</b>	<ol style="list-style-type: none"> <li>1.1 The Salisbury Memorial Park (SMP) provides a range of “pre-need” and “at-need” burial services to the community on a fee for service basis. The year to date results for 2016/17 are provided along with the proposed budget and fees and charges for the coming 2017/18 year</li> </ol>
<b>2. REPORT</b>	
<b>2.1 2016/2017 Review</b>	
2.1.1	SMP actual performance to January 2017 indicates a favourable variance of \$57k against original budget surplus of \$8k. Primarily this position is due to steady monthly sales and the review of the SMP Fees and Charges and the approved changes of fees ensuring that costs of goods and services provided are charged at an appropriate rate.

- 2.1.2 Total licence sales (inclusive of pre-need) in 2015/2016 were 105, the total number of licences sold as at January 2017 were 61 while burials are at 46. The current position suggests a further 48 burials remain to achieve the budgeted amount of 94 for 2016/2017.
- 2.1.3 There are no major expenditure variances. Internal charges have been amortised over the full year. It is expected that expenditure will continue on track as per the budgeted figures.

### Financial Results for the 7 months to 31<sup>st</sup> January 2017

Details	YTD Actual	YTD Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Cemetery Fees	300,890	246,000	54,890	22.31%
Residential Rent	16,245	13,999	2,246	16.04%
<b>Total Revenue</b>	<b>317,135</b>	<b>259,999</b>	<b>57,136</b>	<b>21.98%</b>
<b>Expenditure</b>				
Wages & Salaries	73,334	71,626	(1,708)	-2.38%
Contractual Services	17,349	21,582	4,233	19.61%
Materials	9,359	6,708	(2,651)	-39.52%
Depreciation	12,375	12,375	0	0.00%
Other Expenses	138,941	139,075	134	0.10%
<b>Total Expenditure</b>	<b>251,358</b>	<b>251,366</b>	<b>8</b>	<b>0.00%</b>
<b>Net Position</b>	<b>65,777</b>	<b>8,633</b>	<b>57,144</b>	<b>661.93%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

- 2.1.4 The above table demonstrates that as at January 2017 Salisbury Memorial Park is performing \$57k favourable when compared to original budget estimates. As noted above this is due to a review of the SMP fees and charges and steady monthly sales. At this stage it is anticipated that SMP will exceed original budget expectations by the EOFY and conservative estimates have been calculated in the forecast EOY column in the below table. These forecast results will be further reviewed and an income declaration is expected to be made as part of the Third Quarter Budget Review 2016/17.
- 2.1.5 The long term maintenance of SMP is funded by two sources – The Salisbury Maintenance Reserve which will grow perpetually by nominal interest allocations, secondly whilst SMP is actually operating (producing an income) a Maintenance Provision also exists which has \$10k allocated to it each Financial Year. Surplus income that is generated by SMP goes into Council's General Revenue. The long term maintenance of the Mausoleum is funded by the Perpetual Care Fund.



## Forecast financial results for the end 30<sup>th</sup> June 2017

Details	Revised Budget	Original Budget	Forecast EOY	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>					
Cemetery Fees	453,900	453,900	473,900	20,000	4.41%
Residential Rent	24,000	24,000	24,000	0	0.00%
<b>Total Revenue</b>	<b>477,900</b>	<b>477,900</b>	<b>497,900</b>	<b>20,000</b>	<b>4.18%</b>
<b>Expenditure</b>					
Wages & Salaries	123,800	123,800	123,800	0	0.00%
Contractual Services	52,000	52,000	52,000	0	0.00%
Materials	14,000	14,000	14,000	0	0.00%
Depreciation	16,500	16,500	16,500	0	0.00%
Other Expenses	190,400	190,400	190,400	0	0.00%
<b>Total Expenditure</b>	<b>396,700</b>	<b>396,700</b>	<b>396,700</b>	<b>0</b>	<b>0.00%</b>
<b>Net Position</b>	<b>81,200</b>	<b>81,200</b>	<b>101,200</b>	<b>20,000</b>	<b>24.63%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

## 2.2 Operational Achievements

- 2.2.1 Following the Program Review and expression of interest process it was resolved that the SMP would continue to operate as an internal business unit. This includes monitoring the lease and managing the contractual relationship with the Mausoleum.
- 2.2.2 New cladding, garden renovation work and improved functioning of the Water Feature has provided a much improved appearance and has seen an increase in sales.
- 2.2.3 Rotunda development work, on-hold during the review period is now complete providing a location for people to rest and reflect when visiting the SMP. This location also provides future revenue opportunities which SMP staff are now promoting to the community.



- 2.2.4 Burial and Cremation Act 2014; staff have maintained compliance with the requirements of the new legislation.

- 2.2.5 Cemetery services staff have been recognised by the organisation for providing excellent customer and community service.

The SMP benefited from approximately 1,228 hours of support provided by a dedicated group of volunteers. The volunteers assist with general garden/maintenance activities such as pruning roses, sweeping pine needles, waste paper pick up and removal of dead flowers. Volunteers enjoy flexible arrangements and are present only when Council staff are rostered.

### **2.3 Mausoleum**

- 2.3.1 Management of the Mausoleum Contract involves regular monthly catch up meetings; conducting quarterly Workplace Safety Inspections; monitoring the Perpetual Care Fund (PCF) payments and reporting, these are required within the specified contractual terms.
- 2.3.2 The Mausoleum has provided a special purpose audited financial report for 2015/2016 (which was reconciled to Councils financial records) and will provide one for 206/2017 as per contractual terms.
- 2.3.3 Budgeted sale of crypts in the Mausoleum for 2016/2017 is 40, as at January 2017 total crypts sold are 9. The current position suggests a further 31 crypts remain to achieve budget for 2016 / 2017. Current trends would suggest that budget will not be achieved. Council has met with Mausoleum management to discuss marketing strategies and has offered assistance.
- 2.3.4 In accordance with the Mausoleum Lease, City of Salisbury staff meets with Mausoleum Management quarterly to discuss budget performance and marketing strategies.

### **2.4 Market Environment and Pricing Strategy**

- 2.4.1 SMP operates in a sensitive market and while it does not provide the full and extensive range of services which is provided by some of the larger Cemeteries, it fulfils an important role within the community. Care needs to be taken when considering upgrades or new service development to ensure the needs of the community are reflected.
- 2.4.2 A review of the pricing of services is undertaken with the intention to balance affordability with the need to generate sufficient funds to ensure long term financial sustainability. Pricing strategies include reflecting the cost of provision, going market rates and incentives, e.g. keeping rates lower to promote sales.
- 2.4.3 The option of burial in perpetuity is rather unique to SMP with the industry at large not providing this option but providing lease options for specified periods and where a longer term of lease is required some Cemeteries allow the customer to purchase an additional lease term over the site. Our current specified periods for interment rights are as follows;
- 25 year lease – Cremated remains
  - 50 year lease – Burial sites
  - 50 year lease – Vault section, and
  - 99 year lease – Vault section



- 2.4.4 The longest currently available lease of 99 years in the vault section has not had a sale since 2008. The 50 year vault option from a volume perspective is only taken up by a relatively small group of customers, the lease fee is \$14,600 and the 99 year vault option costs \$24,000 possibly making this option unattractive and beyond the reach of some.
- 2.4.5 The current policy position of Council is one of no re-use. This position results in lessees effectively retaining their site beyond the term of initial lease. Where a lease is nearing the end, staff request additional 'extension' of lease payments (for 5 years at a time) to support the long term sustainability of the Cemetery.
- 2.4.6 Over the next 12 months Cemetery staff will engage a consultant to carry out a Cemetery Master Plan with the view of creating more burial sites at the SMP.
- 2.4.7 Staff have investigated the service offering and fee structure of other cemeteries and have found that the 'in perpetuity' option is not offered by Centennial Park, Enfield, Smithfield, West Terrace, Cheltenham, Dudley Park, Payneham, Willaston, North Brighton and St Jude's Cemeteries. In terms of fee structures, the 'in perpetuity' option essentially transfers ownership of the grave site to the lessee. While this is consistent with Council's no re-use policy, from a financial perspective it limits the capacity to continue to recover fees on a grave site.
- 2.4.8 Where customers wish to secure a longer initial lease period, the option of a 50 year lease for cremated remains or a 99 year lease for lawn section burial is available by making a double payment at the commencement of the lease. Staff will continue to promote the option for five year lease extensions.
- 2.4.9 The proposed approach is consistent with the industry, however, also provides a point of difference with many in the industry who are moving toward shorter (25 year) lease periods.
- 2.4.10 The SMP faces challenges such as managing pricing carefully to ensure pricing does not become a disincentive or barrier for the community while still generating the best long term value from the services provided.
- 2.4.11 The SMP maintains a number of important relationships with funeral industry service providers such as Funeral Directors and the Monumental Masons. These two groups have a significant role in supporting the flow of business to the Cemetery.
- 2.4.12 Cemetery staff will continue to maintain service levels and returns to Council and will continue their focus on providing high quality customer service and cemetery grounds maintenance.
- 2.4.13 When considering the issue of performance data and benchmarking it has proved difficult to obtain a clear comparison of service provision / cost of services with other Cemeteries. Staff will continue to monitor industry service offerings and cost to ensure our products and services remain competitive.

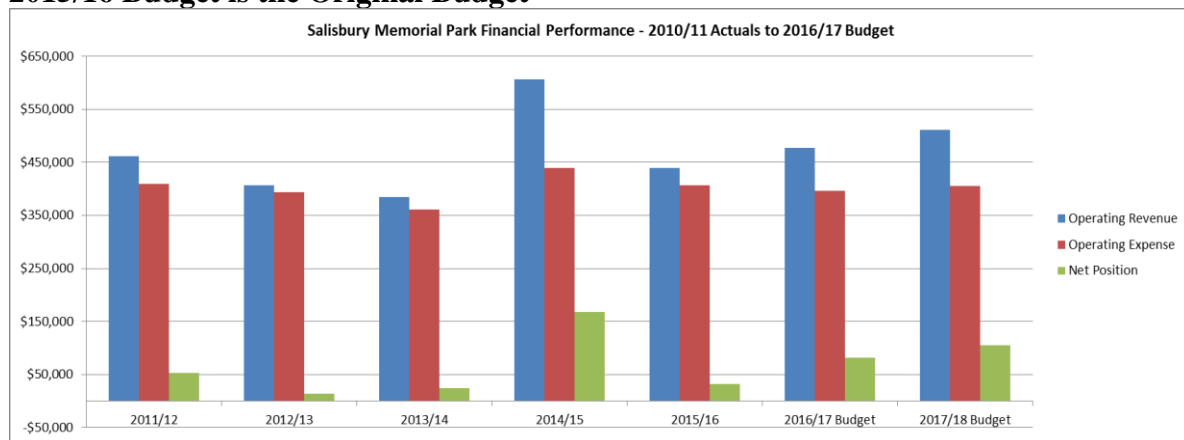
- 2.4.14 The SMP has embarked on a new marketing strategy, advertising in Seniors Magazines and Bowls Magazines. In addition to the use of traditional media, staff is looking at holding a proposed Cemetery Expo in June to promote recent service additions.
- 2.4.15 In the coming year, SMP will revisit development opportunities primarily focused around low cost / easy to implement options.
- 2.4.16 Better alignment of costs to service offerings and income streams and maintaining a balanced focus on finance / service development.

### 2017/18 Draft Budget (Excluding impact of New Initiatives)

Details	2016/17 Budget	2017/18 Budget	Favourable/ (Unfavourable) Variance	Variance %
<b>Revenue</b>				
Cemetery Fees	453,900	486,700	32,800	7.23%
Residential Rent	24,000	24,000	0	0.00%
<b>Total Revenue</b>	<b>477,900</b>	<b>510,700</b>	<b>32,800</b>	<b>6.86%</b>
<b>Expenditure</b>				
Wages & Salaries	123,800	131,600	(7,800)	-6.30%
Contractual Services	52,000	52,000	0	0.00%
Materials	14,000	14,500	(500)	-3.57%
Depreciation	16,500	16,500	0	0.00%
Other Expenses	190,400	191,030	(630)	-0.33%
<b>Total Expenditure</b>	<b>396,700</b>	<b>405,630</b>	<b>(8,930)</b>	<b>-2.25%</b>
<b>Net Position</b>	<b>81,200</b>	<b>105,070</b>	<b>23,870</b>	<b>29.40%</b>

Note: A favourable variance within the table above indicates an increase in income or a decrease in expense. An unfavourable variance indicates a decrease in income or an increase in expense.

### 2015/16 Budget is the Original Budget



## 2.5 Commentary of 2017/18 Budget

- 2.5.1 The above budget for 2017/18 illustrates a \$24k increase to the net position for SMP which is an overall 29% improvement on 2016/17. It is inclusive of all proposed fees and charges increases and adjustments. The projection suggests improved service levels based on budget projection, reflecting a better alignment and structuring of fees and volumes for services.
- 2.5.2 The revenue proposed in 2017/18 reflects an overall increase to Cemetery fees, improved identification of fees and allocation / recovery of service costs. Staff are confident that contract services and materials costs can be retained at 2016/2017 rates.

## 2.6 Service Levels

- 2.6.1 As illustrated in the following table burial service level actuals for 2014/15 significantly exceeded projections. Since that period figures indicate a slowing of the burial rate to more closely align with 2016/17 budgeted levels which is also reflected in budgeted figures for 2017/18.

	2013/2014	2014/15	2015/16	2016/17 (as at end February)	2016/17 Projection	2017/18 Budgeted
Burials	81	103	89	60	80	80
Inurnment	79	89	87	58	84	84

Total Licences sold 2015-2016 = 105

Total Licences 2016 -2017 as at end February 2017 = 70

## 2.7 Fees and Charges

- 2.7.1 The fees and charges attached reflect the actual fees and charges provided to the broader community. The attached fees and charges align with income development templates used to set the annual budget. .
- 2.7.2 Over the last 20 years the number of deaths in South Australia has increased by 14%, cremations have increased 29% and burials have decreased by 15%. The chart below lists significant variations in the 2017/18 fees and charges mostly in the provision of cremation services. The increase in these fees and charges is an accurate reflection of the service provided.
- New charges shown in the chart below have not been previously included in fees and charges.

