



City of Bayswater
Internal Audit Review Report
Financial Sustainability

PAXON GROUP

Private Client Services
Audit and Assurance
Taxation

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Executive Summary

The City of Bayswater (City) engaged Paxon Group to undertake a review of the Financial Sustainability of the City.

The City can be defined as being a 'mature' local government. It has a limited capacity to grow its rate base by large land developments and can only rely on urban infill. This is coupled with aging infrastructure and demographic. With these constraints, the City must ensure there is a long-term focus on financial sustainability that supports the needs of the City today and into the future.

Paxon's report, focuses on identifying gaps within the City to ensure long term financial sustainability. The key areas that were addressed are as follows:

- Limitations in revenue growth;
- Shifting responsibility for social and infrastructure programs from Federal and State governments to the City;
- Inadequate long-term financial planning; and
- Under resourced financial reporting function.

As articulated within the detailed audit findings and recommendations of this report, the City has been weakened, by decisions, both in service delivery and capital investments, that have been made for short term benefit without addressing the implications it may have on the long term financial sustainability of the City. In particular decisions around assets that have or are about to reach their life cycle.

For the City to seek a position of financial sustainability, it should look at adopting the following key recommendations (with detailed explanation of these and others please refer to section 5 of the report):

1. Rate settings that ensure the creation of intergenerational equity;
2. Creation of a formalised framework that seeks integration for the development of budgeting, long term strategic and financial plans. It is imperative that input within this framework is provided by both from elected members and management;
3. Develop a framework to support Commercial Activities. The framework would include a business case for each proposal that contains stringent metrics that can demonstrate the social and economic benefit to the City both in the short term and long term;
4. Cost reduction strategies that seek to utilise partnerships with neighbouring local governments;
5. Continue to exit aged care and related assets; and
6. Provide adequate resourcing within the Finance area to support the increased compliance burden, improve inter-directorate share of financial data and analytics and ensure assessment and reporting against the long-term financial plans.

During the review further to the Risks that were agreed to as part of our engagement, we identified that there were risks associated with the current Integrated Planning & Reporting obligations. This is important in addressing the financial sustainability of the City. The key recommendations that are listed above incorporate our findings with this area that are summarised as the following:

Risks	Findings
<p>Limitations in revenue growth</p>	<ul style="list-style-type: none"> • Rates are the single greatest contributor to revenue and the greatest risk to revenue growth. Legal constraints, the financial capacity of ratepayers to accept rate increases and the political environment all contribute to current rate setting practices; • Paxon queries the effectiveness of the “Cash-Backed Reserves Policy”, based on the City’s current cultural practices which challenge the accumulation of reserves. These cultural practices are: <ul style="list-style-type: none"> ○ Linking rate increases to the CPI; ○ ‘Annual budget to annual budget’ practice for determining financial needs; ○ Low rate base for the City; and ○ Councils in the past taking a short-term view on the financial planning for the City. • Consideration of the effect of Covid-19 on the City’s financial sustainability will be included in the review of the City’s “Long-Term Financial Plan 2017-18 to 2026-27”; • Due to the financial challenges Covid-19 presents to ratepayers, some service charges and fees have been waived and some has been reduced by 50% going forward; • The City does not apply differential general rates as a means to help increase rate revenue; • Finance does not play a role in setting the amount of service charges for service of a private nature; • The City does not pursue grant funding adequately; and • Commercial activities are not a current focus area for the City.
<p>Shifting responsibility for social and infrastructure programs from Federal and State governments to the City</p>	<ul style="list-style-type: none"> • Cost shifting trends are not quantified and its effect is not included in annual budgets and long-term financial plans; • The City provides services exclusively for the benefit of the community or other government tiers without any cost recovery; and • Partnerships for service delivery is limited to EMRC membership which focuses on waste management. Opportunities exist for cooperation and cost sharing with other local governments for services which include procurement, rangers, and security.
<p>Inadequate long-term financial plan does not represent the City’s financial capacity</p>	<ul style="list-style-type: none"> • The City’s “Long-Term Financial Plan 2017-18 to 2026-27” (LTFP) has not been updated since it was compiled in 2017; • Very low interest revenue is generated from cash investments due to the City having a risk adverse approach to investments; • Parcels of land have been acquired as ‘strategic buys for investment purposes and not service delivery’. These land parcels are long-term investments and does not provide a secure continuous cash inflow benefit to the City; • The City owns several aged care facilities which includes 2 residential aged care facilities and 4 independent units. The

Risks	Findings
	<p>City is at risk to finance any losses generated by a retirement village. In addition, the City is responsible to maintain the aged care buildings.</p> <p>Paxon was informed the City is 'happy to divest' aged care facilities as it is no longer being regarded as a 'core business' of the City. Notwithstanding the City's perspective that "aged care funds aged care" the City's incurs significant expenditure to maintain these facilities;</p> <ul style="list-style-type: none"> • The City does not quantify infrastructure renewal gaps; • A service review was performed in October 2017 to identify cost savings. Another review is presently required; and • The City is debt-free at present in compliance with its culture. However, Council has recently adopted a "Loan Borrowing" policy. An amendment in June 2020 broadens the City's ability to borrow giving the City additional scope for resourcing.
<p>Under resourced financial reporting function</p>	<p>A fixed term contractor has been appointed and a project plan has been drafted for a review of the City's LTFP. However, financial information will be needed on a continuous basis in order to manage the City's financial sustainability. Thus, dedicated resources will be necessary on a permanent basis for this purpose.</p>
<p>Poor integrated planning and reporting</p>	<ul style="list-style-type: none"> • The City's Strategic Documents are out of sync as these documents were finalised by individual responsible managers without contributions from other stakeholders prior to its approval by Council; • Councillors have a short-term financial perspective of matters. This disagrees with City's management's long-term perspective for the City which is essential to the vision disclosed in the Strategic Documents and the financial sustainability of the City into the future; • A newly appointed Manager Governance and Organisational Strategy is responsible to facilitate the integration of the City's Strategic Documents; and • An annual planning and reporting cycle will be introduced to help ensure the City's Strategic Documents remain relevant.
<p>Financial management lacks vision</p>	<ul style="list-style-type: none"> • The City's accounting records have a historic transactional structure and lacks a 'forward thinking' perspective; • The City does have several financial policies, but policies for essential financial matters are outstanding; • Cash flow projections are made on a daily basis. It is not the City's practice to prepare rolling cash flow projections; • Monthly financial statements are provided to both executive management and Council; and • Financial reports are also provided to the Audit and Risk Management Committee and the Budget Review and Expenditure Committee.

Risks	Findings
<p>Asset management does not support financial sustainability</p>	<ul style="list-style-type: none"> • The City provided only two draft asset planning documents being: <ul style="list-style-type: none"> ○ “Asset Management Strategy”; and ○ “Transport Asset Management Plan – Part 1- Summary – 2019-2029”. • A short-term (‘annual budget to annual budget’) approach regarding asset expenditure (capital and operational) is followed; and • Life-cycle management can be improved as assets are currently not always replaced at the right time.
<p>Governance needs improvement</p>	<ul style="list-style-type: none"> • The City does not have a Corporate Governance Charter nor a Governance Framework; and • The Budget Review and Expenditure Committee should be utilised more effectively and in particular should guide implementation of the recommendations included within this Report.

Paxon would like to take an opportunity to thank the assistance of the staff at the City for their time and providing the requested information, including during the onset of the COVID-19 pandemic.

1 Introduction

1.1 Planning for the Future

The Local Government Act 1995, in section 5.56 places an obligation on the City of Bayswater (City) to plan for the future:

- “(1) A local government is to plan for the future of the district.
 (2) A local government is to ensure that plans made under subsection (1) are in accordance with any regulations made about planning for the future of the district.”

The Local Government (Administration) Regulations 1996 states in regulation 19C:

- “(1) A local government is to ensure that a strategic community plan is made for its district in accordance with this regulation in respect of each financial year after the financial year ending 30 June 2013.
 (2) A strategic community plan for a district is to cover the period specified in the plan, which is to be at least 10 financial years.
 (4) A local government is to review the current strategic community plan for its district at least once every 4 years.”