Fees	2016/2017 \$	2017/2018 \$	Commentary
<b>Cemetery Fees / Surcharges</b>			
<i>Artwork per motif</i>		\$60.00	<i>Not included in previous Fees and Charges</i>
<i>Cameo with flower or motif</i>		\$60.00	<i>Not included in previous Fees and Charges</i>

<b>Fees</b>	<b>2016/2017 \$</b>	<b>2017/2018 \$</b>	<b>Commentary</b>
<i>Ceramic Photograph Black and White</i>		\$95.00	<i>Not included in previous Fees and Charges</i>
<i>Ceramic Photograph Coloured</i>		\$150.00	<i>Not included in previous Fees and Charges</i>
<i>Fee for inurnment of Ashes when replacing a plaque</i>		\$205.00	<i>Not included in previous Fees and Charges</i>
<i>Fee per letter on plaque when over 165 letters</i>		\$2.00	<i>Not included in previous Fees and Charges</i>
<i>Permit for additional works or inscription Lawn Section</i>		\$105.00	<i>Not included in previous Fees and Charges</i>
<i>Permit for additional works or inscription Ledger Section</i>		\$105.00	<i>Not included in previous Fees and Charges</i>
<i>Permit for Ledger Section for new monument and inscription</i>		\$350.00	<i>Not included in previous Fees and Charges</i>
<i>Permit for Vault Section for additional work and inscription</i>		\$105.00	<i>Not included in previous Fees and Charges</i>
<i>Permit for Vault Section for new monument work and inscription</i>		\$620.00	<i>Not included in previous Fees and Charges</i>
<i>Perpetual Flower</i>		\$100.00	<i>Not included in previous Fees and Charges</i>
<i>Renew lettering on existing Garden Memorial in gold</i>		\$195.00	<i>Not included in previous Fees and Charges</i>
<i>Renew lettering on existing Garden Memorial in natural</i>		\$145.00	<i>Not included in previous Fees and Charges</i>
<i>Replacement detachable Bronze Plaque</i>		\$170.00	<i>Not included in previous Fees and Charges</i>
<i>Replacement Plaque only Bronze</i>		\$555.00	<i>Not included in previous Fees and Charges</i>
<i>Replacement Plaque only Granite with gold lettering</i>		\$605.00	<i>Not included in previous Fees and Charges</i>
<i>Replacement Plaque only Granite with natural lettering</i>		\$575.00	<i>Not included in previous Fees and Charges</i>
<i>Reservation fees 2 year with right of renewal</i>		\$360.00	<i>Not included in previous Fees and Charges</i>
<i>Reservation fees 2 year on a site (2 year period)</i>		\$360.00	<i>Not included in previous Fees and Charges</i>
<i>Seat with Bronze Plaque</i>		\$2050.00	<i>Not included in previous Fees and Charges</i>
<i>To relinquish a site</i>		\$85.00	<i>Not included in previous Fees and Charges</i>
<i>To remove a Headstone and reinstate</i>		\$225.00	<i>Not included in previous Fees and Charges</i>
<i>Transfer of Cremation Memorial to another Garden</i>		\$40.00	<i>Not included in previous Fees and Charges</i>
<i>Memorial Garden Bed</i>		\$325.00	<i>New Fee</i>

<b>Fees</b>	<b>2016/2017 \$</b>	<b>2017/2018 \$</b>	<b>Commentary</b>
<i>Rotunda Garden Bed</i>		\$500.00	<i>New Fee</i>
<i>Solid Lease Marker</i>		\$685.00	<i>Not included in previous Fees and Charges</i>
<i>Water Feature Lease</i>	\$1000.00	\$1080.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Bedrock 1st Inurnment</i>	\$1080.00	\$1240.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Bedrock 2nd Inurnment</i>	\$370.00	\$540.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Donnybrooke Sandstone 1st Inurnment</i>	\$400.00	\$875.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Donnybrooke Sandstone 2nd Inurnment</i>	\$380.00	\$540.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Garden 19 1st Inurnment</i>	\$1270.00	\$1590.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Garden 19 2nd Inurnment</i>	\$470.00	\$540.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Moss Rock 1<sup>st</sup> Inurnment</i>	\$1230.00	\$1540.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Moss Rock Inurnment Granite Plaque Double</i>		\$1760.00	<i>Not included in previous Fees and Charges</i>
<i>Moss Rock Inurnment Bronze Plaque Double</i>		\$1930.00	<i>Not included in previous Fees and Charges</i>
<i>Moss Rock Inurnment Bronze Plaque Single</i>		\$1700.00	<i>Not included in previous Fees and Charges</i>
<i>Moss Rock 2<sup>nd</sup> Inurnment and inscription</i>		\$540.00	<i>Not included in previous Fees and Charges</i>
<i>Red Brick Inurnment</i>	\$490.00	\$550.00	<i>Not included in previous Fees and Charges</i>
<i>Rose and Shrub Garden 1st Inurnment</i>	\$1000.00	\$1220.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Rose and Shrub Garden 2nd Inurnment</i>	\$380.00	\$540.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Rose Garden 20 ,21 Inurnment</i>	\$620.00	\$825.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Rose Garden 28 Inurnment</i>	\$590.00	\$705.00	<i>Adjustment of fee to show accurate cost to provide service</i>

**Item 6.1.4**

Fees	2016/2017 \$	2017/2018 \$	Commentary
<i>Water Feature Placement and Plaque</i>	\$660.00	\$875.00	<i>Adjustment of fee to show accurate cost to provide service</i>
<i>Rotunda Niche Wall Double</i>		\$1800.00	<i>New Fee</i>
<i>Rotunda Niche Wall Single</i>		\$1200.00	<i>New Fee</i>

## 2.8 Who Should Pay Public Benefit v Private Benefit?

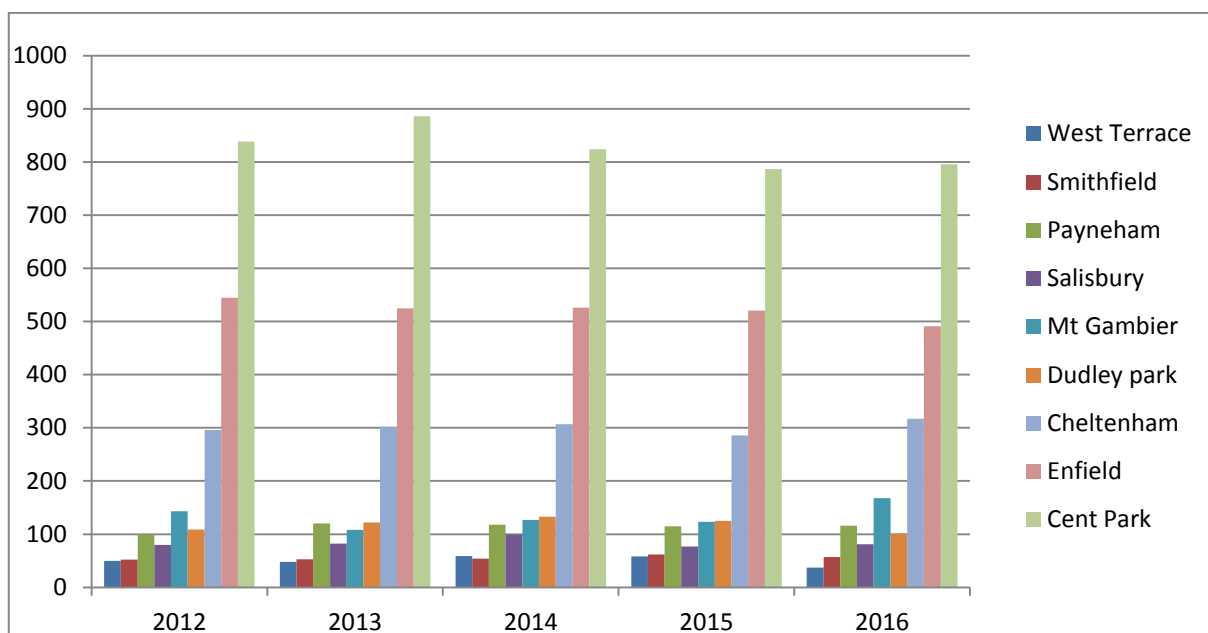
- 2.8.1 SMP operates within business principles providing services on a user pays basis, covering today's operating costs and contributing to the future maintenance fund. As such it offers a 100% private benefit, and there is no basis for subsidising from the broader community.

## 2.9 Competitive Forces/Market Forces

- 2.9.1 SMP operates in a competitive and sensitive environment necessitating care when directing effort to satisfy customer needs. SMP's customers include direct members of the public as well as the various funeral directors, who supply services to their customers, and with whom it is very important to have a close relationship. A direct comparison of fees / services is not always possible with "competitor", cemeteries given the differing service offerings. The following table provides a service fee comparison of proposed 2017/18 fees from competitor cemeteries.

Burial Site	SMP	Smithfield	Enfield	Centennial Park
<i>Interment adult - Single</i>	\$1,890	\$1,975	\$1,975	\$1,790
<i>Interment adult - Double</i>	\$2,050	\$2,190	\$2,190	\$1,790
<i>Interment adult – Triple</i>	\$2,320	\$2,335	\$2,335	\$1,790
<i>Lawn Section Lease</i>	\$3,875	\$3,705	\$3,680	\$3,850

- 2.9.2 It should be noted that each provider allows a different amount of cremated ashes to be placed into the grave site; Enfield does not charge a digging fee for burial of ashes however they do charge a fee for a memorial plaque. Enfield also allows several options for lawn burials ranging from an entry level \$3,680 to \$8,327.
- 2.9.3 The following graph provides a comparison of burials compared to other Cemeteries, although SMP is clearly not of the same operational scale as Enfield or Centennial Park.



## 2.10 New Initiative Bids

- 2.10.1 It is not proposed to submit any Business Unit bids for consideration in the 2017/18 year, however staff are reviewing internal funding opportunities, potentially utilising a part of the 15K approved Cemetery Development budget to undertake a masterplan of the SMP, specifically looking at avenues for increased efficiency, cost reduction and space utilisation.

## 3. CONCLUSION / PROPOSAL

- 3.1.1 The 2017/18 budget reflects. The fees and charges included in the body of this report were used in conjunction with service level records to develop an accurate projection of the business over the next twelve months.

## CO-ORDINATION

Officer: GMCI Executive Group  
 Date: 09/03/2017 14/03/2017





## Salisbury Memorial Park Cemetery

Fee Type	17/18Fee (Incl GST)	16/17Fee (Incl GST)	Variance	% Variance	17/18 Volume	16/17 Volume	Variance	17/18 Income (Excl GST)	16/17 Income (Excl GST)	Fee Income Variance
<b>Cemetery Fees</b>										
Additional Section Permit Inscription	\$105.00	\$105.00	\$0.00	0%	40	40	0	\$3,800.00	\$3,800.00	\$0.00
American Box type/metal caskets	\$755.00	\$740.00	\$15.00	2%	0	0	0	\$0.00	\$0.00	\$0.00
Artwork per motif	\$60.00	\$0.00	\$60.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Cameo with Flower or Motif	\$60.00	\$0.00	\$60.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Ceramic Photographs Black and White	\$95.00	\$0.00	\$95.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Ceramic Photographs Coloured	\$150.00	\$0.00	\$150.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Concrete floor removal/replacement	\$660.00	\$640.00	\$20.00	3%	1	1	0	\$600.00	\$600.00	\$0.00
Exhumation	\$6,300.00	\$6,200.00	\$100.00	2%	1	1	0	\$5,700.00	\$5,600.00	\$100.00
Extension of existing lease (5yr increments)	\$375.00	\$370.00	\$5.00	1%	5	5	0	\$1,700.00	\$1,700.00	\$0.00
Fee for Inurnment of Ashes when replacing a Plaque	\$205.00	\$0.00	\$205.00	100%	1	0	1	\$200.00	\$0.00	\$200.00
Fee per letter when over \$165 letters	\$2.00	\$0.00	\$2.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Funerals - after 3:30pm	\$465.00	\$465.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
Funerals - Saturday	\$580.00	\$570.00	\$10.00	2%	1	1	0	\$500.00	\$500.00	\$0.00
Funerals - Short Notice (less than 24 hours notice)	\$580.00	\$570.00	\$10.00	2%	0	0	0	\$0.00	\$0.00	\$0.00
Insertion of ashes in coffin at time of burial	\$160.00	\$160.00	\$0.00	0%	0	0	0	\$0.00	\$0.00	\$0.00
Insertion/removal of Ashes into an existing grave	\$415.00	\$415.00	\$0.00	0%	5	5	0	\$1,900.00	\$1,900.00	\$0.00
Ledger Removal/replacement	\$665.00	\$640.00	\$25.00	4%	0	0	0	\$0.00	\$0.00	\$0.00
Licence in Perpetuity	\$23,500.00	\$23,000.00	\$500.00	2%	0	0	0	\$0.00	\$0.00	\$0.00
Lift & Lower (sliding Scale in 12/13) - 0-9 years since burial	\$2,625.00	\$2,575.00	\$50.00	2%	0	0	0	\$0.00	\$0.00	\$0.00
Lift & Lower (sliding Scale in 12/13) - 10-15 years since burial	\$1,785.00	\$1,750.00	\$35.00	2%	0	0	0	\$0.00	\$0.00	\$0.00
Lift & Lower (sliding Scale in 12/13) - 16 years and more	\$1,260.00	\$1,240.00	\$20.00	2%	0	0	0	\$0.00	\$0.00	\$0.00
New Headstone	\$210.00	\$210.00	\$0.00	0%	40	40	0	\$7,600.00	\$7,600.00	\$0.00
Oversized Casket	\$235.00	\$230.00	\$5.00	2%	5	5	0	\$1,100.00	\$1,000.00	\$100.00
Permit for Additional Works or Inscription lawn Section	\$105.00	\$0.00	\$105.00	100%	1	0	1	\$100.00	\$0.00	\$100.00
Permit Ledger Section for Additional Work / inscription	\$105.00	\$0.00	\$105.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Permit Ledger Section for New Monument and Inscription	\$350.00	\$0.00	\$350.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Permit Vault Section for Additional Work and Inscription	\$105.00	\$0.00	\$105.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Permit Vault Section for New Monument and Inscription	\$620.00	\$0.00	\$620.00	100%	1	0	1	\$600.00	\$0.00	\$600.00
Perpetual Flower	\$100.00	\$0.00	\$100.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Renew Lettering on an existing Garden Memorial in Gold	\$195.00	\$0.00	\$195.00	100%	1	0	1	\$200.00	\$0.00	\$200.00
Renew Lettering on an existing Garden Memorial in Natural	\$145.00	\$0.00	\$145.00	100%	1	0	1	\$100.00	\$0.00	\$100.00
Replacement Detachable Bronze Plaque	\$170.00	\$0.00	\$170.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Replacement Plaque only Bronze	\$555.00	\$0.00	\$555.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Replacement Plaque only Granite with Gold lettering	\$605.00	\$0.00	\$605.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Replacement Plaque only Granite with Natural Lettering	\$575.00	\$0.00	\$575.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Reservation Fees 2yr with right of renewal	\$360.00	\$360.00	\$0.00	0%	1	0	1	\$300.00	\$0.00	\$300.00
Reservation Fees on a site (2 year period )	\$360.00	\$0.00	\$360.00	100%	1	0	1	\$300.00	\$0.00	\$300.00
Scattering of Ashes	\$160.00	\$160.00	\$0.00	0%	2	2	0	\$300.00	\$300.00	\$0.00
Seat with Bronze Plaque	\$2,050.00	\$0.00	\$2,050.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Soil Removal	\$500.00	\$490.00	\$10.00	2%	2	2	0	\$900.00	\$900.00	\$0.00
To Relinquish a Site	\$85.00	\$0.00	\$85.00	100%	1	0	1	\$100.00	\$0.00	\$100.00
To Remove Headstone and Reinstate	\$225.00	\$0.00	\$225.00	100%	1	0	1	\$200.00	\$0.00	\$200.00
Transfer of Cremation Memorial to another Garden	\$40.00	\$0.00	\$40.00	100%	0	0	0	\$0.00	\$0.00	\$0.00
Transfer of Licence	\$105.00	\$105.00	\$0.00	0%	5	5	0	\$500.00	\$500.00	\$0.00
Vault Headstone Permit	\$620.00	\$620.00	\$0.00	0%	2	2	0	\$1,100.00	\$1,100.00	\$0.00
<b>Childrens Section</b>										
Children's Section (to 10 years) Burial Fee	\$510.00	\$500.00	\$10.00	2%	1	1	0	\$500.00	\$500.00	\$0.00
Children's Section (to 10 years) Licence	\$375.00	\$370.00	\$5.00	1%	1	1	0	\$300.00	\$300.00	\$0.00
<b>Cremation Licences</b>										
Bedrock	\$1,080.00	\$1,060.00	\$20.00	2%	3	3	0	\$2,900.00	\$2,900.00	\$0.00
Garden 19-25 Year Lease	\$1,080.00	\$1,060.00	\$20.00	2%	1	1	0	\$1,000.00	\$1,000.00	\$0.00
Garden 20 & 21-25 Year Lease (single only)	\$865.00	\$850.00	\$15.00	2%	4	4	0	\$3,100.00	\$3,100.00	\$0.00
Garden 28-25 Year Lease (single only)	\$865.00	\$850.00	\$15.00	2%	1	1	0	\$800.00	\$800.00	\$0.00
Memorial Garden Bed / Wall of Life Pencil Pine	\$325.00	\$0.00	\$325.00	100%	1	0	1	\$300.00	\$0.00	\$300.00
Moss Rock - 25 Year Lease	\$1,080.00	\$1,060.00	\$20.00	2%	3	3	0	\$2,900.00	\$2,900.00	\$0.00
Rose & Shrub Gardens Lease 25 years	\$1,080.00	\$1,060.00	\$20.00	2%	22	22	0	\$21,600.00	\$21,200.00	\$400.00



Rotunda Garden Bed	\$500.00	\$0.00	\$500.00	100%	1	0	1	\$500.00	\$0.00	\$500.00
Solid Marker Lease 25 years	\$865.00	\$0.00	\$865.00	100%	1	0	1	\$800.00	\$0.00	\$800.00
Water Feature Lease	\$1,080.00	\$1,000.00	\$80.00	8%	1	1	0	\$1,000.00	\$900.00	\$100.00
<b>Inurnment</b>										
Bedrock 1st Inurnment	\$1,240.00	\$1,080.00	\$160.00	15%	3	3	0	\$3,400.00	\$2,900.00	\$500.00
Bedrock 2nd Inurnment	\$540.00	\$370.00	\$170.00	46%	0	0	0	\$0.00	\$0.00	\$0.00
Donnybrooke Sandstone - 1st Inurnment	\$875.00	\$400.00	\$475.00	119%	1	1	0	\$800.00	\$400.00	\$400.00
Donnybrooke Sandstone - 2nd Inurnment	\$540.00	\$380.00	\$160.00	42%	1	1	0	\$500.00	\$300.00	\$200.00
Garden 19 1st Inurnment	\$1,590.00	\$1,270.00	\$320.00	25%	1	1	0	\$1,400.00	\$1,200.00	\$200.00
Garden 19 2nd Inurnment	\$540.00	\$470.00	\$70.00	15%	0	0	0	\$0.00	\$0.00	\$0.00
Moss Rock 1st Inurnment	\$1,540.00	\$1,230.00	\$310.00	25%	2	2	0	\$2,800.00	\$2,200.00	\$600.00
Moss Rock Inurnment Granite Plaque Double	\$1,760.00	\$0.00	\$1,760.00	100%	1	0	1	\$1,600.00	\$0.00	\$1,600.00
Moss Rock Inurnment Bronze Plaque Double	\$1,930.00	\$0.00	\$1,930.00	100%	1	0	1	\$1,800.00	\$0.00	\$1,800.00
Moss Rock Inurnment Bronze Plaque Single	\$1,700.00	\$0.00	\$1,700.00	100%	1	0	1	\$1,500.00	\$0.00	\$1,500.00
Moss Rock Secound Inurnment and Inscription	\$540.00	\$0.00	\$540.00	100%	1	0	1	\$500.00	\$0.00	\$500.00
Red Brick Inurnment	\$550.00	\$490.00	\$60.00	12%	1	1	0	\$500.00	\$400.00	\$100.00
Rose and Shrub Garden 1st Inurnment	\$1,220.00	\$1,000.00	\$220.00	22%	24	24	0	\$26,600.00	\$21,800.00	\$4,800.00
Rose and Shrub Gardens 2nd Inurnment	\$540.00	\$380.00	\$160.00	42%	30	30	0	\$14,700.00	\$10,400.00	\$4,300.00
Rose Garden 20,21	\$825.00	\$620.00	\$205.00	33%	6	6	0	\$4,500.00	\$3,400.00	\$1,100.00
Rose Garden 28	\$705.00	\$590.00	\$115.00	19%	3	3	0	\$1,900.00	\$1,600.00	\$300.00
Water Feature Placement and Plaque	\$875.00	\$660.00	\$215.00	33%	1	1	0	\$800.00	\$600.00	\$200.00
<b>Lawn Section</b>										
Interment adult double	\$2,050.00	\$2,000.00	\$50.00	2%	48	48	0	\$89,500.00	\$87,300.00	\$2,200.00
Interment adult single	\$1,890.00	\$1,850.00	\$40.00	2%	43	43	0	\$73,900.00	\$72,300.00	\$1,600.00
Interment adult triple	\$2,320.00	\$2,200.00	\$120.00	5%	3	3	0	\$6,300.00	\$6,000.00	\$300.00
Lawn Section Lease	\$3,875.00	\$3,800.00	\$75.00	2%	44	44	0	\$155,000.00	\$152,000.00	\$3,000.00
<b>Niche Wall</b>										
Donnybrooke Sandstone - Lease 25 yrs single	\$600.00	\$600.00	\$0.00	0%	1	1	0	\$500.00	\$500.00	\$0.00
Donnybrooke Sandstone - Lease 25yrs double	\$1,100.00	\$1,100.00	\$0.00	0%	1	1	0	\$1,000.00	\$1,000.00	\$0.00
Niche Wall License 25 yrs	\$335.00	\$330.00	\$5.00	2%	2	2	0	\$600.00	\$600.00	\$0.00
Rotunda Niche Wall Double	\$1,800.00	\$0.00	\$1,800.00	100%	1	0	1	\$1,600.00	\$0.00	\$1,600.00
Rotunda Niche Wall Single	\$1,200.00	\$0.00	\$1,200.00	100%	1	0	1	\$1,100.00	\$0.00	\$1,100.00
<b>Stillborn Section</b>										
Stillborn Section Burial Fee	\$325.00	\$320.00	\$5.00	2%	2	2	0	\$600.00	\$600.00	\$0.00
Stillborn Section Burial Fee - Plaque	\$205.00	\$200.00	\$5.00	2%	2	2	0	\$400.00	\$400.00	\$0.00
<b>Vaults</b>										
Reopen/Close existing vault	\$1,885.00	\$1,850.00	\$35.00	2%	2	2	0	\$3,400.00	\$3,400.00	\$0.00
Vault plot license 50yrs	\$14,300.00	\$14,000.00	\$300.00	2%	2	2	0	\$26,000.00	\$25,500.00	\$500.00
Vault plot license 99 yrs	\$24,200.00	\$23,700.00	\$500.00	2%	0	0	0	\$0.00	\$0.00	\$0.00



<b>ITEM</b>	6.7.1
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Penfield Golf Club: Water Pricing
<b>AUTHOR</b>	Bruce Naumann, Manager Salisbury Water, Business Excellence
<b>CITY PLAN LINKS</b>	2.1 Capture economic opportunities arising from sustainable management of natural environmental resources, changing climate, emerging policy direction and consumer demands. 4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	<p>The Penfield Sporting Associations (PSA) clubs (the Golf Club, Model Engineers and Bowling Club) 12 month concessionary recycled water price of \$1.05/kl has expired. All member clubs will revert to Council's endorsed 'Community Based Not for Profit Organisation' price of \$1.65/kl from 1 March 2017.</p> <p>A submission has been received from the Penfield Golf Club, requesting that Council consider a further 12 month concession with a price of \$1.15/kl, to enable the club to generate sufficient cash reserves to maintain the facility and make it available to the community for the longer term.</p>
<b>RECOMMENDATION</b>	<ol style="list-style-type: none"> <li>1. The 'Community Based Not for Profit Organisation': recycled water price of \$1.65/kl (for 2016/17) be applied to all Penfield Sporting Association member clubs from the 1st March 2017.</li> <li>2. The Water Supply Agreements (WSA) with each Penfield Sporting Association (PSA) member club, for the supply of recycled water, be maintained at the Community Based Not for Profit Organisation endorsed price and be indexed annually in accordance with Councils endorsed Fees and Charges.</li> <li>3. To be determined by Council.</li> </ol>
<b>ATTACHMENTS</b>	<p>This document should be read in conjunction with the following attachments:</p> <ol style="list-style-type: none"> <li>1. Penfield Golf Club - Request for Further Recycled Water Concessions, 21/02/2017</li> </ol>
<b>1. BACKGROUND</b>	<ol style="list-style-type: none"> <li>1.1 In late 2012, the Penfield Golf Club wrote to the Council Chief Executive Officer, requesting a reduction in their recycled water price.</li> </ol>



- 1.2 In February 2013, Council approved a reduction in the Golf club's water rate to \$0.75/KL for three years commencing 1<sup>st</sup> March 2013, provided the club install appropriate water tanks and booster pumps on site. The club complied with these conditions and received the price concession during this 3 year period.
- 1.3 Council also directed that a policy be developed in relation to future supply of Salisbury Water to 'Community Based Not for Profit Organisations'.
  - 1.3.1 The policy paper was endorsed by Council, Item 6.7.1, Resolution 2195, 24/02/2014
  - 1.3.2 The current endorsed water price for Community Based Not for Profit Organisations, is \$1.65/kl. (It is proposed in budget recommendations to Council to increase this price to \$1.69/kl for 2017/18)
- 1.4 In 2015 Council received a further request from the Penfield Golf Club, on behalf of all PSA member clubs, to continue the reduced water pricing. A report was considered by Council in October 2015, to bring the pricing in-line with the policy for Community Based Not for Profit Organisations. Council requested further discussion with the clubs.
- 1.5 A further report was then presented at the Budget and Finance Committee, Item 6.7.1, 16<sup>th</sup> November 2015 and Council endorsed that the 'Community Based Not for Profit Organisation' price be applied to all Penfield Sporting Association member clubs. Council also endorsed a further price concession of 60c/kl for a 12 month period commencing 1<sup>st</sup> March 2016 (Resolution 0758/2015), to allow the clubs an opportunity to review their financial position.
- 1.6 All Member clubs have received recycled water for the past 12 months at \$1.05/kl.
- 1.7 On 21<sup>st</sup> February 2017 the Penfield Golf Club wrote to Council's General Manager Business Excellence requesting a further ongoing concession of 50c/kl below the Community Based Not for Profit Organisations price ie \$1.15/kl.
- 1.8 This report presents the Penfield Golf Club request for Council consideration.

## **2. CITY PLAN CRITICAL ACTION**

- 2.1 Maximise the value of our water business in supporting community wellbeing and economic growth (including agriculture and industry).

## **3. CONSULTATION / COMMUNICATION**

- 3.1 Internal
  - 3.1.1 Salisbury Water Business Unit and Finance Division staff
- 3.2 External
  - 3.2.1 Nil

## **4. REPORT**

- 4.1 The Penfield Golf Club has submitted a request (attached) for consideration of further concessionary water pricing beyond the previously endorsed 12 month period, which ended on the 28th February 2017.

- 4.1.1 The request notes that the Club finances have ‘improved considerably over the past 12 months’, with ‘a cash surplus (for the first time in 5 years) of \$24k’.
- 4.1.2 The request also states that while the surplus is significant, the Club believes they are still short of the reserves required to continue to operate in a highly variable market.
- 4.1.3 The Club advises that progress is currently ahead of budget, noting this is dependent upon membership renewals which are due at the end of March 2017. Their current budget is forecasting a modest increase in cash reserves of \$16k.
- 4.1.4 The Club advises that they anticipate average water usage of 62,500 kl/year.
- 4.2 A key assertion in the Club’s original submission to Council in 2013 was that they would spend about the same amount of money on recycled water by increasing their usage volume to around 90,000 kl/a. An overview of the Club’s actual usage since 2013 does show an upward trend however even in dry years they have still not used the predicted 90,000 kl/a.

Period	Usage (kl)	Rainfall +/- comparison to average (mm)
2016/17 (First half)	8,631*	+163
2015/16	75,003	-73
2014/15	57,243	-130
2013/14	50,388	+36
2012/13	44,266	-81

\*27,543kl at same time last year and 21,790kl at same time 14/15

- 4.2.1 As detailed in the table above, current usage figures for 2016/17 are significantly down on previous years, noting that rainfall for the first half of the year is well above average.
- 4.3 An additional concession of 60c/kl for a 12 month period was endorsed in November 2015, to give the PSA member clubs time to evaluate the success of recent membership initiatives and to refine a 5 year business plan that would take into consideration information they would gain over the past 12 months of operation. Additionally the Club committed to having a plan in place to avoid the need for ongoing water price concessions, beyond that already offered by Council under the ‘Community Based Not for Profit Organisation’ recycled water price.
- 4.4 There was a strong case for Council support so that the initiatives, undertaken by the PSA clubs, continued and so that the Penfield Sporting Precinct could continue to grow and engage with more community members. Water price concessions are one way of delivering this support, but it was previously noted that this may not be a fair and equitable process for delivering Council support. The other PSA clubs are very minor water users. Hence most of the benefit accrues to the Golf Club, who use most of the water.

- 4.5 Based on their anticipated water usage of 62,500 kl/year, the requested discount is valued at \$31,250 over a 12 month period.

## 5. CONCLUSION / PROPOSAL

- 5.1 The Community Based Not for Profit Organisation price of \$1.65/kl has already been endorsed by Council to apply to all member clubs of the Penfield Sporting Association. This is a 90c/kl discount from the current substantive recycled water price of \$2.55. (This will rise to a 92c/kl discount if recommended pricing is adopted for 2017/18)
- 5.2 Water Supply Agreements have been entered into with each individual member club, for the ongoing supply of recycled water at the Council endorsed Community Based Not for Profit Organisation price.
- 5.3 The additional 12 month concession, granted to the Penfield Sporting Association member clubs, of 60c/kl expired on 28<sup>th</sup> February 2017. All member clubs will revert to Community Based Not for Profit Organisation price from 1 March 2017. Importantly, this demonstrates a 'return' to the substantive price, making it consistent with regulatory pricing principles.
- 5.4 The Golf Club advises that they are making considerable effort to grow their revenue base, however they believe it is not growing at a rate that can sustain a 'return' to the Community Based Not for Profit Organisation price. The Club is therefore seeking a further concession of 50c/kl, which would result in a \$31,250 reduction in revenue for Council over a 12 month period.
- 5.5 The Golf Club and Penfield Sporting Association member clubs have now received considerable support from Council in the form of water price concessions. They were to have a plan in place that would avoid the need for ongoing concessions beyond that already offered by Council under the Community Based Not for Profit Organisation price.
- 5.6 Due to circumstances beyond their control, the club are not yet in the financial position that they had planned to be in. As a consequence, they seek further Council support.
- 5.7 If Council elect to continue this level of support, the following wording is suggested for endorsement;
- “The Water Supply Agreements (WSA) with each Penfield Sporting Association (PSA) member club be amended to include a further price concession of 50c/kl for a 12 month period commencing 1<sup>st</sup> March 2017”

## CO-ORDINATION

Officer: Executive Group  
Date: 14/03/2017





## Penfield Golf Club Inc.

PO Box 531 Salisbury, South Australia 5108  
Telephone : 8281 0998

21/2/17

Dear Charles,

**Reference:** Salisbury Water Price Concession dated 9 February 2017

The reference indicates that the price for water charged to the Penfield Sporting Association and, therefore to Penfield Golf Club (PGC) as a member of that Association, will rise to \$1.65/kl in March of this year. PGC understands that this was to be expected as the Salisbury Water Department has no discretion to vary the charge from that established. Following on from the presentation made to the Council Finance Committee in November 2015, temporary relief was sought from the full charge. At that presentation, we sought to limit the increase to \$1.05/kl, a level the Club forecast to be sustainable while re-building cash reserves to provide a buffer against the variability in the income and cost elements inherent in running a golf club. The Club also requested that the transition to the full price established for NFP organisations be phased in over a period to allow both a better understanding of the financial model of the Club and to continue the building of cash reserves.

There is little doubt that the management of the Club and its finances has improved considerably over the past 12 months. Accountability and oversight has been improved by replacing the Committee, which was a very flat structure with little personal accountability, with a smaller Board that has overall responsibility, supported by Operational Committees that have budget responsibility and are accountable for their performance.

At the end of last financial year, a cash surplus (for the first time in 5 years) of \$24k was recorded; this met the target set for the year. While this is significant, it is still short of the reserves a Club of this size requires to continue to operate in this highly variable market. Significantly, this result was achieved despite a large down turn in green fee players; income was \$16k down on a budget of \$99k. This loss was offset by once-off gains which resulted from a thorough review of the accounts that revealed an overstatement in liabilities. Much effort has gone into the accounts over the past year to ensure there is accurate data available to support decision-making.