The Local Government (Administration) Regulations 1996 states in regulation 19DA:

- “(1) A local government is to ensure that a corporate business plan is made for its district in accordance with this regulation in respect of each financial year after the financial year ending 30 June 2013.
 (2) A corporate business plan for a district is to cover the period specified in the plan, which is to be at least 4 financial years.
 (4) A local government is to review the current corporate business plan for its district every year.”

Financial sustainability is vital to help ensure the viability of both the Strategic Community Plan and the Corporate Business Plan.

1.2 Definition of Financial Sustainability

The definition of financial sustainability, from the perspective of local government can be found in the Australian Local Government Association report entitled: “*National Financial Sustainability Study of Local Government – Commissioned by the Australian Local Government Association – November 2006*” which states:

“The financial sustainability of a council is determined by its ability to manage expected financial requirements and financial risks and shocks over the long term without the use of disruptive revenue or expenditure measures, which is determined by:

- healthy finances in the current period and long-term outlook based on continuation of the council’s present spending and funding policies and given likely economic and demographic developments, and
- ensuring infrastructure renewals/replacement expenditure matches forward looking asset management plan expenditure needs.”¹

1.3 City's Context

The City of Bayswater (City) recently reviewed its level of strategic assurance reporting against a Public Sector Risk Report for 2019, published by Jardine Lloyd Thompson Pty Ltd (JLT). The JLT Public Sector Risk Report examines the claims and risk environment within local government as identified by CEO's and General Managers. The JLT report ranks 13 risks overall to local government, and highlights the continued importance of Financial Sustainability, with it being ranked as the leading risk for the second year.

The major driver for Financial Sustainability's ranking continues to be limitation of revenue growth, operations, rate capping, along with cost shifting from State and Federal Government to local government. As the shift of asset and infrastructure costs continues, local governments are required to be more resourceful to manage their existing operations along with new activities.

The City must ensure there are adequate controls in place to mitigate the risks associated with Financial Sustainability. Specific deficiencies in the City's control environment include:

- Long Term Financial Plan is out of date;
- A lack of resources in the finance team inhibits the presentation of timely and relevant financial information, between directorates and to Council and restrict their ability to make well-considered financial decisions; and
- Asset renewal as such is not well defined due to a current change-over from an 'age and depreciation' perspective to a 'service condition intervention level' perspective. When an asset reaches the intervention level, a decision is made by City engineers as to the replacement or continued operation of the asset. Thus, a decision as to an asset's continued use or replacement is not made with reference to its age or the fact it may be fully depreciated. This approach creates a lack of clarity regarding asset renewal which impedes identification of gaps between funding allocated through long-term financial planning and the City's Asset Management Plans as informed by the City's asset renewal modelling.

1.4 Internal Audit Objective

The overall objective for this internal audit is to provide assurance effective and efficient controls are in place for Financial Sustainability.

2 Scope

The following topic was covered in the internal audit:

Topic	Key Risks
Financial Sustainability	<ul style="list-style-type: none"> • Limitations in revenue growth; • Shifting responsibility for social and infrastructure programs from Federal and State governments to the City; • Inadequate long-term financial plan does not represent the City's financial capacity; and • Under resourced financial reporting function.

3 Methodology

Our methodology for the internal audit comprised:

- Conducting an initial meeting with management to obtain an understanding of processes and potential issues;
- Developing overview documentation of the processes including key controls by discussion with staff and review of the processes;
- Evaluating the adequacy of the controls to cover the identified risks and testing the compliance with the key controls;
- Researching the issues, weaknesses and potential improvements noted from our discussions and review of the existing processes including compliance with key controls;
- Developing appropriate recommendations for improvement for discussion with management;
- Drafting a report of findings and recommendations and obtaining formal responses from management; and
- Finalising the report and issuing it to the Director Corporate and Strategy for distribution to the Audit Committee and relevant management.

4 Inherent Limitations

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our internal audit was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The internal audit conclusion and any opinion expressed in this report have been formed on the above basis.

5 Detailed Audit Findings

To assess the effectiveness of financial sustainability of the City, it is important to confirm the legislative compliance framework that stipulates the strategic planning process that are required to be set for both short and long term. This framework, when adhered to, provides support to the financial sustainability of Local Governments.

The Department of Local Government, Sport and Cultural Industries (DLGSC) issues Long Term Financial Plan Guidelines which states:

Integrated Planning and Reporting (IPR) is a framework for local governments to:

- Articulate the community's vision, outcomes and priorities;
- Allocate resources to achieve the vision, striking a considered balance between aspirations and affordability; and
- Monitor and report progress.

IPR consists of the following "suite" of plans (see figure 1 below):

- A Strategic Community Plan that clearly shows the community vision, strategic direction, long and medium-term priorities and resourcing implications with a horizon of 10+ years;
- A Corporate Business Plan which contains a four-year delivery program, aligned to the Strategic Community Plan, and accompanied by four-year financial projections; and
- Informing Strategies, consisting of the core Informing Strategies (Long Term Financial Plan, Asset Management Plan and Workforce Plan) and any other issue or area specific council plans (e.g. Disability Access and Inclusion Plan) that inform the Strategic Community Plan and Corporate Business Plan. The core Informing Strategies play a vital role in prioritisation and integration.

"The Long-Term Financial Plan is a 10-year rolling plan that informs the Corporate Business Plan in the activation of Strategic Community Plan priorities. **The Long-Term Financial Plan includes robust forecast budgets for four years accompanying the Corporate Business Plan.** From these planning processes, annual budgets that are aligned with strategic objectives can be developed

The Long-Term Financial Plan is therefore a key element of the Integrated Planning and Reporting Framework that enables local governments to set priorities, based on their resourcing capabilities, **for the delivery of short, medium and long term community priorities.** It is also an indicator of a local government's long-term financial sustainability and allows early identification of financial issues and their longer term impacts. The Long-Term Financial Plan highlights linkages between specific plans and strategies and enhances the transparency and accountability of the council to the community."² (emphasis added)

Figure one as referred to in the above-mentioned reference is portrayed below:³



These documents are collectively referred to as the Strategic Documents. The double-heads on several of these arrows illustrates the interface between the Strategic Documents and the need to assess and review them in unison.

The City’s planning should address its future over the long-term, the medium-term and the short-term, based on its legislative obligations and the guidance provided by the DLGSC. Paxon has found currently there is a disconnect between the City’s needs as disclosed in its long-term plans and its current needs as disclosed in its annual budgets. The City’s planning focusses on short-term treatments for the four key risks identified in the scope of the engagement and detailed in the following section of this report.