In the current year (which ends 31 August), progress is ahead of budget, but as membership renewal is not due until the end of March, the impact of any non-renewals is difficult to gauge. The budget was framed on a modest increase in cash reserves of \$16k, largely driven by the decrease in green fee players.

At an anticipated average water usage of 62,500 kl/year, an increase from the current \$1.05/kl to \$1.65/kl would add approximately \$37,500 to the Club's expenses. While considerable effort is being made to grow income, it is not growing at anything like that rate and such an increase would see a reduction in cash reserves on an ongoing basis.

The Club believes that an increase to \$1.15/kl is manageable and would still enable a cash surplus to be generated for the foreseeable future. The generation of sufficient cash reserves remains our priority and is critical to the facility remaining available to the community for the long term. PGC will continue its efforts to grow the Club and build its financial model around a price for water that meets community expectations. Unfortunately, that will take time and we seek your continued support in our efforts to meet this goal by agreeing to the lesser price for water proposed.

Yours faithfully,

Alistair McLean

Manager

Penfield Golf Club 8281 5210

Penfield Golf Club Incorporated ABN: 66 181 795 128 Clubhouse: Woomera Avenue, Edinburgh Park SA 5111

Affiliated with the Penfield Sporting Association

Email: [Secretary@penfieldgolfclub.com.au](mailto:Secretary@penfieldgolfclub.com.au)

Website: [www.penfieldgolfclub.com.au](http://www.penfieldgolfclub.com.au)



<b>ITEM</b>	6.8.1
	<b>BUDGET AND FINANCE COMMITTEE</b>
<b>DATE</b>	20 March 2017
<b>HEADING</b>	Response to the LGA commissioned report - "Who Should Audit Local Governments in South Australia?"
<b>AUTHOR</b>	George Kendall, Business Analyst - Internal Audit & Risk, CEO and Governance
<b>CITY PLAN LINKS</b>	4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	<p>The Local Government Association (LGA) has commissioned a report examining the costs and benefits of having private sector auditors undertaking local government financial audits, compared to the State Auditor-General taking responsibility. Currently private sector auditors undertake these financial audits.</p> <p>The report, which is included as Attachment 1 was prepared by Dr Sabine Schührer and is titled "<i>Who Should Audit Local Governments in South Australia? A Consideration of the Costs and Benefits of Alternative Arrangements</i>".</p> <p>The LGA has no formal policy on this issue, but needs to respond to issues raised by this report. As such feedback from all Councils has been requested by 3 April 2017.</p> <p>The City of Salisbury is against the any extra costs being imposed upon it without any additional value being added to the organisation. It is this fundamental principle that guides the recommendation that a response should be submitted on behalf of Council to the LGA, indicating that the current system of having Local Government audits conducted by the private sector, should be retained.</p>
<b>RECOMMENDATION</b>	<ol style="list-style-type: none"> <li>1. A response to the the LGA questionnaire related to the report titled "<i>Who Should Audit Local Governments in South Australia?</i>" be completed by the Business Analyst, Internal Audit and Risk, expressing support for <i>Option 1- Retain the current System</i> as the preferred approach to the conduct of financial statement audits in the Local Government sector.</li> </ol>

## ATTACHMENTS

This document should be read in conjunction with the following attachments:

1. Who Should Audit Local Governments in South Australia?

### 1. BACKGROUND

- 1.1 Each year the City of Salisbury is required by legislation to have its financial statements audited by an independent, external audit firm. The City of Salisbury currently engages Bentleys to conduct this work.
- 1.2 A research project was undertaken by Dr Sabine Schühler from Adelaide University regarding who should conduct these annual audits on Councils' financial statements. The project was commissioned by the LGA and consisted of interviews with 27 people from a number of different Councils and consulting firms. Exactly how many different Councils were consulted cannot be determined from the report, but it was at least 9. The project also reviewed the audited financial statements of Councils.
- 1.3 The output from the research takes the form of the report set out in Attachment 1, which draws the following conclusions;
  - 1.3.1 Interviewees are generally satisfied with the current audit arrangements, in which Local Government audits are provided by private sector auditors.
  - 1.3.2 Interviewees were generally satisfied with the quality of the work provided in their own organisation and the fees charged for these services.
  - 1.3.3 Concerns were raised about the lack of consistency between private sector auditors, the quality of some audit work, auditor independence and the lack of an oversight of Local Government audits in South Australia.
- 1.4 The report proposed four alternatives to address these concerns;
  1. *Retain the current system (Local Government audits conducted by private sector audit firms).*
  2. *More formalised oversight body be created.*
  3. *Auditor-General as auditor for Local Government, with a portion of audit work outsourced.*
  4. *Auditor-General as auditor for Local Government, with no outsourcing of audit work.*
- 1.5 Alternatives 1 and 3 received the most support from interviewees.
- 1.6 The LGA has invited feedback from Councils on this report through the completion of an on-line survey by the 3 April 2017. This survey asks 4 questions in the following format;
  1. **Have you read the Report?**
    - Yes
    - No
    - Read the summary
    - Skimmed it

*Any additional comments on this question...*

**2. Did it canvas the full range of issues?**

- Yes – it was comprehensive
- It covered most of the relevant matters
- It omitted one or more important things
- It focused on some things that are irrelevant

*Any additional comments on this question...*

**3. Which of the four options is preferred?**

- Retain the current system
- Some formal audit oversight body other than the Auditor General
- Auditor-General authorises and outsourced Local Government auditing
- Auditor-General Audits Local Government without outsourcing

*Any additional comments on this question...*

**4. Any other comments you would like to make?**

- 1.7 The timeframe for response to the survey is such that it is not possible to present the report to Council via the Audit Committee. The LGA has been approached to determine whether an extension of the response time is possible and the advice received is that it is not. On that basis this report has been prepared to seek endorsement of the proposed City of Salisbury response to the survey.

**2. CONSULTATION / COMMUNICATION****2.1 Internal**

- 2.1.1 A copy of the report *Who Should Audit Local Governments in South Australia?* has been circulated to all elected members and the independent members of the Audit Committee of Council.

**3. REPORT**

- 3.1 The attached report does not include a firm recommendation regarding the audit arrangements for Local Government financial statements, it concludes with the comments; “*transferring Local Government audits under the auspices of the Auditor-General should be considered as a serious alternative. Such a consideration should include an extensive consultative process with all affected key constituents*”. This conclusion is based on the interviews with 27 people and as such may not appropriately represent the views of all Councils in South Australia.
- 3.2 In considering the options put forward in the report, all four options would ultimately produce the same piece of work, an audited set of financial statements, the format of which is subject to regulations and guidelines. The options only differ in who should produce this piece of work. Each of the four options is discussed below in the order that they appear in the attached report and in the Background section of this report.

### 3.3 Option One - retain the current system

- 3.3.1 This option is most likely to provide the best value for money, as it does not involve the funding of a new oversight body or giving additional funding to the Auditor-General. It should be noted that the report gives no indication that Councils should be made to pay for either the new oversight body or the additional resources needed by the Auditor-General, however there is no clear indication in the report of where the additional funding would come from. This was one of the preferred options of the interviewees.

### 3.4 Option Two – more formalized oversight body

- 3.4.1 This option is undefined to the extent that there is no indication in the report as to what this oversight body would look like, how much it would cost and who would pay for it. Very little of the report discusses the option and it was not favoured by the interviewees.

### 3.5 Option Three – Auditor-General as auditor, portion of work outsourced

- 3.5.1 This option was favoured by the interviewees, together with Option 1, however it would appear to offer little benefit over the existing system of private sector firms conducting audits, but with the added cost of the Auditor-General coordinating these resources. There is a possibility, therefore, that Councils could receive exactly the same audit that they currently receive, conducted by the same audit firm, but at a higher cost to cover the administration/coordination of the audit by the Auditor-General. The argument in favour of this option is that it should encourage consistency, but there is limited capacity to guarantee this when using a selection of independent audit firms, each with their own processes and procedures.

### 3.6 Option Four – Auditor-General as auditor, no work outsourced

- 3.6.1 As with Option Two, this Option was not favoured by the interviewees. There is some concern that this Option will require significant additional funding to address increase resources required by the Auditor-General's office to deliver the increased workload. However, it should be noted that this option does have the advantage of ensuring consistency of audit work across the Local Government sector.
- 3.7 None of the concerns raised in the report are shared by the City of Salisbury in relation to the audit firm that currently conducts the annual external audit of the financial statements.

## 4. **CONCLUSION / PROPOSAL**

- 4.1 Overall of the four options proposed in the report titled "*Who Should Audit Local Governments in South Australia?*", Option 1, retaining the current system is the option that is least likely to increase the costs of the annual financial audit to the City of Salisbury. For this reason and because any additional value in the other options cannot be clearly quantified, it is proposed to respond to the LGA questionnaire expressing support for Option 1, retaining the current system.

- 4.2 It should be noted that an individual may respond to the LGA questionnaire, expressing a view in relation to the preferred option for the conduct of financial audits within the Local Government sector. Members of the Audit Committee of Council have been provided with details of the LGA Circular/Questionnaire and may choose to express a personal view regarding the options for conduct of Local Government audits.

**CO-ORDINATION**

Officer: MG  
Date: 15/03/2016





Report to the Local Government Association of South Australia

**Who Should Audit Local Governments in South Australia?**

A Consideration of the Costs and Benefits of Alternative Arrangements

By Dr Sabine Schührer

#### **Acknowledgement**

This report summarises research undertaken based on funding received from the Local Government Association of South Australia's Research and Development Scheme. I would like to express my gratitude to the Local Government Association of South Australia for funding this research. I would also like to thank the individuals who agreed to participate in this research project, the individuals who were prepared to support this project with their expertise and insights and the members of the South Australian Local Government Finance Management Group, who supported me throughout this project. Lastly, I would like to thank my research assistants, Yuki Wei and Hui Situ, for their excellent contribution.

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### 1. Executive Summary

This research found that many interviewees are generally satisfied with the current audit arrangements, in which Local Government audits are provided by private sector auditors. In particular, many interviewees were generally satisfied with the quality of the work provided in their own organisation and the fees charged for these services.

At the same time, a larger number of interviewees raised concerns about the current audit arrangements. The main issues arising from this research project are that there:

- Is a lack of consistency of what auditors accept with regard to interpretation and application of accounting standards
- Are concerns about the quality of some audit work
- Are concerns about auditor independence
- Is currently no oversight over Local Government audits in South Australia
- Appears to be a threat to audit quality due to the low audit fees being paid in South Australia.

These issues were further supported by the analysis of additional archival data. While there are a number of ways these issues could be addressed, the data collected and analysed for this report suggest that a mandate for Local Government audits by the Auditor-General should be a serious consideration.

## 2. Background, Methodology and Limitations of the Report

The purpose of this research project was to investigate the costs and benefits of alternative Local Government audit arrangements, in particular audits by private sector auditors versus the Auditor-General. Ethics approval for the research project was obtained by the Human Research Ethics committee of the University of Adelaide. The main data sources were interviews, financial statements of Local Governments across Australia and other relevant archival documents.

A call for participants for the project was made directly to the members of the South Australian Local Government Finance Management Group and a Circular by the Local Government Association of South Australia. Overall, 27 individuals directly involved with Local Government audits were interviewed. They represented the following groups as shown in Table 1.

*Table 1 Interviewees*

Group	Number of interviewees	Number of represented entities
Finance Managers/CFOs	9	9 councils
CEOs	2	2 councils
Auditors <ul style="list-style-type: none"> <li>Private sector audit partners</li> <li>Auditor-General/Auditor-General staff across Australia</li> </ul>	6 4	6 audit firms 3 Auditor-General's Departments and 1 Auditor-General's organisation
Managers Internal Audit	3	3 councils
Audit committee members	6	Minimum of 9 local councils and 5 entities controlled by local councils
Consultants	3	n/a
<b>Total representations</b>	<b>33</b>	

The higher number of representation (33 as compared to 27 actual individuals) arises as some individuals represented more than one group. More specifically, most audit partners and consultants are also audit committee members at Local Government councils or Local Government controlled entities.

Interviewees were asked about the tendering process of their auditors and their thoughts on current and alternative audit arrangements. When interviewees noted their preference for one alternative (e.g. Local Governments should be audited by private sector auditors), they were asked about their reasoning. They were then confronted with alternative arguments and asked their thoughts about these. The interviewees were further asked about their thoughts on whether it would matter to citizens, council members or audit committee members who is the auditor of the Local Government's financial statements. Lastly, the interviewees were asked whether there were any other issues they thought was relevant to the topic to ensure that all relevant arguments were heard.

To provide a better context, data from Australian States and Territories, as well as New Zealand and the UK was collated and analysed. This included financial statements, data from grants commissions, parliamentary reports and reports of Local Governments by Auditor-Generals.

At this stage, I would like to highlight a number of limitations of this report which should be considered when interpreting and using the information provided. The interviews present a qualitative aspect of this research project. As with any qualitative research, caution must be taken when collecting, analysing, presenting and interpreting the information. For example, there may be a self-selection bias during the collection phase, i.e., individuals with strong opinions or confidence might be more willing to participate than others. A proportionately large number of audit committee members were from rural or smaller councils, which should also be considered in the interpretation of the presented data. During the analysis and presentation phase, care needs to be taken to ensure that the views are understood and presented in a manner that reflects the content in an appropriate manner not to distort the intended meaning. Here, it is important to present a balanced and complete picture of the issues discussed during the interviews. It is not necessarily appropriate to suggest that an issue that was only raised by one interviewee is less important or valid than an issue that was raised by many interviewees.

To supplement the shortcomings of the interview data, data from archival documents were considered. However, these data too, have limitations. For example, to put Local Government audit fees into perspective in section 4.d., 'total expense' data from grants commissions across Australia were used. These data are, however, not collected in the same basis across Australian jurisdictions. For example, some jurisdictions provide expenses as presented in the financial statements, whereas other jurisdictions present modified 'standardised' or 'assessed' figures. Where this is the case, it has been noted in the report. In addition, the use of 'total expense' as a basis for the analyses presents further limitations, which should be kept in mind when interpreting the results. The size of total expense might not necessarily reflect the size and complexity of the organisation as a basis for comparisons as, for example, reflected in the case of Queensland Local Governments (for more detail, please refer to p. 26). Additional alternative ways of analysing data might result in different findings. For example, audit fee could have been investigated as a percentage of the budget, total revenue, based on rateable properties or the population of councils. Total expenses were selected because it appeared to be the best fit for the analysis in the current circumstances. Revenue figures were unreliable across jurisdictions, mostly due to the fact that there was no easy way to assess how Federal Assistance Grants were treated. Analysis based on population or rateable properties did not provide valuable insights for our purposes as some councils have a comparatively small population, but very complex and large council activities (e.g., the main city councils), whereas others are the opposite (e.g., very small rural councils). We performed a regression analysis of audit fees based on the population of councils, but the results were less significant. We were not able to hand-collect budget figures from all councils due to a limitation of resources.

When comparing data from Local Governments across Australia, it is important to keep in mind that there are often significant differences in the respective regulatory, socio-economic or geographic environment. I have attempted to highlight these where relevant, but as the focus of this project is on South Australia, there might be other factors that have not been taken into account due to the time and resource limitations of this project.

### 3. Current arrangements and developments in Australia, New Zealand and the UK.

#### a. South Australia

Currently, Local Governments in South Australia are audited by private sector auditors and Local Governments can choose their auditor. There has been an ongoing debate about the audit arrangements of Local Governments in Australia.

The LGA produced a number of documents on this issue. In 2005, the LGA commissioned an independent inquiry into the financial sustainability of Local Government in South Australia. The inquiry was commissioned "pursuant to a resolution of the LGA State Executive Committee and mindful of a motion being debated in the SA House of Assembly calling on the LGA to establish such an inquiry".