5.1 Review of Limitations in Revenue Growth

5.1.1 Rate Setting

Findings	Recommendations
<ul style="list-style-type: none"> • Rate setting is the single greatest risk to revenue growth. As per the City’s “Annual Report - 2018/19”, rate revenue presented 63% of total revenue (2017/18: 62%). Thus, rate revenue is a significant portion of total revenue. Financial sustainability demands a long-term perspective of financial transactions. It requires a vision of financial transactions which will only incur 20 to 30 years into the future. This vision, once quantified discloses the current need for the City to accumulate reserves to fund capital expenditure and operational expenditure which will only be incurred decades into the future; • The City has a mature rate base and limited opportunities exist for further developments or ‘infills’ which may increase the rate base. From a financial perspective, rates alone cannot sustain the City in the future. However, rate setting takes place in a rigid environment. Legal constraints, the financial capacity of ratepayers to accept rate increases and the political environment all contribute to current rate setting practices; and • The legal constraints which limit the City’s ability to generate rate revenue is evident from recent land devaluations announced by Landgate. The City received a letter from Landgate approximately two months ago which stated property valuations across commercial, industrial, and residential property would fall by 15% (in general terms) as from 1/07/2019. Local governments are obligated in terms of section 6.28 of the Local Government Act 1995 to use land valuations as a rate base. The City expects an average decrease of 13% for property values within its borders. Thus, prima facie, calculating rates for the 2020/2021 financial year using the 13% lower property values will result in a substantial 13% decrease in rate revenue. The City has considered different options in reaction to this potential decrease in rate revenue. The City has decided to increase its rate in the dollar by 13% to counter the effect of the property value decrease. This will result in ratepayers having rate charges for the same amount as for the 2019-2020 financial year. 	<p>The City should follow a balanced approach when setting rates. However, rates cannot be set based on the funding needs for the ensuing financial year only. It is imperative the City obtain traction at present for the creation of intergenerational equity. The City should consider:</p> <ul style="list-style-type: none"> • Make optimal use of the legal parameters for setting rates as per the Local Government Act 1995, including: <ul style="list-style-type: none"> ○ Section 6.33 - differential general rates; ○ Section 6.34 – limits on revenue or income from general rates (estimated general rate amount may not be more than 110% of the amount of the budget deficiency); and ○ Section 6.37 – specified area rates. • Balance such increases with the financial capacity of ratepayers to accept rate increases and the political will of Council to approve such increases. <p>It is imperative to demonstrate to ratepayers by Council that any proposed changes to the Rate Setting platform provides direct benefit to the community by adequately funding community services both from recurrent and future spending, which allows the accumulation of reserves (intergenerational equity).</p>

5.1.2 Accumulation of Reserves

Findings	Recommendations
<ul style="list-style-type: none"> • Paxon notes the City's "Annual Report - 2018/19" records a cash backed reserve of only \$3,994,977 for major capital work; • Paxon notes the minutes of a meeting of the Covid-19 Advisory Committee, held on 14 May 2020, records the meeting's decision to recommend to Council the approval of: <ul style="list-style-type: none"> ○ A "Cash-Backed Reserves Policy"; and ○ The consolidation of reserves to form a new reserve titled "Economic Stimulus Reserve" with a value of \$10,597,934. • Paxon queries the effectiveness of the "Cash-Backed Reserves Policy", based on the City's current cultural practices which challenge the accumulation of reserves. These cultural practices are: <ul style="list-style-type: none"> ○ Linking rate increases to the CPI; ○ 'Annual budget to annual budget' practice for determining financial needs; ○ Low rate base for the City; and ○ Councils in the past taking a short-term view on the financial planning of the City. <p><u>Linking Rate Increases to the CPI</u></p> <ul style="list-style-type: none"> • This approach results in limiting rate increases, if approved to the Consumer Price Index (CPI). The CPI measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households). Thus, it provides a consumer's perspective on price increases. This is beneficial, from a rate payers' perspective when comparing rate increases with inflation; and • However, local governments provide services to the community which have a different cost structure to a 'basket' of goods. Council services are affected by growth in construction, material and wage costs, rather than changes in prices for common household goods and services as measured by CPI. Paxon examined price increases published by the Australian Bureau of Statistics for Western Australia and found: 	<ul style="list-style-type: none"> • Paxon endorses the "Cash-Backed Reserves Policy", as recommended for Council's approval. However, to help ensure the financial sustainability of the City the mere approval and implementation of the policy in isolation will be insufficient. The City should consider increasing its revenue base by means other than rate revenue, including: <ul style="list-style-type: none"> ○ Better diversification of investments; ○ Grant funding; and ○ Broadening commercial activities. • The City should, as a priority, start accumulating reserves now to fund future expenditure - both capital and operational. Future service delivery to the community will demand: <ul style="list-style-type: none"> ○ Capital expenditure (for example: asset purchases) and ensuing operational expenditure (for example: asset maintenance & replacement); and ○ New operational expenditure for services without cost recovery. <p><u>Linking Rate Increases to the CPI</u></p> <p>The City cannot continue the current practice to limit rate increases to the CPI. The City should commission a review to ensure future rate increases are directly linked the current inflation rate that is associated with the direct costs that make up the City's 'basket' of services to the community.</p>

Findings	Recommendations
<p>○ All groups CPI - Perth: Increased from 95.6 in March 2010 to 113.5 in March 2020 (average annualised increase of 1.79%)⁴;</p> <p>○ Total hourly rates of pay excluding bonuses - Private and Public - All industries: Increased from 100.0 in June 2009 to 130.3 in June 2019 (average annualised increase of 3.03%)⁵;</p> <p>○ Road and bridge construction: Increased from 94.0 in March 2010 to 109.9 in March 2020 (average annualised increase of 1.59%)⁶; and</p> <p>○ Building construction: Increased from 99.0 in March 2010 to 102.9 in March 2020 (average annualised increase of 0.39%)⁶.</p> <p>As per the City's "Annual Report - 2018/19", employee costs represented 44.66 of total expenses (2017/18: 46.55).</p> <p>By limiting rate increases to CPI means the City is in real terms diminishing the buying power of its revenue and accumulated reserves.</p> <p><u>'Annual Budget to Annual Budget' Practice</u></p> <p>The current budget bid process, as followed in budget workshops, results in budget allocations for projects based on political positions and not necessarily funding priorities based on long-term plans. Political positions, for the greater part, is based on a short-term perspective and not a long-term perspective of funding needs.</p> <p><u>Low Rate base for the City</u></p> <p>The CoB has a low general rate base. The COB's general rate was 0.0621 in the dollar as per the 2018-2019 budget. The Town of Bassendean's (ToB's) general rate was 0.0723 in the dollar as per their 2018-2019 budget. Applying the ToB's general rate for 2018-2019 to the CoB's rate value of properties would have increased general rate revenue from \$41,867,627 to \$48,744,435, an increase of \$6,876,808 or 16.43%. This lower general rate revenue is significant in itself and will accumulate to a significant amount over time (as it has most probably done up to the present day). Furthermore, the existing gap between the CoB's general rate in the dollar and that of the ToB will</p>	<p><u>'Annual Budget to Annual Budget' Practice</u></p> <p>The City cannot afford to apply 'tunnel vision' in its approach to budget compilation. The integrated planning and reporting structure for the City should steer budget preparation. In particular, the Long-Term Financial Plan which should include "robust forecast budgets for the four years accompanying the Corporate Business Plan"⁷.</p> <p><u>Low Rate base for the City</u></p> <p>The City should consider reviewing the benefits of amending its current general rate to a rate which is equivalent to neighbouring councils. Obviously, such an increase should occur:</p> <ul style="list-style-type: none"> • Within the legal parameters for setting rates as included in section 6.34 of the Local Government Act 1995; and • As balanced with the financial capacity of ratepayers to accept rate increases and the political will of Council to approve such increases. <p>It is imperative to demonstrate to ratepayers and Council the need to apply a higher rate base, amongst others, to help accumulate reserves (intergenerational equity) and to fund current and future programs.</p>

Findings	Recommendations
<p>increase exponentially over time as both rates are adjusted to accommodate inflationary pressures.</p> <p><u>Short-term financial outlook of Councils</u></p> <p>Councillors have a four-year term of office as specified in section 2.28(2) of the Local Government Act 1995. There is a risk that Councils will have a short-term perspective of matters including community expectations which can be accentuated by the media. In contrast, the City is required by legislation and guided by the DLGSC to plan beyond the short term. A long-term perspective of community expectations is essential to help ensure the financial sustainability of the City into the future.</p>	<p><u>Short-term financial outlook of Councils</u></p> <p>The City should seek to develop and formalise the integration framework between Council and Management in terms of the annual and long-term financial planning process. To develop this framework the areas to consider:</p> <ul style="list-style-type: none"> • Councils and management must have a mutually inclusive perspective of community expectations, irrespective of when those expectations will materialise, to help ensure the City’s financial sustainability. Specific activities to help ensure this: <ul style="list-style-type: none"> ○ Understanding the long-term perspective disclosed in the Strategic Documents steers the annual budget process (and not vice versa); ○ Annual planning and reporting cycle; ○ Facilitation of the integration of the Strategic Documents; and ○ Integration of the annual budget across Directorates and elected members. • Council should participate in the proposed annual planning and reporting cycle to be introduced to help ensure the Strategic Documents remain relevant.