In 2007, the LGA produced a discussion paper on Local Government Audits. The paper noted that the "Auditor-General [noted] that Local Government Act provisions related to auditing were not as robust as that required under the Public Finance and Audit Act"<sup>1</sup>.

In 2009, the Local Government (accountability framework) Amendment Act 2009 introduced the audit of internal controls of Local Governments. The legislation was rolled out over a number of years, with the first opinion on internal controls to be required for urban councils for the financial year 2014/15 and for rural councils for financial year 2015/16.

In 2013, the *Public Finance and Audit Act 1987 (SA)* was amended to expand the powers of the Auditor General in relation to Local Governments. The amendments allow the Auditor General to examine the accounts, efficiency and economy of Local Governments or Local Government projects on their own volition, whereas such examinations had previously been conducted by request of the Treasurer only.

To date, the Auditor General has presented one report relating to Local Governments, i.e. the report on the Local Government indemnity scheme. In the financial year 2015/2016, the Auditor General's office implemented a Local Government review methodology for planning, executing and reporting on Local Government examinations.<sup>2</sup> Currently, examinations into the Brown Hill and Keswick Creeks Stormwater Management Project and the governance arrangements in Local Government are conducted.<sup>3</sup>

In 2013, the South Australian Local Excellence Expert Panel recommended in its report *Strengthening South Australian Communities in a Changing World* "that the Auditor General assumes responsibility for Local Government auditing on a basis to be agreed between the LGASA and the State Government."<sup>4</sup>

In June 2016, the Economic and Finance Committee of the Parliament of South Australia tabled its *Final Report on the Inquiry into Local Government Rate Capping Policies*. The report recommended

<sup>1</sup> Local Government Association of South Australia (2007), Local Government Financial Audits – Discussion Paper, p. 6.

<sup>2</sup> Report on the Operations of the Auditor General's Department 2016, p.2.

<sup>3</sup> Report on the Operations of the Auditor General's Department 2016, p. 10.

<sup>4</sup> Local Excellence Expert Panel (2013), *Strengthening South Australian Communities in a Changing World*, p.5.



that "Councils be subject to a thorough auditing process under the auspices of the Auditor-General, consistent with section 36 of the Public Finance and Audit Act 1987."<sup>5</sup>

*b. Australian Capital Territory*

Not applicable.

*c. New South Wales*

The NSW government passed the Local Government Amendment (Governance and Planning) Bill 2016 on 25 August 2016, which stipulates that the Auditor General will be the auditor of Local Governments from this financial year. The amendments include the power for the Auditor General to conduct sector wide performance audits.

The changes came as a result of an inquiry by the Independent Local Government Review Panel, which was appointed by the NSW government in 2012 "to formulate options for governance models, structures and boundary change". The Panel released a final report of its review Revitalising Local Government in October 2013. The report states:

*"The Panel is convinced that NSW should follow the example of Queensland and Victoria in placing Local Government audits firmly under the aegis of the Auditor General. This is the best way to ensure consistency of approach and provision of reliable data that can be used for sustainability assessments and benchmarking. Most audits would continue to be carried out by private firms, but under the supervision of the Auditor General, who would also prepare an annual overview report to Parliament, providing an independent assessment of the financial health of the Local Government system. The Panel sees this as a major step forward for the sector."*<sup>6</sup>

*d. Northern Territory*

Local Governments are currently audited by private sector auditor. The Auditor General does not have a mandate for Local Governments.

*e. Queensland*

In accordance with the *Local Government Act 2009 (QLD)*, the Auditor-General is the external auditor for Local Governments in Queensland. Since 2011, the mandate includes performance audits.

A significant amount of the Queensland Auditor Office's audits, including audits of Local Governments, are outsourced. According to the 2015/2016 financial statements of the Queensland Audit Office, payments to contract (supplies and services) auditors were approximately \$14 123 million compared to approximately \$20 838 million spent on employee related expenses.

*f. Tasmania*

In accordance with the *Tasmanian Audit Act 2008*, the Auditor-General is the external auditor for Local Governments in Tasmania. The mandate includes performance audits.

<sup>5</sup> Parliament of South Australia Economic and Finance Committee, 91<sup>st</sup> Report: Inquiry into local government rate capping policies, p. 6.

<sup>6</sup> Final Report of the NSW Independent Local Government Review Panel October 2013, section 5.4, p. 36.



In Tasmania, a smaller percentage of audits is outsourced compared to Queensland and Victoria. According to the 2015/2016 financial statements of the Tasmanian Audit Office, payments to contract (supplies and services) auditors were approximately \$1 321 million compared to approximately \$4 964 million spent on employee related expenses.

*g. Victoria*

In accordance with the *Audit Act 1994 (VIC)*, the Auditor-General is the external auditor for Local Governments in Victoria since 1995. The mandate includes performance audits.

A large amount of audits are performed by private sector auditors. According to the 2015/2016 financial statements of the Victorian Auditor-General's Office, payments to contract auditors were approximately \$11 893 million compared to approximately \$23 238 million spent on employee related expenses.

*h. Western Australia*

The Liberal National Government introduced the *Local Government Amendment (Auditing) Bill 2016* to improve accountability and transparency in the sector. The Bill proposes that Local Government audits requiring all audits to be done under the supervision of the Office of the Auditor-General of Western Australia from 1 July 2017 onwards. It also introduces a requirement for performance audits. The Bill is currently before the Legislative Assembly.

The Office of the Auditor General Western Australian outsources some of their audit work. According to the 2015/2016 financial statements of the Office of the Auditor General (Western Australia), payments to contract auditors were approximately \$4 601 million compared to approximately \$15 330 million spent on employee related expenses.

One interviewee noted that it is the intention that much of the Local Government audit work will be outsourced, but no further detail was available.

*i. New Zealand*

As per paragraph 14 (1) of the *Public Audit Act 2001 (New Zealand)*, the "Auditor-General is the auditor of every public entity", including Local Governments. The Auditor General's mandate includes performance audits and a consideration of the long-term strategic plans of Local Governments.

Audits are conducted by staff of the Auditor-General (more specifically, a business unit of the Controller and Auditor-General which operates like a business unit, with the objective to break even, rather than profit making), as well as private auditors (Big 4, as well as small and medium size audit firms). According to the 2015/2016 financial statements of the Controller and Auditor-General (Tumuaki o te Mana Arotake), payments to contract auditors were approximately \$34 705 million compared to approximately \$40 875 million spent on employee related expenses.

*j. UK*

The UK Local Government audit environment has been subject to a number of significant changes over the last decades. From the early 1980s, the Audit Commission (a statutory corporation) was responsible to appoint auditors to Local Governments. In 2010, it was announced that the Audit Commission was to be abolished. From 2017 onwards, Local Governments will be able to appoint

auditors themselves. The oversight for Local Government audits will move to the Financial Reporting Council, a private sector body that also overseas audit quality for the private sector.

#### **4. Costs and benefits of alternative audit arrangements for Local Governments in South Australia**

##### *a. Appointing Local Government auditors*

Interviewees were first asked about the tendering process of auditors. More specifically, they were asked what factors determined the selection of their auditors and what determined the price of an audit. The analysis of the interviews highlighted a number of matters of interest. For example, most interviewees refer to price as a main determining factor of the decision-making process. While some Finance Managers and Audit committee members suggested that they did not “go with the cheapest” tender, they suggested that if they viewed that the quality of the auditor (reputation) as similar, the cheaper offer was selected. It appears that there is a select group of audit firms who are viewed as experienced Local Government auditors in South Australia.

Some interviewees expressed disappointment of the lack of Big 4<sup>7</sup> audit firms in the South Australian Local Government audit market. The analysis of financial statements confirmed the absence of Big 4 auditors in South Australian Local Governments, where only one council was audited by a Big 4 audit firm. In other states currently audited by private sector firms, there is a larger representation of Big 4 audit firms (in particular, PwC, Deloitte and KPMG) and larger second-tier audit firms (such as BDO, Pitcher Partners, Moore Stephens, Grant Thornton). Some interviewees suggested that the absence of larger audit firms was due to the small profit margins available in South Australian Local Government audits. It is not known which firms undertake contract work for the Auditor Generals in Queensland, Victoria or Tasmania.

Interview data also suggest that smaller rural councils are more price-sensitive than larger councils. Interviewees suggested that this might be because smaller councils are under-resourced, both financially as well as in relation to accounting and finance staff. As a result, the potential value of a good quality audit might not be fully explored and appreciated and is instead be seen as a necessary ‘tick-off’ item.

##### *b. Alternative Local Government audit arrangements*

Interviewees were then asked about their thoughts on the current auditing arrangements of Local Governments as well as potential alternatives. The alternative arrangements discussed were as follows:

- Alternative 1: Retain current system (Local Government audits conducted by private sector audit firms)
- Alternative 2: More formalised oversight body
- Alternative 3: Auditor-General as auditor for Local Government, portion of audit work outsourced
- Alternative 4: Auditor-General as auditor for Local Government, does not outsource any work

<sup>7</sup> The Big 4 audit firms are Deloitte, Ernst & Young, KPMG and PwC.

The distribution of preferences for alternative audit arrangements is presented in Table 2.

Alternative 4, the Auditor-General to have mandate of Local Government audits and to conduct audits with their own staff, was not seen as a valid alternative, as respondents suggested that the Auditor-General would not have the resources to conduct Local Government audits with their own staff. Interviewees also highlighted the importance of this work for the local business community.

*Table 2: Distribution of preferences for alternative audit arrangements by Interviewees*

Group	Alt 1	Alt 2	Alt 3	Alt 4	Total number of interviewees
Finance Managers/CFOs	4	3	3		9
CEOs	1				1
Auditors					
• Private sector audit partners	2	1	2		5
• Auditor-General/Auditor-General staff across Australia	1		3		4
Managers Internal Audit	1	1	2		3
Audit committee members	1		4		4
Consultants					2
<b>Total representations</b>	<b>10</b>	<b>5<sup>8</sup></b>	<b>15<sup>9</sup></b>	<b>0</b>	<b>27</b>

Alternative 2, a formalised authority which would provide advise/direction/oversight for Local Government audits, was an acceptable alternative by five interviewees, three of who also saw Alternative 3 as a valid option. Suggestions for initiatives for increased oversight and external quality assurance included increasing the responsibilities of local government audit committees (for example to give audit committees responsibilities for the tender process of audit services) or making auditors of Local Governments subject to oversight by the South Australian Auditor-General or the Australian Securities and Investments Commission. Another alternative that was mentioned that an South Australian oversight body could be created, which would comprise of representatives from the Auditor-General's Department, the Local Government Association and Councils.

Alternative 1, retain the current system, and Alternative 3, Auditor-General with mandate for Local Government audits, outsourcing a large proportion of work to private sector auditors, were the two alternatives which were preferred by the largest number of interviewees. These alternatives are discussed in the remainder of this section.

In essence, the research project investigates the balance of value for money of the two alternatives. As a result, the following paragraphs consider quality and scope of Local Government audits versus the price of the audits of the two alternatives.

<sup>8</sup> This number includes three individuals who suggested a preference for either Alternative 2 or Alternative 3.

<sup>9</sup> This number includes three individuals who suggested a preference for either Alternative 2 or Alternative 3.

*c. Quality and scope of audit*

The quality of audits has many aspects and is not straight-forward to assess. While many interviewees were generally satisfied with the services provided by their current auditors, a majority also raised issues related to the quality or scope of current audits.

In relation to the scope of the audit, interviewees highlighted the Local Governments' objectives for effective and efficient delivery of public services and, hence, the need for respective performance audits. This matter was mainly raised by interviewees who had prior experiences at the State/Territory or Federal Government level. One interviewee representing the Auditors-General's group noted:

*"Local Government because they strike their rates, and they spend within their revenue broadly speaking, but that doesn't tell you anything about their efficiency and effectiveness.*

*So I think there's two dimensions to assessing efficiency and effectiveness: one is comparison or benchmarking of similar jurisdictions, similar Local Governments, and the other one is you've got to do a performance audit."*

Performance audits are currently only regularly performed in jurisdictions where the Auditor-General has the mandate for Local Government audits. The costs of sector wide performance audits are at least in some jurisdictions charged to government, rather than the local councils.

Some indicators of quality arose from interviews, including consistency across the financial statements of Local Governments, quality of the auditor and their work, auditor independence and the current lack of an oversight function. In addition, indicators informed by academic and other literature (e.g. reports by standard setting or oversight bodies) were investigated. These included the timeliness of the audit, the number of qualifications of audit reports over time and transparency of audited financial statement information.

*i. Consistency of accepted treatments of financial information by auditors*

Consistency in relation to what auditors would accept in relation to the application and interpretation of accounting standards was mentioned by almost all interviewees. Only three individuals did not mention this issue and noted that they were not aware of consistency issues in Local Government. Specific examples of concern included the initial and subsequent valuation of non-current assets in accordance with *AASB 13 Fair Value Measurement* and the recognition of grants revenue under *AASB 1004 Contributions*. AASB 13 suggests that a relevant asset should be valued at its highest and best use. There was some debate among the profession across Australia as to how this requirement should be interpreted. At least one audit firm interpreted AASB 13 to mean that the current use of a Local Government asset was not its highest and best use. As a result, the asset was valued at zero, despite being valued at a multi-million dollar amount by the external valuers. Most other South Australian audit firms, however, assumed that the current use of the asset was the highest and best use.



In relation to the recognition of grant revenue, AASB 1004 requires grants that are untied (i.e., the organisation can determine on what and when to spend the grant monies) to be recognised in the financial year it is received. In some years, grants for a financial year are, however, received several days before the start of the respective financial year. For some councils, these grants are a main source of revenue and the early receipt of the grants can present major volatility in the results of the financial statements. While this effect is acknowledged in the industry, AASB 1004 does require the recognition of income at receipt. At least one audit firm, however, allowed the recognition of these grants as a liability (revenue received in advance). This led to an adverse audit opinion in the following financial year, when a new auditor was appointed to the organisation.

Some interviewees suggested that the lack of consistency is something that is a normal aspect of the profession and that such issues occur, in particular when new regulatory requirements are implemented. Most participants, however, expressed a desire for an authority to consult with and to provide clear directives as to what was acceptable and what not. Interviewees noted the work that was undertaken by the South Australian Local Government Auditors Group (SALGAG), but suggested a preference for the Auditor-General as an independent body (refer to Table 1 above).

ii. Quality of the auditors and their work

Most interviewees acknowledged that the work currently performed by private sector auditors is generally of high quality. One interviewee highlighted that private sector auditors would bring valuable insights from the private sector, which an Auditor-General would not be able to provide. Interviewees suggested that current audit firms have developed a deep understanding of the complex and specific Local Government environment. Concerns were raised as to whether the Auditor-General would have the expertise required to investigate Local Governments. Interviewees acknowledged that the Auditor-General would need time and resources to gain an appropriate level of local government expertise. With the amendments to section 32 of the Public Finance and Audit Act 1987 (SA), the Auditor-General of South Australia is arguably in the process of deepening their understanding of the sector.