5.1.3 COVID-19

Findings	Recommendations
<ul style="list-style-type: none"> • Paxon notes the City has implemented a Covid-19 Advisory Committee. This Committee includes Councillors, the CEO and senior management. The purpose of the Committee is: <p>“To consider urgent measures that require Council direction in relation to the COVID-19 Coronavirus pandemic.”;</p> • Paxon notes the minutes of a meeting of the Covid-19 Advisory Committee, held on 14 May 2020, records the meeting’s decision to recommend to Council the approval of budget adjustments to fund current Covid-19 expenditure; • However, Covid-19 may also influence service delivery to the community in the long-term (for example: the aquatic centre). Covid-19 may be more 	<p>The City should consider the impact of Covid-19 on all its Strategic Documents and make appropriate changes where applicable.</p>

Findings	Recommendations
<p>of a long-term challenge than a short-term challenge; and</p> <ul style="list-style-type: none"> • Paxon was informed a fixed term contractor has been appointed and a project plan has been drafted for a review of the Long-term Financial Plan (LTFP). The project will include consideration of the effect of Covid-19 on the financial sustainability of the City. 	

5.1.4 Service Charges/Fees and Charges.

Findings	Recommendations
<ul style="list-style-type: none"> • The Local Government Act 1995 in section 6.15 empowers the City to receive: <ul style="list-style-type: none"> ○ Service charges (section 6.15(1)(a)(ii)); and ○ Fees and charges (section 6.15(1)(a)(iii)). Collectively referred to as service charges and fees; • The Local Government Act 1995 in section 6.17 allows the City with flexibility (with some exceptions) in setting the level of fees and charges; • Due to the financial challenges Covid-19 presents to ratepayers, some service charges and fees have been waived and some has been reduced by 50% going forward. However, the City cannot subsidise ratepayers on an indefinite basis; and • Paxon did not undertake a review of all fees and charges levied by the City to determine the extent of cost recovery taking place. However, based on a sample of fees and charges examined, it is evident current cost recovery practices in the City is insufficient. 	<p>The City should undertake a formal review of all current fees and charges levied for service delivery to ensure as a bare minimum that full cost recovery takes place.</p>

5.1.5 Differential General Rates

Findings	Recommendations
<ul style="list-style-type: none"> • The Local Government Act 1995 in section 6.33 empowers the City to impose differential general rates; • At present the City does not levy differential general rates as a means to help increase rate revenue. The City has four different GRV rating 	<p>The City should consider undertaking a formal cost/benefit analysis of utilising differential rating as a legitimate tool to assist in increasing rate revenue and supporting the financial sustainability of the City.</p>

Findings	Recommendations
<p>categories being residential, residential vacant land, commercial and industrial. The same rate in the dollar (0.06393) and minimum rate (\$906) applies across all four GRV categories;</p> <ul style="list-style-type: none"> • The current City opinion is that applying differential rating to the four GRV categories may be politically sensitive (for example: to increase commercial rates may be politically disastrous as the Galleria is the City’s biggest ratepayer); and • Furthermore, due to the financial challenges Covid-19 presents to ratepayers, the City COB has decided not to consider differential general rates at present. 	

5.1.6 Specified Area Rates

Findings	Recommendations
<ul style="list-style-type: none"> • The Local Government Act 1995 in section 6.37 empowers the City to impose a specified area rate on rateable land within a portion of its district for the purpose of meeting the cost of the provision by it of a specific work, service or facility if the local government considers that the ratepayers or residents within that area have: <ul style="list-style-type: none"> ○ Benefited or will benefit from; ○ Access to or will have access to; or ○ Contributed or will contribute to the need for, that work, service or facility. • At present, the City does not levy specified area rates; and • The current City opinion is that specified area rates is a grey area as it is challenging to determine which ratepayers benefit from, have access to or contributed to the need for the work, service or facility which will justify imposing a specified area rate. 	<p>The City should consider undertaking a formal cost/benefit analysis of utilising specified area rates as a legitimate tool to assist in increasing rate revenue and supporting the financial sustainability of the City.</p>

5.1.7 Services of a Private Nature

Findings	Recommendations
<ul style="list-style-type: none"> • Some services provided by the City can be regarded as being of a private nature (for example: commercial rent); • In terms of section 6.17(3) of the Local Government Act 1995, the basis for determining a fee or charge is not to be limited to the cost of providing the service or goods. The private nature of such services justifies the City making a profit on the delivery of such a service; • However, the current practice in the City is as follows: <ul style="list-style-type: none"> ○ The responsible business unit indicates under what section of the Local Government Act 1995 a service charge should be levied and the amount thereof; and ○ Finance accepts the service charge amount at face value. • There is a risk that the full cost of providing the service is not recovered via the service charge. 	<ul style="list-style-type: none"> • The formal integration of financial data across directorates should be investigated to allow for efficient sharing of financial data. This will also assist with achieving resourcing efficiency within Finance; and • Finance should play a role in collaboration with the responsible directorate in setting the amount of service charges for service of a private nature to ensure: <ul style="list-style-type: none"> ○ Full cost recovery takes place; and ○ A fair profit margin is recovered in the service fee.

5.1.8 Grant Funding

Findings	Recommendations
<p>Grant funding from state and federal government bodies is not adequately pursued by the City. At present, no dedicated resource is employed to pursue grant funding. Thus, the pursuit of grant funding is left to each individual directorate.</p>	<p>The City should investigate the needs of an adequate resource to support grant funding opportunities. The success of additional grants will support the broadening nature of increasing the revenue 'pie' of the City.</p>

5.1.9 Commercial Activities

Findings	Recommendations
<ul style="list-style-type: none"> • At present, some commercial activities are undertaken, being gym facility, golf courses, aged care and membership of the EMRC; and • Commercial activities are not a current focus area for the City. Paxon was informed scope exists for providing such activities. 	<ul style="list-style-type: none"> • For the City to diversify its Revenue risk it should consider measures in extending its Commercial Activities program; and • A framework should be developed which includes the following key elements: <ul style="list-style-type: none"> ○ Determination on how proposed commercial activity will provide long-

Findings	Recommendations
	<p>term benefit to the City’s ratepayers (from both financial and service delivery perspective);</p> <ul style="list-style-type: none"> ○ Incorporating commercial decisions into its Strategic and Long-Term Planning; ○ Undertaking business cases for proposed commercial activities that demonstrate the community and financial benefit to the City, with predetermined metrics to ensure suitability; and ○ The use of financing for such initiatives if and where required.

5.1.10 Minimum Payments

Findings	Recommendations
<p>Consideration was given to increasing the minimum rate of \$906 by 10%. A minimum rate results in a rate on land which is greater than the general rate which would otherwise be payable on that land. However, section 6.35(3) of the Local Government Act 1995 requires that the general minimum is imposed on not less than 50% of the:</p> <ul style="list-style-type: none"> • Total number of separately rated properties in the district; or • Number of properties in each category referred to in subsection 6, on which a minimum payment is imposed. <p>Compliance with these stipulations prevents its current application within the City.</p>	<p>Paxon is satisfied with the City’s current approach.</p>

5.1.11 Completeness of Rate Levies

Findings	Recommendations
<p>The City accepts the VGO roll but checks the revaluation rolls received against the City’s records on as regular basis. Discrepancies between VGO records and the City’s records are investigated and resolved. This practice helps ensure:</p> <ul style="list-style-type: none"> • Rates are levied on all rateable land; and • Rate bases (improved and unimproved values) are correct. 	<p>Paxon is satisfied with the City’s current approach as it does support the accuracy of the rates raised which is aligned with current valuation. This de-risk any concerns over ‘lost’ revenue.</p>

5.1.12 Rebates provided to pensioners and seniors

Findings	Recommendations
A dedicated resource is responsible to continuously check the eligibility of pensioners and seniors to granted rebates.	Paxon is satisfied with the City's current approach and supports accuracy of Revenue raised by the City.

5.2 Shifting Responsibility for Social and Infrastructure Programs

Definition of Cost-Shifting

To assess the implications relevant to the City for Shifting Responsibility for Social and Infrastructure Programs, Paxon reviewed various reports that had been commissioned throughout Australia on this topic. It is a pressing matter for local governments at the moment. To ensure its relevance to the City it is important to define its application appropriately, by stating that it is a constant funding pressure confronting local government which occurs when Federal and State programs transfer service delivery responsibilities to local government with insufficient funding or grants which do not keep pace with the costs to deliver those services.

Major Types of Cost-Shifting

The Local Government and Shires Association of NSW produced a report entitled: *“Are Councils Sustainable, Final Report: Findings and Recommendations, Independent Inquiry into the Financial Sustainability of NSW Local Government*. This report identifies the following *“major types of cost shifting”*:

- *“The withdrawal or reduction of financial support once a program is established therefore leaving Local Government with the choice of continuing the program or suffering potential political backlash if the service is cancelled;*
- *The transfer of assets without appropriate funding support;*
- *The requirement to provide concessions and rebates without compensation payments;*
- *Increased regulatory and compliance arrangements; and*
- *Failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation.”⁸*

The above elements are all relevant to the current challenges facing the City. Please find the following itemised findings and recommendations.

5.2.1 Cost Shifting Trends

Findings	Recommendations
<ul style="list-style-type: none"> • At present, cost shifting trends are not quantified and its effect is not included in annual budgets and long-term financial plans; • The City’s perspective is future operational costs for assets transferred by government is insignificant. The City is aware that the WA State Government Metronet transport project may result in it incurring future operational expenditure once it is handed over, however, such future expenditure has not been quantified; • Paxon was informed the City has just commenced considering cost-shifting practices that are occurring in the eastern states. Specifically, "environmental scanning" is currently investigated although it may not be totally relevant to a suburban council; and • From the information reviewed, Paxon can determine that it is evident the City has a reactive approach to managing cost shifting trends. 	<ul style="list-style-type: none"> • The City should follow a pro-active approach to addressing the current trend of shifting responsibility for social and infrastructure programs from Federal and State governments to local governments; • Government proposals for future cost shifting should be obtained and its effect on the financial sustainability of the City should be assessed; • The City should actively pursue government funding or government contractor funding for assets to be transferred (even if only for the short term). Such funding will provide the City with reaction time within which to address the funding challenges presented by such asset transfer; and • The estimated costs for projects earmarked to be completed by government and transferred to the City should be identified, quantified, and included in long-term financial plans and annual budgets.

5.2.2 Cost Recovery

Findings	Recommendations
<ul style="list-style-type: none"> • The City provides services exclusively for the benefit of the community or other government tiers without any cost recovery. Paxon was informed the City: <ul style="list-style-type: none"> ○ Provides immunisation services without any cost recovery; and ○ Collects the Emergency Services Levy on behalf of the state government without any cost recovery. • The Local Government Act 1995 in section 6.15 empowers the City to receive: <ul style="list-style-type: none"> ○ Service charges (section 6.15(1)(a)(ii)); and ○ Fees and charges (section 6.15(1)(a)(iii)). • The Local Government Act 1995 in section 6.17 requires the City when determining the amount of a fee or charge for a service to, amongst others, take into consideration the cost to the local government of providing the service. 	<p>These following suggested measures will help assist the financial sustainability of the City:</p> <ul style="list-style-type: none"> • All services provided by the City exclusively for the benefit of the community or other government tiers should be identified, quantified, and appropriately included in annual budgets and long-term financial plans; and • The City should consider recovering the cost of providing services to the community or other government tiers from the beneficiaries of these services.

5.2.3 Partnerships

Findings	Recommendations
<ul style="list-style-type: none"> • Currently, partnerships for service delivery is limited to EMRC membership which focuses on waste management; and • Paxon was informed opportunities exist for cooperation and cost sharing with other local governments for services which include procurement, rangers, and security. 	<p>The City should examine opportunities for cooperation and cost sharing with other local governments regarding service delivery. Specifically, the identified opportunities regarding partnerships for procurement, rangers, and security should be investigated.</p>

5.3 Long Term Financial Planning

Following findings and recommendations are in response to the risk associated with inadequate long-term financial plans that do not represent the City’s financial capacity and sustainability.

5.3.1 Outdated Long Term Financial Plan

Findings	Recommendations
<ul style="list-style-type: none"> The City has a "Long-Term Financial Plan 2017-18 to 2026-27" (LTFP). The LTFP has not been updated since it was compiled in 2017. As a result, the LTFP is outdated and does not provide strategic direction for annual updates of other strategic document which includes the annual review of the Corporate Business Plan and the annual budget; and Paxon was informed a fixed term contractor has been appointed and a project plan has been drafted for a review of the LTFP. The project will include consideration of the effect of Covid-19 on the financial sustainability of the City. 	<p>The project plan for the review of the LTFP should be approved and implemented without delay. A detailed recommendation for the update of the LTFP was included in section 5 of this Report.</p>

5.3.2 Investment Revenue

Findings	Recommendations
<ul style="list-style-type: none"> At present, very low interest revenue is generated from cash investments due to the City having a risk adverse approach to investments; Parcels of land have been acquired as ‘strategic buys for investment purposes and not service delivery’. These land parcels are long-term investments and does not presently provide a secure continuous cash inflow benefit to the City; The Director Corporate and Strategy is currently busy updating the "Investment" policy whilst having regard to the legislative constraints. Emphasis will be placed on making investments for a maximum period of 12 months. More flexibility will be incorporated into interest-bearing deposits placed with authorised deposit-taking institutions (ADI's) which will enable such investments in Standard and Poor long-term ratings below triple A; and Paxon notes the City’s “Annual Report - 2018/19” records term deposits to the value of \$74,745,301 as at 30/06/2019 (2018: \$67,779,924). 	<p>The City should optimise its returns on cash investments whilst complying with the objectives to:</p> <ul style="list-style-type: none"> Safeguard the City's cash and investments portfolio; and Ensure liquidity for the City’s business objectives over the long, medium and short term.

5.3.3 Sale of Assets

Findings	Recommendations
<ul style="list-style-type: none"> • The City initially provided aged care services as there was a gap in the market. Little consideration was given at the time of the investment on the recurrent capital needs of these services and associated infrastructure. Once the assets reach their effective life, the City is forced to reassess the current needs of the community versus further requirements to make capital investments. Due to aging infrastructure and the cost to maintain these facilities at a functional level, aged care facilities may be seen as a liability and not an asset; • The City owns several aged care facilities which includes 2 residential aged care facilities and 4 independent units. The two residential aged care facilities are the City of Bayswater Residential Care Hostel and the Carramar Hostel (both of which are managed and operated by Juniper). The Carramar Hostel also includes an independent living section; • The City receives federal funding for the residential care facilities which may only be used to cover expenditure at those facilities. No federal or state government grants are received for the independent living units. In terms of recent amendments to the Retirement Villages Act 1992, any surpluses generated by a retirement village may be used exclusively for the benefit of the retirement village - cannot be transferred to the City. The risk is the City will be responsible to finance any losses generated by a retirement village. In addition, the City is responsible to maintain the aged care buildings. However, the City’s perspective is that ‘aged care funds aged care’. Thus, incoming residents pay an initial lump sum (ingoining fees), retention fees and fortnightly rental contributions which helps in reducing the City’s risk; • On 1 April 2019, Hall & Prior (Fresh Fields Management (Mertome Village) Pty Ltd) entered into a long-term lease with the City and acquired the business and assets associated with Mertome Village. Hall & Prior operates Mertome Village and the Hostel. The lease contract for the business (bricks and mortar) is for an initial 40-year period, which may be extended to last for 99 years. During the first 7 years of the lease, the City will receive no cash inflow from the lease (rent 	<p>The City should expedite its consideration of the sale of its aged care facilities. The City should consider the options of outright sale or long-term lease to any purchaser.</p>

Findings	Recommendations
<p>free period); and</p> <ul style="list-style-type: none"> • Paxon was informed the City is 'happy to divest' aged care facilities as it is no longer being regarded as a 'core business' of the City. Notwithstanding the City's perspective that "aged care funds aged care" the City's incurs significant expenditure to maintain these assets. Thus, the City is currently considering the sale of further aged care facilities. 	