Some interviewees noted that it would be an advantage of the Auditor-General to have a public sector perspective. One interviewee explained:

*“So the private sector has as a real driver, they’re very concerned about the prospect of litigation if they haven’t followed the auditing standards in terms of making sure that everything’s got a true and fair view. So they’re very driven; they know exactly that they’re doing and what they’re looking for. We are, I mean equally we’re concerned about the auditing standards, but we’re also concerned about reporting to Parliament on any shortcomings that need to be drawn to people’s attention. If I could give you some examples that if credit card spending of a few thousand dollars is inappropriate in a public corporation, that’s not an issue that would feature in an audit report at all because it’s not material and it doesn’t impact on the fair presentation of the financial statements, whereas in the world I audit, inappropriate*

*use of credit cards is a major issue and the Parliament wants to know about it and they expect me to be looking at it. So we're looking at a whole lot of issues to do with accountability for what I always call "other people's money", but it is looking after the interests of the tax payer and reporting to the Parliament on what the government agencies are doing with the resources that the taxpayers have provided to them."*

An additional benefit of an Auditor-General mandate was their potential to offer a sector-wider perspective. This would enable better benchmarking and comparisons across the sector. Another benefit of this aspect would be that the Auditor-General would have to prepare a Local Government sector report for parliament. This would arguably focus the attention of parliament and the public on Local Government issues more than is currently the case. One interviewee said:

*"An Auditor General has a view across the sector and is able to identify good practice, poor practice, and able to actually look holistically across the whole sector, which any individual auditor can't do."*

Some interviewees raised concerns in relation to the quality of Local Government audits in relation to fees paid by councils. While Local Government finance managers saw current prices mostly as an advantage, concerns were raised mostly by representatives of the private sector auditors themselves and representatives from the Auditor-General's group, as well as other individuals with State or Federal Government Background:

*"There's audits being done for \$9,000 – you can't do a proper audit for that price and actually make money off it, even if you've got scale and volume."*

*"Time is money is what it comes down to at the end of the day, and if the money's not there someone is not going to spend the time. Or, they'll put the time but the wrong level of resources, and I think that could be the other issue. But that all relates to quality."*

*"Indicative of my concerns I think the private sector has the ability to fly under the radar of any quality regulator. Which means there is concern, I have a concern that there are providers out there that are not... it's hard for me to categorically say that they're not doing a good job. I don't know. But I am concerned that they are cutting corners to just win work, which is not providing the best outcome or advice for the sector. I certainly hope that's not the case, but that is a concern I think with private, with it being a privatised kind of sector in the local market."*

Regulators in the U.S, U.K and Australia have raised fears that pressures on audit fees lead to reduced quality of financial statements in the private sector. For example, Paul Beswick, Chief Accountant at the U.S. Securities and Exchange Commission, suggested that fee cuts can put "pressure on the nature of the services".<sup>10</sup>

<sup>10</sup> The Wall Street Journal, SEC Grows Suspicion of Declining Auditor Fees, 24 February 2014

In 2012, the U.K Financial Reporting Council, the oversight body for the auditing profession, found that, amid pressures from the market, auditing firms had engaged in cost-cutting measures “putting audit quality at risk”<sup>11</sup>. Paul George, executive director of conduct at the U.K Financial Reporting Council, was quoted as saying that “audit needs to represent value for money but there needs to be appropriate controls to ensure that giving significant fee reductions doesn’t undermine the quality of work being performed.”<sup>12</sup>

The Australian Securities and Investments Commission issued *Report 461: Audit Inspection Program Report for 2014-15* and found more room for improvement in smaller audit firms compared to the larger audit firms, in particular in relation to their quality control systems.<sup>13</sup>

The quality of the work of Auditors-General is subject to a number of quality assurance tools. For example, the Victorian Auditor-General lists a number of systems which are employed to ensure they audit quality, including:

- *“Surveys of MPs—MPs are surveyed annually on the usefulness of VAGO’s reports and their satisfaction with our work.*
- *‘Cold’ and ‘hot’ reviews—process reviews of individual audits.*
- *Report quality reviews—-independent external reviewers assess the quality of a report and whether it is clear and understandable to readers.*
- *Surveys of agencies—regular surveys of audited agencies, including those involved in the conduct of audits, departmental secretaries and audit committee chairs.*
- *Benchmarking—against other audit offices in Australia.*
- *Parliamentary accountability measures—VAGO is subject to an annual financial audit and a triennial performance audit conducted on behalf of Parliament, and also consultation requirements for aspects of our practices.”<sup>14</sup>*

As Auditor-General’s Departments are subject to a rigorous regulatory environment and heightened public scrutiny, their quality can be assumed to be of high standard. This was reflected in comments made by interviewees who confirmed that there is a general perception that the Auditor-General’s work is of high standard. Only three interviewees suggested that they had adverse experiences with Auditor-Generals. A finance manager suggested that his experience with the Auditor-General was that they were much more concerned with procedures and processes, rather than efficiency and effectiveness. A private sector auditor said:

*“I’ve never ever seen a situation where the Auditor General either carrying out the audit or supervising who’s carrying out the audit, has smoothed and facilitated the process. He generally slowed it down, made it much pricklier, much less comfortable.”*

<sup>11</sup> AccountancyAge, FRC fires warning shot over audit quality, 13 June 2012.

<sup>12</sup> Ibid.

<sup>13</sup> ASIC, Report 461: Audit inspection program report for 2014-15, December 2015.

<sup>14</sup> Victorian Auditor-General’s Office, Assuring VAGO’s quality, [http://www.audit.vic.gov.au/about\\_us/assuring\\_vagos\\_quality.aspx](http://www.audit.vic.gov.au/about_us/assuring_vagos_quality.aspx), retrieved 23 November 2016.

On the other hand, a private sector auditor said that:

*"[having the Auditor-General as the responsible auditor] adds an extra layer of quality assurance I suppose. To be honest, it's been really good for us as a firm. We've certainly lifted our quality over that time. I mean, part of that is just the natural passing of time and our quest for continuous improvement but certainly, having that extra layer of scrutiny over the top definitely sort of forced us to increase our quality even further or perhaps faster than we might otherwise have done it. Yeah, I mean, the Auditor General has a bit of a different focus to what's required under the Auditing Standards."*

### iii. Auditor independence

An important aspect of audit quality is their independence. *APES 110 Code of Ethics for Professional Accountants* describes independence to be to be of mind and in appearance. K. F. Brigden, AO, the tenth Auditor-General for Australia, wrote in a report to parliament:

*"Audit independence and audit effectiveness can amount to much the same thing. If an auditor does not enjoy independence from the bodies subject to audit it will be only a matter of time before some measure of control by auditees becomes apparent. When that happens, the effectiveness of the audit process will inevitably suffer. In practical terms, impairment of the auditor's independence is synonymous with impairment of audit effectiveness."*<sup>15</sup>

Nine interviewees raised issues relating to audit independence under the current arrangements. For example, an audit committee member said:

*"The basic problem is [the auditor's] conflict: They are appointed by councils and are reluctant, in my view, to push hard on issues that might jeopardise their commercial relationship with the council."*

Another auditor who is also an audit committee member recalled the following:

*"Council members want an auditor who doesn't qualify them. [...] We also had a chair who was very concerned about getting an auditor who wouldn't qualify the council, and I did raise that that's not actually what you're after; you're after an auditor who does the job. If there's a qualification, then you need to know that, you don't want an auditor who is frightened of telling you the bad news. [...] If an auditor is very open with the audit committee and council about issues, they tend not to get the job when the round comes around again. External auditors are interested in getting non-external audit work when their turn is over"*

An audit committee member<sup>16</sup> said:

*"Particularly larger firms where you've got multiple partners, and they just swap it from partner to partner, because the Chinese wall has to be rigid and has to go all*

<sup>15</sup> Parliament of Australia, Papers on Parliament No 26, August 1995

<sup>16</sup> An earlier version of this report misattributed this comment to a local government auditor.



*the way down the organisation, you can't have the same junior audit clerk auditing receipts for two different partners, so I'm not in favour of Chinese walls. [...] The audit committees I'm on have only just joined in the last six months, have recently had three internal audit assignments undertaken by their external auditors, and it's permitted"*

One finance manager recalled that they were unhappy with the performance of an auditor and cited this as a reason not to renew their contract:

*"That's why I didn't renew their contract. Because our quick ratio [...] was unfavourable. And [the auditor...] caused the CEO a lot of consternation about implying that the organisation was maybe insolvent. But it was stupid because 11 months out of 12 the ratio was very, very good. It's because we have guaranteed income with rates so at the end of the year we borrow short term and repay it rather than taking out borrowings and having money in the bank. So it was a treasury function and I can't understand how [the auditor] didn't get that. So I got quite annoyed about that, and he didn't seem to want to listen. So yeah, that was terminated."*

A representative from the Auditors-General's group highlighted the issue of audit independence for rural councils:

*"When everybody knows everybody in a small community, and the service provider's sitting on the council and all the rest of it, quite often the auditor's in a similar situation, so it's not best practice independence."*

In a related issue, interviewees emphasised that they expected a certain 'value-add' from their auditors. They explained that 'value-add' meant that they could call the auditors for technical advice on accounting issues outside the actual audits and the ability to 'talk through issues'. Some individuals were concerned that these aspects of 'value-add' would reduce or disappear if the Auditor-General would be the auditor for Local Governments. One auditor noted:

*"[If the Auditor-General would come in,] flexibility goes out the window: Under the Auditor General, under the way the Auditor General operates in other states, not allowed to set foot in the place, and so you have the Auditor General ringing up and writing letters to the council, "Where's your statements, where's your draft statements?" No assistance, no one's helping the poor bugger in the small country council, and getting them on the right track, and it does make the whole process so much more rigid, and feedback that I've had from auditors and from staff is that it just doesn't help the client-audit relationship at all."*

On the other hand, a representative from the Auditors-General group emphasised the importance of a good working-relationship with local governments. The representative said the following about the potential implementation of the move to the Auditor-General for Local Government audits:

*"[And one element of the implementation process] is just engagement with the local governments ourselves. So I've just started very, very slowly with that because it's a bit tricky; until the legislation is actually law it's a bit hard to step in and start doing work with the local governments themselves. But I have met with the head of the Local Government Association here; [they] arranged a couple of functions [...] to meet with and talk with Chief Executive Officers of local government, and that process has started and will be ongoing. But we will later in the year look to recruit auditors, either ones who have worked in the local government sector and who have skills and knowledge in that area, or alternatively recruit some auditors and run them through some training in the sector and get them up to speed so that we can actually hit the ground running".*

A good working-relationship between Local Governments and their auditors is seen as an important part of audit arrangements by most interviewees. The difficulty is in ensuring that there is no threat to auditor independence while maintaining an efficient and effective relationship and addressing the limitations of the current arrangements.

iv. Audit oversight and the role of the Auditor-General

An external oversight body is often seen as a quality assurance tool. There is currently no external control system or oversight body over Local Government audit arrangements in South Australia. This is arguably a main shortcoming of the current Local Government audit arrangements.

In the U.K., private sector auditors of Local Government audits were subject to the oversight of the Audit Commission, a statutory corporation. From 2017 onwards, the oversight function will be transferred to the U.K. Financial Reporting Council, the equivalent to the Australian Securities and Investments Commission. In some Australian jurisdictions, Departments of Local Government might be involved with oversight. This is, however, not the case in South Australia. A representative of the Auditors-General groups noted:

*"In the private sector you've got to be honest and things like that, but they've got a marketplace to keep them honest, and they've got ASIC and if they're a financial institution they've got APRA, they've got regulators looking at them. In the public sector the Department of Local Government's all things to all people, it's advising the Minister, and it's probably as close as you come to a regulator in Local Government but they're not set up to regulate generally speaking. They've got, usually got an under resourced inspectorate that reacts to complaints and allegations of improper behaviour. It's not a true regulatory regime in the sense of ASIC or APRA."*

Auditors-General are independent auditors of public sectors and report directly to parliament. In a paper to parliament, John Taylor, AO, Australian Auditor General from 1988 to 1995 discussed the role of the Auditors-General:

*"If the Parliament wants to keep an effective interest in what is being done with power or resources provided by it to the government in the interests of the community as a whole,[23] it must have a clear and formally independent and*

*accountable channel through which it is advised regularly, consistently across programmes, by an official who is independent and apolitical and who can report 'without fear or favour'; who has a clear, unambiguous, legal requirement to look across the public sector as a whole; who has power to allocate available resources according to assessment of risk; who has command of appropriate resources which are independent of the executive, with wide powers of access; and who has the power to report to the Parliament and others relevant as necessary/appropriate. This position or official cannot, in practice and by definition, be privatized; the accounting profession takes a similar view as have the independent auditors of the ANAO."*

A representative from the Auditors-General groups explained their reasoning for why Auditors-General should have the mandate for Local Governments:

*"Local Government is a creation of State parliaments. Local Government comes from the Local Government Act, and effectively everything else created by a parliament is subject to audit by the Auditor General so why shouldn't Local Government. And I take it at the next level: Local Government is using public resources. Now they don't like terming it this way but they extract the revenue by force, they strike a rate and you get no option, you have to pay it. But as a public sector entity they carry with them the public trust obligations that they should manage resources available to them in the public interest and for the common good. And that's a very subjective remit but a fundamentally important one.*

*So from the principle point of view I think there's a very strong case that there's, in my mind, there is no question [Local Government] should be subject to audit by the Auditor General. [...] They impose rates which are effectively taxes. They've the power to resume land. They've got the power to regulate parking and things like that. All the public sector things that aren't embraced by a financial statement audit. And probably just rounding that out: the citizen has little choice. Once you buy your house or your block of land within a municipal area, you're not in a marketplace. You have limited choice. In the private sector you can pick which supermarket you're going to deal with. And it's relatively easy to shift from one to another. But in Local Government, as with State and Federal, most of us don't have much choice about changing jurisdictions."*

Auditors-General are themselves subject to audit and are commonly under public scrutiny. The Australasian Council of Auditors-General (ACAG) collated a set of fundamental principles that underpin the role of Auditors-General. The accountability principle is as follows:

*"The Auditor-General must be fully accountable for the performance and use of public resources in discharging the mandate of the office.*

*The Auditor-General must be primarily accountable to Parliament (not the Executive Government) in a manner consistent with the office's independence."<sup>17</sup>*

<sup>17</sup> Australasian Council of Auditors-General, Role of the Auditor-General.

A representative from the Auditors-General group explained the oversight environment of Auditors-General as follows:

*“Effectively all offices are subjected to oversight, and they’re either subjected to an external strategic review or performance audit every three to four years, or if they’re not they tend to do it of their own volition for their own protection.”*

Auditor independence and audit oversight are closely connected. The current lack of oversight over Local Government audits is a main shortcoming of the current arrangements, which should be addressed.

v. Timeliness of audit opinion

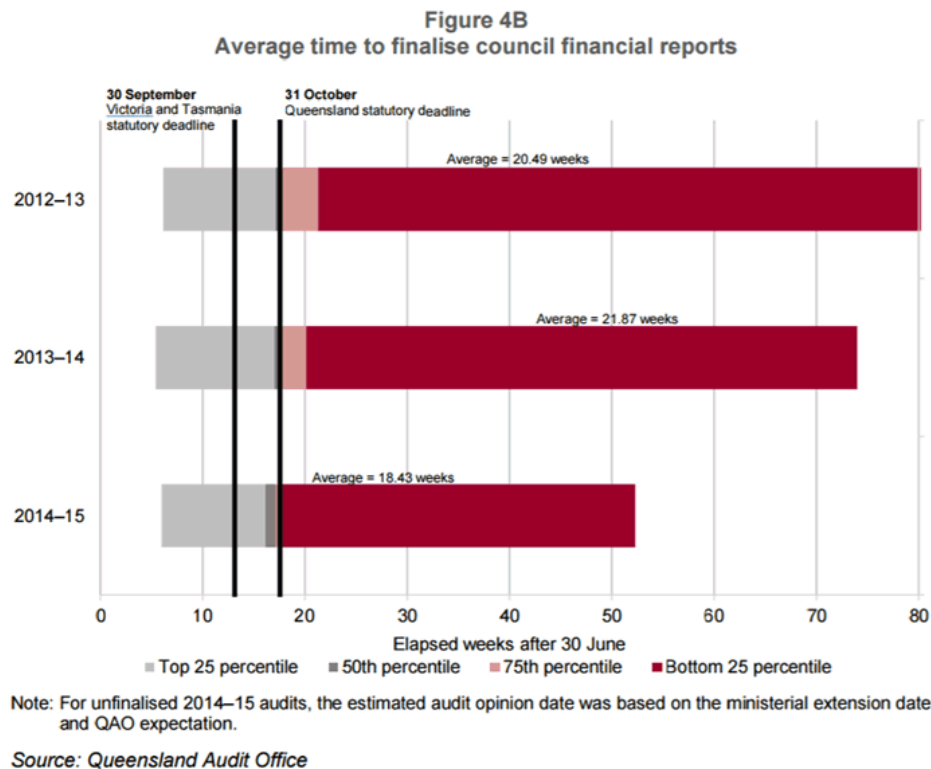
Timeliness of financial statement information is generally seen as a positive sign, as information is more useful to users the more timely it is provided. Timeliness of audit opinions can be seen as a proxy of audit efficiency, provided that the outcome of the audits does not reduce in quality.<sup>18</sup> The Queensland Audit Office notes that “timely reporting is an indicator of the robustness of each individual entity’s governance and financial management processes.”<sup>19</sup> The Queensland Audit Office publishes information about the timely preparation of financial statements in its report about local governments. For example, the report presents information about timely reporting over time presented in figure 1 below.