5.3.4 Infrastructure Renewal Gaps

Findings	Recommendations
<ul style="list-style-type: none"> • Infrastructure renewal gaps originate when assets deteriorate faster than local governments can fund their maintenance and renewal; • Paxon was informed the City does not quantify infrastructure renewal gaps. However, Paxon found the draft "Transport Asset Management Plan – Part 1- Summary – 2019-2029" includes a "Projected and Planned Expenditure Requirements and Expenditure Gap". This expenditure gap is estimated to accumulate over the period 2020 – 2021 to 2019-2030 to \$17,094,863; and • Paxon was informed current delays in obtaining "forward and projected plans" from relevant service areas has resulted in an inability to quantify expenditure gaps for property and recreation assets. 	<ul style="list-style-type: none"> • The City should as a first step, quantify infrastructure renewal gaps across all its asset classes. This process should be undertaken without delay; and • Once quantified, the City's Strategic Documents should be updated to appropriately address the estimated infrastructure renewal gaps specifically strategies to fund these gaps.

5.3.5 Cost Savings

Findings	Recommendations
<ul style="list-style-type: none"> • A service review was performed in October 2017 to identify cost savings. Paxon was informed another review is required; • Council participated in a strategic workshop which was held in January 2020; • City is planning on investing in governance infrastructure (IT systems and processes) to enable the City to be more effective and efficient in delivering services to the community in future; and • Paxon was informed opportunities exist for cooperation and cost sharing with other local governments for services which include procurement, rangers, and security. 	<p>The City should commission a review of all its operational costs. This review should be a formalised process and be undertaken regularly either on two to three-year cycle. This review should include quantification of the following:</p> <ul style="list-style-type: none"> • Operative Costs; • Cost to operate City's assets; • Regulatory compliance costs; and • Identify opportunities for partnerships with neighbouring Councils regarding service sharing models.

5.3.6 Borrowings

Findings	Recommendations
<ul style="list-style-type: none"> • The City is debt-free at present in compliance with its culture. It is a good position to be in; • Council has adopted a "Loan Borrowing" policy on 27/11/2018. Council has recently adopted (at its meeting of 23 June 2020) an amendment to the loan borrowing policy, to reflect that consideration only be given to borrowings which are to fund new or major upgrades to City assets, or strategic land acquisitions, where the City has the capacity to repay the interest on the debt and accumulate cash reserves to ensure full principal repayment upon loan maturity. This broadens the City's ability to borrow giving the City additional scope for resourcing. <p>It has been suggested to Council to consider loans due to the low cost of finance (with current loan rates being competitive with WA Treasury rates); and</p> <ul style="list-style-type: none"> • The City has also implemented 'off balance sheet' financing techniques for assets (gym equipment). 	<ul style="list-style-type: none"> • To support diversification of the Revenue source to the City and to ensure financial sustainability, loan borrowings should be considered as part of any strategy planning. To support maintenance of the City's reserves, certain investments which meet strict criteria can be acquired with the use of borrowings; and • The City should consider loan borrowings to form part of their long-term plans to assist with: <ul style="list-style-type: none"> ○ Major capital works including infrastructure renewal gaps; and ○ Investments to assist diversification of its revenue base.

5.4 Resourcing of Financial Reporting Function

Organisations to have effective financial oversight and accurate long-term financial planning, finance divisions are required to have the appropriate resources. This includes having the capacity to deliver on the legislative reporting requirements and adhere to the increase obligations that have been brought on by Office of the Auditor General (OAG) for the annual external audit. It is important also that the Finance area can assist with other directorates with financial analytics and access to data.

The following findings and recommendations provided by Paxon should have no bearing on any personnel’s performance or capabilities. The review was based on the operation of the City as a whole and as such no dispersions should be made.

Findings	Recommendations
<ul style="list-style-type: none"> • Paxon identified the requirements on Finance have increased considerably over the years. This includes the organisational review, the incorporation of the new risk framework and the increased obligations by the OAG. Further to this, there is a need to ensure that financial data and information is also made available between each directorate to assist with decision making. <p>For the City to ensure it meets its legislative and internal obligations, Paxon can determine that the finance area is currently under resourced to deliver on these items; and</p> <ul style="list-style-type: none"> • Paxon was informed a fixed term contractor has been appointed and a project plan has been drafted for a review of the LTFP. The project will include consideration of the effect of Covid-19 on the financial sustainability of the City. 	<p>Financial information will be needed on a continuous basis in order to manage the City’s financial sustainability. Thus, additional resources will be necessary on a permanent basis for this purpose. This additional resource(s) should also incorporate the following:</p> <ul style="list-style-type: none"> • The LTFP is but a single document within the City’s portfolio of Strategic Documents. The relevance of the City’s Strategic Documents demands continuous effort and extends far beyond compilation of these documents and annual updates of specific documents (Corporate Business Plan and annual budget). Key performance measures are needed to monitor progress and help ensure the City stays on track. This will require information gathering, assessment and reporting on a perpetual basis. Resources will most probably be required across all the City’s directorates. The City has to establish whether skilled resources are available to undertake these tasks and appoint additional resources as and when required; and • Paxon recommends a formalised financial integration between all directorates and council regarding budget setting and long- term financial planning. This will allow all stakeholders to provide input and observe how current decisions will affect the City’s financial sustainability. Finance should be one of the major custodians of delivering this recommendation.

5.5 Integrated Planning and Reporting

Integrated planning and reporting were not included as a risk in the scope of the engagement. However, Paxon identified it as a risk during the performance of this review and felt it was necessary to include in this report.

5.5.1 Review Cycle

The review cycle for the Strategic Documents is as follows:

Strategic Document	Review Cycle
Strategic Community Plan	At least once every four years. However, the Department of Local Government and Communities proposes a two-year review.
Corporate Business Plan	Annual Basis.
Long-Term Financial Plan	10 Year rolling plan. Thus, a review is required on an annual basis.
Asset Management Plans	If and as required. ⁹
Workforce Plan	If and as required. ¹⁰
Annual Report	Self-explanatory.
Annual Budget	Self-explanatory.

5.5.2 Guidance

Paxon notes the Department of Local Government and Communities publishes a suite of other documents to assist local governments in developing IPR documents. These documents include:

- Integrated Planning and Reporting Framework and Guidelines;
- Integrated Planning and Reporting Advisory Standard;
- Asset Management Framework and Guidelines;
- Workforce Planning Toolkit;
- Model Long Term Financial Planning;
- Abridged Model Long Term Financial Planning; and
- Long Term Financial Planning Tools.

Risk	Findings	Recommendations
<p>Poor Integrated Planning and Reporting</p>	<p>Strategic Documents</p> <ul style="list-style-type: none"> • Paxon examined the City's Strategic Documents and found it included: <ul style="list-style-type: none"> ○ "Strategic Community Plan - 2017-2027"; ○ "Corporate Business Plan 2019-2023"; ○ "Long-Term Financial Plan 2017-18 to 2026-27"; ○ "Asset Management Strategy"; ○ "Transport Asset Management Plan – Part 1- Summary – 2019-2029"; and ○ "Workforce Plan 2017-27". • Paxon notes a minor review of the "Strategic Community Plan - 2017-2027" (SCP) was endorsed in April 2019. Paxon was informed a major review of the SCP is currently being undertaken. Paxon notes the "Asset Management Strategy" is dated January 2019 and is still a draft document. However, none of the other Strategic Documents have been updated since its inception; • Strategic Documents are currently not integrated (out of sync). Thus, these documents do not share the same vision for the City. This is due to the fact these documents were finalised by individual responsible managers without contributions from other stakeholders prior to approval by Council; and • No specific policy or procedure document exists to guide the compilation of the Strategic Documents. 	<ul style="list-style-type: none"> • Based on the review cycle for the Strategic Documents (see section 5.1.3 above) the following documents must be updated without delay: <ul style="list-style-type: none"> ○ "Strategic Community Plan - 2017-2027"; ○ "Corporate Business Plan 2019-2023"; and ○ "Long-Term Financial Plan 2017-18 to 2026-27." • Based on the fact the Strategic Documents are not integrated at present, a review of all these documents is essential to ensure a clear and cohesive vision for the City; and • A specific policy document should be introduced which sets principles for the integrated planning and review process. Guidance is provided in the suite of documents published by the DLGSC (see section 5.1.4 above).
	<p>Contrasting Financial Perspectives</p> <p>Councillors have a four-year term of office as specified in section 2.28(2) of the Local Government Act 1995. Thus, there is a risk that Councillors will have a short-term perspective of matters including community expectations. This, short-term perception of community expectations is accentuated by the media. In contrast, the City's management have a long-term perspective for the City which is essential to the vision disclosed in the Strategic Documents and the financial sustainability of the City into the future.</p>	<ul style="list-style-type: none"> • Council should strengthen their focus on the long-term vision of the City's future. Council should participate in the proposed annual planning and reporting cycle to be introduced to help ensure the Strategic Documents remain relevant; • City management should be more pro-active in communicating their vision of the City's future to Council; and • Internal stakeholders, at least, should be provided with the opportunity to provide input to draft Strategic Documents prior to its approval by Council.

Risk	Findings	Recommendations
<p>Poor Integrated and Reporting (continued)</p>	<p>Manager Governance and Organisational Strategy A newly appointed Manager Governance and Organisational Strategy is responsible to facilitate the integration of the Strategic Documents.</p>	<p>Paxon is satisfied with the City's current approach.</p>
	<p>Annual Planning and Reporting Cycle An annual planning and reporting cycle will be introduced to help ensure the Strategic Documents remain relevant. This cycle will include workshops to enable stakeholders to make contributions regarding the annual review of the Strategic Documents and the budget. Thus, contributions will not be limited to committee members.</p>	<p>Paxon is satisfied with the City's current approach.</p>

5.6 Financial Management

Financial management was not included as a risk in the scope of the engagement. However, Paxon identified it as a risk during the performance of the review as it plays an integral part in ensuring the accuracy of information to assess the short term and long term needs of the City.

Findings	Recommendations
<p>Forward Vision</p> <p>A new chart of accounts was implemented as from 01/07/2018. This has increased the City's ability to review past financial transactions. The City's accounting records have a historical transactional structure. However, it lacks a 'forward thinking' perspective. Paxon was informed the City will implement a corporate reporting system which will facilitate a dual approach to financial management.</p>	<p>The City should implement the proposed integrated corporate reporting system without delay.</p>
<p>Policies</p> <ul style="list-style-type: none"> • Paxon found the City does have several financial policies. However, the City does not have policies which deal with the following financial matters: <ul style="list-style-type: none"> ○ Accounting policy; ○ Budget variations; ○ Contract variations - authority to incur a liability; ○ Management of leases; ○ Disposal of property; ○ Contributed assets; and ○ Payments under section 5.50 of the Local Government Act 1995 (Payments to employees in addition to contract or award). • Paxon notes Council adopted a "Strategic Budget Policy" in January 2020. Paxon was informed: "Accounting Policy is in draft and is nearing finalisation". Paxon notes the City does have a "Contract Management" policy. However, this policy does not specifically address the matter of contract variations. Paxon notes the City does have an "Asset Management" policy. However, this policy does not specifically address the disposal of assets and contributed assets. 	<ul style="list-style-type: none"> • The City should consider the introduction of policies which deal with: <ul style="list-style-type: none"> ○ Accounting policy; ○ Budget variations; ○ Contract variations - authority to incur a liability; ○ Management of leases; ○ Disposal of property; ○ Contributed assets; and ○ Payments under section 5.50 of the Local Government Act 1995 (Payments to employees in addition to contract or award). • The City does have several financial policies, but policies for essential financial matters are outstanding.

Findings	Recommendations
<p>Cash Flow</p> <ul style="list-style-type: none"> • Paxon was informed: <ul style="list-style-type: none"> ○ Cash flow projections are made on a daily basis. Every Tuesday the liquidity of investments is examined from the perspective of cash flow requirements; and ○ In the short-term the City is able to maintain sufficient liquidity to meet its creditor and payroll requirements. As a control, the City’s investment portfolio is carefully managed to ensure that there is sufficient liquidity available to fund these requirements. • Paxon notes the City’s “<i>Investment Policy</i>” states: <p>“<i>This policy sets the following objectives:</i></p> <ul style="list-style-type: none"> • <i>safeguard the City’s cash and investments portfolio;</i> • <i>achieve appropriate earnings; and</i> • <i>manage the City’s cash resources to ensure sufficient liquidity to meet the City’s business objectives over the long, medium and short term.”; and</i> • Paxon was informed it is not the City’s practice to prepare rolling cash flow projections. However, a specific cash flow projection for the next two years was compiled recently. The Department of Local Government and Communities’ publication “<i>Integrated Planning and Reporting - Long Term Financial Plan Guidelines – September 2016</i>” states: <p>“<i>The Long-Term Financial Plan is a 10-year rolling plan that informs the Corporate Business Plan in the activation of Strategic Community Plan priorities. The Long-Term Financial Plan includes robust forecast budgets for four years accompanying the Corporate Business Plan. From these planning processes, annual budgets that are aligned with strategic objectives can be developed.</i>”¹¹</p> <p>(emphasis added)</p> 	<ul style="list-style-type: none"> • The City should expand its liquidity focus to include the risk of liquidity shortfalls in the medium to long-term. Thus, for expenditure beyond creditor and payroll requirements; and • Cash flow should be made on an annual basis to facilitate the roll forward of both the: <ul style="list-style-type: none"> ○ Long-Term-Financial-Plan; and ○ Corporate Business Plan which should be reviewed annually.
<p>Financial Reports</p> <ul style="list-style-type: none"> • Monthly financial reports are provided to both executive management and Council. Executive management consists of the CEO, directors, Manager Financial Services and 2 other managers. The executive management team meets on a weekly basis and focuses on payroll expenditure and capital expenditure. The Manager Financial Services makes a presentation on either capital or operational matters on a 	<p>Paxon is satisfied with the City’s current approach.</p>

Findings	Recommendations
<p>monthly basis (ad hoc reporting); and</p> <ul style="list-style-type: none"> Financial reports are also provided to the Audit and Risk Management Committee and the Budget Review and Expenditure Committee. These reports are specific to the committee's responsibilities. The information provided to the Audit and Risk Management Committee include annual financial statements, relevant OAG reports (including an indication as to how the City would have fared if it was subjected to the same OAG audit), debtors' write-offs and amended financial policies which take account of local government and OAG reports. 	
<p>Independent Auditor's Reports</p> <ul style="list-style-type: none"> Paxon read the <i>"Independent Auditor's Report to the Rate Payers of the City of Bayswater"</i>, as included in the City's <i>"Annual Report – 2017/18"</i>. The independent auditor expressed an unqualified opinion on the City's financial report; and Paxon read the <i>"Independent Auditor's Report to Councillors of the City of Bayswater"</i>, as included in the City's <i>"Annual Report – 2018/19"</i>. The independent auditor expressed an unqualified opinion on the City's annual financial report. 	<p>Paxon is satisfied with the City's current approach.</p>
<p>Outstanding Rates</p> <p>Outstanding rates are never written off. The City did sell a property during this financial year to recover outstanding rates. However, service charges are written off. The City uses internal resources to follow-up outstanding rates and service charges - not a collection agent. Due to the financial challenges Covid-19 presents to ratepayers, the City will introduce a financial hardship policy.</p>	<p>Paxon is satisfied with the City's current approach.</p>
<p>Rates Smoothing</p> <p>'Rates smoothing' is offered to ratepayers which allows the spread of rate payments into smaller, more manageable cash flows (on a weekly, fortnightly or four weekly basis). However, this payment method incurs interest at 5.5% (thus, the incentive remains for rate payers to expedite their rate payments). Nonetheless, this is an alternative payment method to lump sum payments (being full payment, two instalments or four instalments).</p>	<p>Paxon is satisfied with the City's current approach.</p>

5.7 **Asset Management**

Asset management was not included as a risk in the scope of the engagement. However, Paxon identified it as a risk during the performance of the review, as Asset Management plays an important part in the financial sustainability of the City.