The interview data suggests that the quality of the audits by Auditors-General is perceived to be at least as good as audits provided by private sector auditors. At the same time, the scope of audits by Auditors-Generals is often broader than that by private sector auditors, for example, because it includes performance audits or regulatory compliance audits. Hence, if Auditors-General are able to provide their audits faster, this would suggest that they are more efficient.

<sup>18</sup> See, for example, W. R. Knechel and D. S. Sharma (2012), Auditor-Provided Nonaudit Services and Audit Effectiveness and Efficiency: Evidence from Pre- and Post-SOX Audit Report Lags, *Auditing: A Journal of Practice & Theory* American Accounting Association, Vol. 31, No. 4, pp. 85-114.

<sup>19</sup> Queensland Audit Office, Results of audit: Local government entities 2014–15. p. 34.



Figure 1: Reporting on timeliness of financial statements by Queensland Audit Office<sup>20</sup>

For the purpose of this project, we collected the dates of when the audit opinion was signed and calculated the amount of days since year-end for the financial years ending 30 June 2013, 2014 and 2015. The audit opinion is typically signed after the report is ratified by the audit committee. Hence, there is a time lag between the finalisation of the audit and the signature. This treatment is, however, arguably the same across all jurisdictions. The findings are as follows:

Table 3: Days between end of financial year and signature on audit opinion

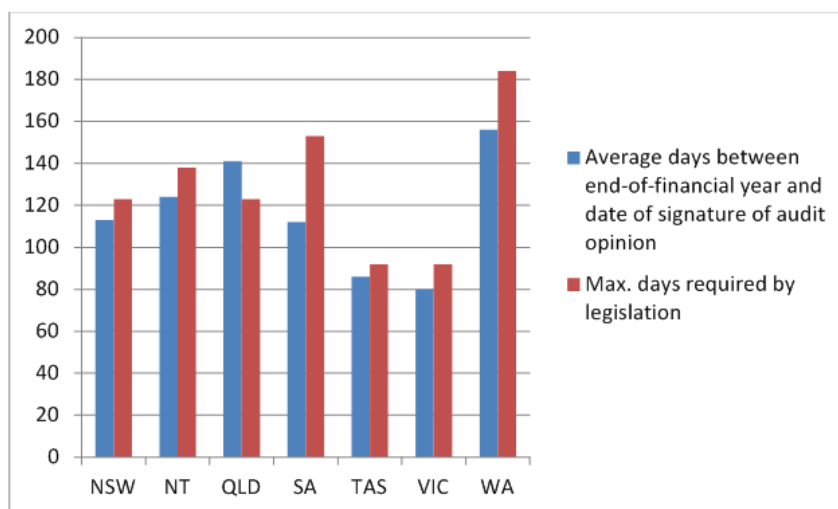
	NSW	NT	QLD	SA	TAS	VIC	WA
2012-13	113	117	143	110	87	80	163
2013-14	113	124	160	112	85	79	161
2014-15	113	130	120	113	86	81	145
<b>Average days</b>	<b>113</b>	<b>124</b>	<b>141</b>	<b>112</b>	<b>86</b>	<b>80</b>	<b>156</b>
<b>Required by legislation</b>	<b>123</b> <b>(31/10)</b>	<b>138</b> <b>(15/11)</b>	<b>123</b> <b>(31/10)</b>	<b>153</b> <b>(30/11)</b>	<b>92</b> <b>(30/09)</b>	<b>92</b> <b>(30/09)</b>	<b>184</b> <b>(31/12)</b> <sup>21</sup>

<sup>20</sup> Queensland Audit Office, Results of audit: Local government entities 2014–15. p. 35.

<sup>21</sup> Councils are required to submit their financial statements to the auditor no later than 30 September. The auditor then has until 31 December to examine the financial statements and sign off on the audit report. The local governments are required to send a copy of their statements to the Department of Local Government within 30 days of audit sign off.

Figure 2 presents the data in chart format

Figure 2: Average days<sup>22</sup> between end of financial year and signature on audit opinion - Chart



The results show that the jurisdictions where the Auditor-General has the mandate for Local Governments have stricter deadlines for the submissions of audited financial statements than the other jurisdictions, except for New South Wales, where the requirements are equal to Queensland. As a result, the audited financial statements are signed almost a month earlier in Victoria and Tasmania than in the next State, which is South Australia. All States and Territories' financial statements had their financial statements audit opinion signed before the due date. The exception is Queensland. While many councils submitted within the legislated period, a small number of councils were excessively late, which influenced the average time lag of the audit opinion. Since the financial year 2015, the situation has improved and the average dates of signatures on the audit opinions are within the timeframe required by legislation.

Out of the jurisdictions where Local Government audits are performed by private sector auditors, South Australia has the most efficient audit time. The findings suggest that audits undertaken by Auditors-General might be more efficient than those undertaken by private sector audit firms.

vi. Number of adverse or qualified opinions over time

The number of adverse or qualified opinion can be used to examine the impact of audit. Arguably, the audit should influence or improve financial reporting over time. Continued qualifications would, therefore, suggest that the audits do not have the desired effect.

For the purpose of this report, we collected the audit opinions from Local Governments across Australia for the financial years ending 30 June 2013, 2014 and 2015 if available on

<sup>22</sup> The table considers the average days between the end-of-financial year and the date of the audit opinion for three financial years, i.e., 2012-13, 2013-14 and 2014-15, as also presented in Table 3.

the website. This means that the number of adverse or qualified opinions presented in Table 4 represents the minimum amount of adverse or qualified opinions.

*Table 4: Minimum percentage of adverse or qualified audit opinion*

	NSW	NT	QLD	SA	TAS	VIC	WA
2013	9	41	6	4	0	0	5
2014	9	18	5	7	0	1	7
2015	4	41	4	9	0	0	12
Average	7	33	5	6	0	0	8

The findings show that almost no Local Governments received a qualified audit opinion in two jurisdictions where the Auditor-General has the mandate for Local Government audits (VIC and TAS). Queensland also has also a comparatively low rate of qualified audit opinions.

Out of the jurisdictions where Local Government audits are performed by private sector auditors, South Australia a comparatively low level of qualified opinions. This finding should, however, be interpreted with regard to the availability of financial statements on council's website as presented below as well as issues surrounding auditor independence discussed above, i.e., issues that are raised in management letters, rather than in the audit opinion. Due to limitations of resources, we were unable to hand-collect relevant data from management letters.

When interpreting the results, one should keep in mind that some States and Territories have a comparatively larger number of very remote councils with small population bases. In these councils, there might be limitations to the available accounting and/or auditing expertise needed to prepare financial statements.

Most recently, an audit assurance is also required for the internal control system of South Australian Local Governments. For urban councils, the first audit assurance was required for the financial year 2014-15, for rural councils the first audit assurance will be for the financial year 2015-16. One urban council received a qualified opinion for its internal control system, at the time of writing, the results for the rural councils was not available yet. In addition, it is possible that issues relating to internal controls systems might have been outlined in the management letters to councils. To obtain a sector wide picture of the internal controls systems requires a significant amount of time and resources. In contrast, such information is often provided in sector reports to parliament in those jurisdictions where the Auditor-General is responsible for Local Government Audits. An example can be found on page 5 of Queensland Audit Office *Results of audit: Local government entities 2014–15*.

Another metric for assessing the quality of or issues with the financial statement information prepared by Local Governments is to consider adjustments made because of audit findings prior to issuing the audit opinion. While such information is not available for South Australia, an example of a jurisdiction where this is reported on is Queensland. Relevant information can be found on page 3 of the Queensland Audit Office *Results of audit: Local government entities 2014–15*.

vii. Transparency

Transparency might not be directly related to the quality of audit, it is, however, an important instrument of good governance and best practice in the public sector. To investigate transparency, we looked at the availability of Local Government financial statements on their respective websites. The findings are presented in Table 5.

*Table 5: Percentage of financial statement available on councils' website*

	NSW	NT	QLD	SA	TAS	VIC	WA
2013	88	76	78	81	90	87	74
2014	95	94	92	86	86	90	86
2015	98	100	85	90	93	100	92
Average	94	90	85	86	90	93	84

The results show that there is a high percentage of financial statements are available on the Councils' websites, but not all of them. When looking for these financial statements, we faced a number of challenges. Firstly, not all financial statements are easy to find. We initially looked for older financial statements and found that the availability of these statements decreases significantly. In States and Territories where private sector conduct the audits, it is difficult to compare statements and it is almost impossible to obtain a sector-wide perspective on the financial state and performance without investing significant time and having a high level of expertise. A representative from the Auditors-General group explained this point as follows:

*"There is a much higher level of transparency in the auditing that [the Auditors-General] do. We report on a sector, we let the Parliament know who's got a good score, who's got an ordinary score, what some of our findings are. And at the moment there is no transparency at all, and I mean I've endeavoured to try and have a look at audit reports or financial reports from our local government authorities, and it's impossible; you can't find them, even though the local government legislation says they must make documents publicly available, "publicly available" means sending somebody one when they ring up, or pinning it up on the noticeboard in the council office. So for the average person to try and get a look at an individual council, local government authority is problematic, but to get a view across the whole sector is just impossible. So transparency's really, really important."*

In States and Territories where the Auditor-General has the mandate for Local Government Audits, a sector report is prepared on an annual basis. These reports are tabled at the respective parliaments and are available on the respective Auditors-General's websites for several years. In addition to reports on financial statements, these jurisdictions also provide sector wide reports on selected matters such as sustainability, asset management plans, tendering and contracting or performance reports.



*d. Audit fees*

The relatively low prices of current audits was mentioned as an advantage by many interviewees, and a large number of interviewees noted that they were generally satisfied with the audit services they received in exchange for the price. Only five out of 23 interviewees (four interviewees did not mention anything on this issue), however, noted that they did not see a reason to change anything. On the other hand, a large number of interviewees see current prices as problematic. Interviewees suggested that there was a history of low-balling of audit fees in South Australian Local Governments, presenting a potential threat to audit quality as discussed above.

An audit committee member said:

*"When I first started the fee was \$10,000 or something, and there's no way that you can do a proper audit for that. We're now, mid 30's is probably not too bad. I think perhaps my biggest disappointment is that it doesn't attract the interest of the big four firms."*

One private sector auditor noted:

*A Local Government is [...] half the market rate really for the level of complexity and the size and the revenue that they're earning. [...]"*

Another private sector auditor said:

*"We have mainly withdrawn from Local Government audits because there is not enough profit. [...]"*

*We know how much time we need to spend on a job to do it properly and the sort of recovery that we think we need to get out of it from a professional point of view with the risk that you take on and with the other work that you do and if you are working in a sector where it doesn't provide that, you cut your losses."*

Most interviewees recognised the importance of price to council members. For example, one interviewee who is an auditor as well as audit committee member noted:

*"And it's difficult for councils to, you know, because I'm on the other side as well; I'm on Audit Committees and I know how cost-sensitive councils are, how Local Government is and for, you know, very valid reasons – it's public money, they need to be careful how they spend it and, if they can get it... audit is often seen as a box-tick. It's a legislative requirement that you have an audit done so we'll get it done for as cheaply as we can and the people making the decision about that often aren't the people who get the benefit from a good audit. [...] If we're the cheapest, we'll get the job – not 100% of the time but 80% of the time, if we're the cheapest, we get the job. And that might only be \$500, \$1,000 because we're all seen to be experts in Local Government so we would score very similarly in terms of experience and expertise, quality of staff, methodology, all that sort of side of things and yeah, often if you don't have some sort of pre-existing relationship with a client where they know you and know how you operate and they like you, then it essentially comes down to price."*

Almost all interviewees suspect that the price of audits would increase if the Auditor-General would take over the mandate for Local Government audits in South Australia. The majority of interviewees (15 out of 23) suggested, however, that they would not be too concerned by a certain level of price increase provided they saw a reason or benefit for the increase.

A variety of potential reasons for this price increase were suggested, including a difference in scope of audit, a higher level of scrutiny, additional administration costs (contracting out and oversight function), as well as initial training and set-up cost. In addition, a small number of interviewees suggested that Auditors-Generals are comparatively higher because they are in a monopoly position.

A representatives from the Auditors-General group suggested that there should not be a significant price difference between the audit of private sector firms and the Auditor-General:

*"It shouldn't have a costing impact, because audit offices are pretty cost competitive. If it does have a cost impact I would query if quality of the audit that was previously being delivered. Because the private sector auditor, audit's under the same standards, so for a financial statement audit they should be, as professionals they should be pretty much the same audit. The firm is paying general market rates and it has to turn a profit. Public sector audit offices would be paying at the lower end of market rates for salaries and it's a break even operation."*

A second representative from the Auditors-General group explained the costing by the Auditor-General as follows:

*"Local Government won't like it, they don't like spending money that they don't need to. So I will be explaining that our costs are what they are because of the level of work; we certainly don't charge them more per hour than the private sector. Our hourly rates are less, but we'll be doing more hours of work, we'll be looking at more things."*

The Queensland Audit Office publishes its charge-out rate on its website:

*"Our approved charge out rates are:*

<i>Position</i>	<i>Rate per hour 2015-16 \$</i>	<i>Rate per hour 2016-17 \$</i>
<i>Assistant Auditor-General (SES)</i>	<i>214</i>	<i>219</i>
<i>Sector Director (SO)</i>	<i>189</i>	<i>194</i>
<i>Director (SO)</i>	<i>182</i>	<i>187</i>
<i>Audit Manager (AO8/PO6)</i>	<i>174</i>	<i>179</i>
<i>Audit Manager (AO7/PO5)</i>	<i>157</i>	<i>161</i>
<i>Audit Senior (AO6/PO4)</i>	<i>145</i>	<i>149</i>
<i>Audit Senior (AO5)</i>	<i>127</i>	<i>130</i>
<i>Auditor (AO4)</i>	<i>112</i>	<i>115</i>
<i>Auditor (AO3)</i>	<i>96</i>	<i>99"<sup>23</sup></i>

<sup>23</sup> Queensland Audit Office, <https://www.qao.qld.gov.au/published-information>, retrieved 23 November 2016.

In jurisdictions where the Auditor-General has the mandate for Local Government audits, they also have the mandate for undertaking performance audits, as is typical for the State/Territory and Federal level. One representative of the Auditors-General group summarised the reasoning for performance audits at the Local Government level:

*“A simple audit of the financial statements to my mind doesn’t go far enough. It’s a good stewardship tool but without the performance audit overlay the analogy I like to draw is in the private sector the financial statements tell you both the how much and how well in broad terms. [...] In the public sector, Local Government because they strike their rates, and they spend within their revenue broadly speaking, but that doesn’t tell you anything about their efficiency and effectiveness.*

*So I think there’s two dimensions to assessing efficiency and effectiveness: one is comparison or benchmarking of similar jurisdictions, similar Local Governments, and the other one is you’ve got to do a performance audit.”*

The financing of performance audits can vary across jurisdictions. In some jurisdictions, the costs for performance audits might be carried by Local Governments, in others, an Auditor-General might negotiate additional budgets for sector wide performance audit with parliament.

Performance audits could also be legislated to be performed by private sector auditors, similarly to the requirement to issue opinions on internal controls of South Australian Local Governments. The advantages and disadvantages presented in this section for who should perform financial statement audits equally apply to performance audits.

Due to their role and independence, Auditors-General might engage in higher levels of scrutiny. A private sector auditor who performs contract work for an Auditor-General said:

*“So, the Auditor General [...] essentially follow the Auditing Standards but go above and beyond in certain areas and they are much more likely to follow a rabbit down a hole if you like. So, we might stumble across what’s a relatively minor issue and in terms of the Auditing Standards’ perspective, it’s something which would be clearly immaterial and you wouldn’t progress it any further. [...] However, our experience has been that often the Auditor General’s department will want to investigate it. They don’t like loose ends and they don’t have the same profit focus; they don’t need to make a profit on jobs, they don’t need to keep the clients happy because they’ve got a guaranteed client base so, you know, sometimes investigating these minor little things can be an annoyance to people who understand that it’s minor and a waste of time [laughing] from their perspective. The Auditor General doesn’t have that problem.*

*A lot of the prices, actually, a lot of the additional cost would be taken by the Auditor General, because they add this extra layer of quality control; they do a significant amount of work. It’s not just a case of a quick five minute review of the file and “Oh yep, that’s all fine”. They actually invest quite a significant amount of time in reviewing the files in great details.”*

A number of interviewees suggested that there might be additional costs if the Auditor-General would have the mandate for Local Government audits due to additional administration costs,

including the tendering of audit work to private sector auditors. Representative from the Auditors-General group suggested that some Auditors-General are already contracting out large amount of audit work to private sector firms and have become very efficient and effective in doing so.

The New Zealand Audit Office states on its website:

*"Audit contracts are reviewed every three years, with most audits to be continuing "with limited recourse to tendering". Audit fees are based on "a range of techniques to monitor audit fees at the point of negotiation, and to provide a comparative analysis to help resolve concerns about proposed audit fees. Our overall objective is to ensure that audit fees are fair to the public entities subject to audit, and provide a level of return to the auditors commensurate with the auditing standards that public entities, the Auditor-General, and Parliament expect. The Auditor General monitors audit fees to ensure "realistic hours (that is, hours reflecting the nature and extent of work required), an appropriate audit team mix, and charge-out rates in line with market rates."*<sup>24</sup>

The transition period of moving from private sector audits to a mandate by the Auditor-General would come at a cost. The experiences from New South Wales and Western Australia might provide relevant insights over the next few years.

To provide a better context of audit fees across the Australian Local Government sector, we collected the audit fees for councils for the financial years ending 30 June 2013, 2014 and 2015 when financial statements were available on the website. We undertook a simple linear regression analysis based on total expenditures of Local Governments for different states. We used the numbers provided by the respective grants commissions. It should be noted here, that different grants commissions use different bases to calculate the expenses shown in their table. Therefore, the results are not 100% comparable. They do provide, however, insights into general trends. The results are as follows:

Table 6: Regression Analysis of the Relationship between Audit Fees and Expense<sup>25</sup>

	NSW		QLD		SA		TAS		VIC		WA	
Year	IC*	Slope	IC	Slope	IC	Slope	IC	Slope	IC	Slope	IC	Slope
2012-13	25,108	0.00031	78,782	0.0003	9,728	0.00028	25,233	0.00027	29,877	0.00028	16,376	0.00035
2013-14	26,533	0.00030	91,138	0.0003	9,358	0.00040	23,084	0.000301	31,617	0.00023	19,726	0.00038
2014-15	28,454	0.00028	80764	0.0003	10,278	0.00037	25,005	0.00025	33,894	0.00024	17,889	0.00050

\*IC = Intercept

All results were significant, which means that the audit fee depends on the amount of expenses. This makes sense, as the amount of expenditure can be seen as a proxy for size and complexity of a Local Government. The results can be interpreted as follows: The intercept presents the minimal cost of an audit, i.e., even if the Local Government had no expenses, the fix costs of the audit would, equate to the amount of the intercept. The slope presents the additional cost (in \$) for every \$ of Expense.

<sup>24</sup> (<http://www.oag.govt.nz/about-us/audit-allocation>)

<sup>25</sup> There were no significant results for NT, i.e. there is no correlation between the audit fee and the amount of expense.



To offer a different perspective, Local Governments were divided into five groups based in the amount of total expenses: Very large (total expense larger than \$227,223,636), Large (total expense between \$170,586,272 and \$227,223,635), Medium (total expense between \$113,948,909 and \$170,586,271), Small (total expense between \$57,311,545 and \$113,948,908) and very small (total expense smaller than \$57,311,544). These groups were determined by taking the largest total expense amount of all councils and the smallest total expense amount of all councils and divided the difference into five same size groups.<sup>26</sup>

*Table 7: Average audit fee for similar sized councils based on amount of total expense in \$ for the financial year 2014-15*

	NSW	NT	QLD	SA	TAS	VIC	WA
Very Large	\$ 121,800.00		\$ 270,057.14			\$ 60,000.00	
Large	\$ 78,833.33		\$ 191,420.00	\$ 44,000.00		\$ 61,000.00	
Medium	\$ 74,000.00		\$ 127,500.00	\$ 46,000.00	\$ 49,000.00	\$ 69,800.00	
Small	\$ 56,135.14	\$ 102,000.00	\$ 136,468.91	\$ 54,672.43 <sup>27</sup>	\$ 47,553.33	\$ 58,835.07	
Very Small	\$ 32,541.67	\$ 46,762.07	\$ 69,167.10	\$ 17,041.87	\$ 29,409.67	\$ 40,827.97	\$ 22,614.42

The data presented in Tables 6 and 7 show significant differences in audit fees across Australian Local Governments. Audit fees in relation to total expense of Local Governments are not necessarily higher in jurisdictions where the Auditor-General has a mandate compared to audit fees in other jurisdictions. For example, in relation to total expense, audit fees in New South Wales and Northern Territory are more expensive than in Victoria and Tasmania.

Local Government audit fees in Queensland are the highest in Australia. The reasons for this are related to extended requirements of the audit in Queensland as well as political and socio-economic and geographic reasons. In addition to following the Australian Accounting Standards, the Auditor-General of Queensland Audit Standards also require the investigation of the probity and propriety of matters associated with the management of public sector entities, acts or omissions that have given rise to a waste of public resources and compliance with relevant acts, regulations, government policies and other prescribed requirements.<sup>28</sup> In addition, the Queensland Audit Office is required to investigate current year financial sustainability, any grant acquittals, as well as referrals from the Crime and Corruption Commission. Regarding political and socio-economic reasons, Queensland councils were subjected to a series of amalgamations and de-amalgamations since 2008. As a consequence, Queensland has some of the largest councils in Australia, sometimes with multiple town centres. For example, Brisbane City Council and the City of Gold Coast council are the two largest councils in Australia (based on total expense), triple and respectively double the size of the next largest council, i.e. the City of Sydney Council, and six of the largest eight councils are in Queensland. The geographic reasons relate to the undertaking of the audit itself as well as

<sup>26</sup> An alternative approach would be to differentiate groups based on socio-geographic areas, e.g. city, city fringe, large rural, small rural, etc.

<sup>27</sup> This number is distorted by the high audit fees paid for one particular council.

<sup>28</sup> Queensland Audit Office, Auditor-General of Queensland Auditing Standards, <https://www.qao.qld.gov.au/sites/all/libraries/pdf.js/web/viewer.html?file=%2Fsites%2Fqao%2Ffiles%2Faudit-or-generalofqldauidingstandards.pdf>

challenges that councils face due to their geographic location. With regard to the undertaking of audits, Queensland's councils are distributed across a large land mass and with some councils located in very remote areas. This has a significant impact on travel costs for auditors. Further, much of Queensland has been subjected to major catastrophic weather events over the recent years, leading to significant impact on Federal, State and Local Government Finances. In many instances, these events have impacted long-term assets of Local Governments. As asset management poses a major element of Local Government audits, this might also have impacted the costs of audits. Major infrastructure investments are, however, typically capitalised, i.e., recognised as assets and depreciated over time, rather than expensed or they might be refunded by other levels of Government. In this regard, an analysis of audit fees based on budgets or revenue might have been more appropriate, but were not undertaken for the reasons explained in section 2. For the interpretation of the information provided in Tables 6, 7 and 8, these aspects should, however, be considered.

The results show that Local Government audit fees in South Australia comparatively low. Table 6 shows that the fixed cost of a South Australian Local Government audit is almost 40% lower than the cost of the second lowest cost State, Tasmania. Table 7 shows that the costs are also low when comparing similar sized councils based on their total expenses. The lowest and highest percentage of audit fee expense are highlighted in green and red respectively

*Table 8: Audit fees as a percentage of total expense for similar sized councils based on amount of total expense for the financial year 2014-15*

	NSW	NT	QLD	SA	TAS	VIC	WA
<b>Very Large</b>	0.00044		0.00054			0.00025	
<b>Large</b>	0.00039		0.00102	0.00025		0.00034	
<b>Medium</b>	0.00052		0.00084	0.00031	0.00042	0.00050	
<b>Small</b>	0.00068	0.00103	0.00178	0.00062 <sup>29</sup>	0.00057	0.00066	
<b>Very Small</b>	0.00155	0.00286	0.00317	0.00113	0.00218	0.00134	0.00455

Table 8 expresses audit fees as a percentage of total expense for the same group of councils. The findings show that audit fees are a very small percentage of the total expenses of councils, ranging from 0.00025% to 0.00317%. The table also shows that the audit fees use up a larger portion of the total expense the smaller the council is. This makes sense, as the fixed cost component of an audit is comparatively larger in smaller councils than the variable audit fee component. In other words, certain audit activities need to be performed irrespective of the size of the council, whereas other audit activities are dependent on the size of the council, as presented in Table 6. The data also show that relative to total expense (as a proxy for size and complexity of an organisation), the Auditor-General is very efficient, as the percentage of audit fee is low in Tasmania and Victoria. As these data are based on the same information used in Table 6, the relationships between the council groups across States and Territories are the same.

<sup>29</sup> This number is distorted by the high audit fees paid for one particular council.

### 5. Other matters arising from this research project

Due to the time and resource limitation, a number of issues found during the research process could not be further investigated or analysed. They included concerns about the financial management of rural councils, the implementation and audit of the internal control system, sustainability of councils and issues relating to the management of councils long-term assets. In particular, the data suggest that many of the issues presented above are exacerbated in rural councils.

One topic of main interest to this report relates to the implementation and audit of Local Governments Internal Control systems. The main observations relate to difficulties in the development and implementation process of the newly legislated requirements. While the South Australian Finance Managers Group provided a central forum in which the requirements were discussed and developed, issues of consistency in the implementation of the systems as well as the audit of the systems were mentioned by interviewees. At the time of writing, only urban councils had been audited with regard to internal control, with one council being qualified. A few interviewees suggested that, again, issues related to internal control might be more significant in rural councils. The respective audited statements and management letters for the financial year ended 2015-2016 will provide further insights.

### 6. Summary and discussion

The research project investigated the costs and benefits of alternative Local Government audit arrangements for South Australia. The main data sources were interviews, financial statements from Local Governments and other relevant archival documents.

The research found that many interviewees are generally satisfied with the current audit arrangements, where Local Government audits are provided by private sector auditors. In particular, many interviewees were satisfied with the quality of the work provided and the fees charged for these services.

The main issues raised with were:

- the consistency of interpretation and application of accounting standards by auditors
- the quality of some audit work
- auditor independence
- audit oversight
- the amount paid for audit fees.<sup>30</sup>

To address these issues, four alternatives were proposed. They were:

Alternative 1: Retain current system (Local Government audits conducted by private sector audit firms)

Alternative 2: More formalised oversight body

Alternative 3: Auditor-General as auditor for Local Government, portion of audit work outsourced

<sup>30</sup> While many finance managers expressed satisfaction with current fees and raised the importance of low fees with respect for council members and tax payers, other interviewees highlighted the potential risks of pressures on audit fees to audit quality.

Alternative 4: Auditor-General as auditor for Local Government, does not outsource any work  
Alternatives 1 and 3 received the vast majority of support and were, therefore, further considered.

With regard to issues of consistency, proponents of Alternative 1 suggested that differences in new accounting or auditing requirements are normal and typically allowed for. They also suggested that differences would decrease over time and treatment would then become more consistent.

Proponents of Alternative 3 suggested that the Auditor-General would be the obvious choice to address issues of consistency, as the independent auditing authority with a sector-wide mandate. This would also avoid confusion when new accounting or auditing requirements are introduced.

While many interviewees expressed satisfactory levels of audit quality by current auditors, issues were raised about the quality of audit work by 'others'. In particular, interviewees questioned the ability to perform good quality audits for some of the fees that were charged.

Interviewees suggested that current Local Government auditors had developed deep industry knowledge of the sector and concerns were raised in this regard for Alternative 3. Proponents of Alternative 3 suggested that the Auditor-General could develop this understanding over time and would have the advantage of a sector-wide perspective. In addition, they suggested that the public sector expertise of the Auditor-General would add to the value of the audit of Local Governments.

A number of interviewees suggested that some auditors allowed the treatment of financial statement elements which was not in accordance with accounting standards (e.g., the recognition of revenue grants as a liability, rather than income) or that auditors were not stringent enough and would refer to issues with audits in management letters rather than include it in the audit opinion.

The latter issue is directly related to the concerns that were raised with regard to auditor independence. Interviewees also suggested that there was a threat to auditor independence because auditors might be interested in securing non-audit work after their audit contract has finished.

Proponents of Alternative 3 suggested that audit independence issues could be addressed by giving the Auditor-General the mandate for Local Government audits.

The current lack of audit oversight is arguably a main shortcoming of the current Local Government Audit arrangements in South Australia. Again, proponents of Alternative 3 suggested that this issue could be addressed by giving the mandate over Local Government audits to the Auditor-General.

Audit fees were a major theme of the interviews. Finance managers in particular stated the desire for audit fees to stay low. Interviewees also mentioned that this was a particularly important issue for council members. On the other hand, many interviewees suggested that they would not be too concerned by some increase in audit fees, provided they could see the additional benefits. Interviewees suggested that there might be a need for education in this area, as council members and citizens might not see the benefits of a good quality audit, but instead, see it as a necessary 'tick-off' item.

The analysis of Local Government audit fees across Australia suggests that audit fees in South Australia are the lowest in the nation. Interview data suggests that this is partially due to a history of



low-balling of prices in the sector. As argued, the low costs might present a risk to audit quality. Potential adjustments of audit fees to the levels in other jurisdictions might prove difficult if they are not addressed centrally.

If the mandate for Local Government audits was given to the Auditor-General, fees might indeed increase. The research suggests that the charge-out rate by Auditor-Generals is typically below those of private sector auditors. The reasons might instead come from adjustments to market prices across Australia, an extended scope of the audit, additional expertise needed, costs associated with a transition phase, as well as costs of the administration of the additional mandate. Experiences from other jurisdictions suggest that additional costs for the administration of contracting-out of audit work can become more efficient and effective over time, when the organisation becomes more experienced with the arrangements. It is important that decision-makers are aware of a potential increase in cost and are prepared to ensure that such a move would be appropriately funded in both the short- and longer-term.

Overall, this research highlighted that while many interviewees were generally satisfied with current audit arrangements, a larger number of interviewees raised issues which should be addressed. To do so, transferring Local Government audits under the auspices of the Auditor-General should be considered as a serious alternative. Such a consideration should include an extensive consultative process with all affected key constituents. I hope that the information provided in this report will be helpful for decision-makers and other constituents in the Local Government audit space.