Findings	Recommendations
<p>Asset Planning Documents</p> <ul style="list-style-type: none"> • Paxon examined the City’s <i>“Asset Management Policy”</i> which identifies the following asset classes: <ul style="list-style-type: none"> ○ Property; ○ Transport; ○ Recreation; ○ Plant and Equipment; and ○ Information and Communication Technology (ICT). • Asset planning documents provided for examination by Paxon were limited to drafts of: <ul style="list-style-type: none"> ○ <i>“Asset Management Strategy”</i>; and ○ <i>“Transport Asset Management Plan – Part 1- Summary – 2019-2029”</i>. • Paxon was informed the status of asset management plans for other asset classes is as follows: <ul style="list-style-type: none"> ○ Property (land and buildings) (draft format); ○ Recreation (draft format); and ○ ICT (plan exists). • Paxon was informed the <i>“Asset Management Strategy”</i> (Strategy Document) is: <ul style="list-style-type: none"> ○ Only a draft document, dated January 2019 and needs a review; and ○ Currently with the Director Works and Infrastructure awaiting feedback. The Director's perspective for not progressing the Strategy Document is that he awaits the Long-Term Financial Plan to be updated. • Paxon examined the Strategy Document and found it to be incomplete in respect of addressing plant and equipment and ICT; and 	<ul style="list-style-type: none"> • The Strategy Document should: <ul style="list-style-type: none"> ○ Be updated and resubmitted for approval; ○ Provide a holistic and integrated strategy across all the different asset classes; ○ Interfaces with the City’s suite of Strategic Documents to ensure a clear and cohesive vision for the City; and ○ Shared with other stakeholders prior to approval to obtain their contributions. • Asset management plans should be finalised without delay for: <ul style="list-style-type: none"> ○ Property; ○ Recreation; ○ Plant and Equipment; and ○ Information and Communication Technology (ICT). <p>These asset management plans are needed to:</p> <ul style="list-style-type: none"> ○ Assist in maintaining the relevance and accuracy of the City’s suite of Strategic Documents; and ○ Comply with the City’s <i>“Asset Management Policy”</i>.

Findings	Recommendations
<ul style="list-style-type: none"> Paxon notes the City’s “Asset Management Policy” states: <i>“Asset management plans will form part of the City’s day-to-day business practices and will be used to make informed decisions in relation to service delivery when it comes to considering the need to acquire new assets, renew existing assets, upgrade existing asset or dispose of existing assets to support service delivery.</i> <i>Asset management plans will be prepared in accordance with the International Infrastructure Management Manual recommended format and will include long term financial modelling of the renewal profile of each asset class and will be underpinned by long term financial plans in accordance with industry standards and the Integrated Planning Framework.</i> <i>The City has limited resources and is custodian of a large number of assets, some of which have reached or gone beyond their economic life. It is therefore, imperative that informed decisions be made in relation to asset expenditure.”</i> (emphasis added) 	
<p>Short-term Focus</p> <ul style="list-style-type: none"> Currently the focus is on a short-term (‘annual budget to annual budget’) approach regarding asset expenditure (capital and operational). The motivation for this approach is that asset expenditure is driven by: <ul style="list-style-type: none"> ○ The transfer of new assets to the City by State government and the provision of limited funding, if provided, to only cover short term operational expenditure (for example: projects: Tonkin highway and three new train stations); ○ Council’s adoption of projects which will result in new or upgraded assets, both of which will add to future operational costs; and ○ Operational expenditure driven by the current asset base in the City. Thus, after providing for the above-mentioned demands on available funds, no funds remain with which to consider asset expenditure beyond the ensuing financial year; As a result, the City does not have (cash backed) reserves to fund new capital projects. Paxon notes the City’s “Annual Report - 2018/19” records a cash backed reserve of only \$3,994,977 for major capital works. Paxon 	<p>The short-term financial focus for asset management is the product of the current financial sustainability challenges confronting the City. Several recommendations have been made in this report to address this matter.</p>

Findings	Recommendations
<p>notes the minutes of a meeting of the Covid-19 Advisory Committee, held on 14 May 2020, records the meeting’s decision to recommend to Council the approval of the consolidation of reserves to form a new reserve titled “Economic Stimulus Reserve” with a value of \$10,597,934. However, this increased reserve will still be inadequate to fund major capital works in the future; and</p> <ul style="list-style-type: none"> • To help manage this funding shortfall, strategies used include: <ul style="list-style-type: none"> ○ Excessive reliance is on grant funding; and ○ Determining asset replacement with reference to asset condition (scales are used for different asset conditions) and not the criteria of age and depreciation as used in the past. 	
<p>Life-cycle management</p> <ul style="list-style-type: none"> • Paxon was informed life-cycle management can be improved as assets are currently not always replaced at the right time. Asset replacement is dependent on available funding and may result in assets not been replaced at the best possible time. Late replacement may necessitate the replacement of other assets as well to optimise functionality across an asset system; • Paxon was informed asset management service plans are included in the asset management plans currently been compiled. These service plans set ‘service condition intervention levels’ for assets. When an asset reaches that level, a decision is made by City engineers as to the replacement or continued operation of the asset; and • Paxon notes the drafted “Transport Asset Management Plan – Part 1- Summary – 2019-2029” includes a comprehensive set of asset management service plans. 	<ul style="list-style-type: none"> • Asset management service plans should be completed for all the asset classes of the City; and • Records should be kept of the decisions taken when assets reached their ‘service condition intervention level’.
<p>Asset Register</p> <p>A comprehensive asset inventory is kept, and regular 'audits' are performed to maintain the register's accuracy and completeness. Asset management information is readily available and integrated. This enable public service custodians with access to asset used for service delivery.</p>	<p>Paxon is satisfied with the City’s current approach.</p>

5.8 Risk Management

Risk management was not included as a risk in the scope of the engagement. However, Paxon considered whether it as a risk during the performance of the review, to ensure that financial sustainability is adequately addressed as a risk within the City.

Findings	Recommendations
<p>Risk Management Framework</p> <ul style="list-style-type: none"> • The City does not maintain a risk register and risk treatment plans. The City has in place a strategic risk focus approach as recorded in its "Risk Management Framework" (Framework); • The City's risk tolerance statements are aligned to specific categories of risk which include: <ul style="list-style-type: none"> ○ Strategic Direction – moderate risk; and ○ Financial management – low risk. • The Framework states regarding strategic direction: <p><i>"The City cannot be successful in achieving the objectives of its Strategic Community Plan without clear goal setting and future planning. Understanding that anticipated issues may arise from time to time, the City will make every effort to achieve or significantly progress its key deliverables.</i></p> <p><i>The City will only tolerate risks in this category as long as it does not result in the following:</i></p> <ul style="list-style-type: none"> • <i>A significant change in strategic objective.</i> • <i>A delay in project delivery of over twelve months.</i> • <i>Exceeds the capacity of the long-term financial plan."</i>; and • The Framework states regarding financial management: <p><i>"To ensure that the City is well prepared for financial uncertainty it considers its budget with a long-term outlook, ensuring that income streams promote long term financial sustainability (through long term financial planning, long term asset planning).</i></p> <p><i>The City has a low risk approach to its financial resources, so it is not willing to accept risks that may result in the disruption of its long-term financial plan and its financial position. The City will only tolerate risks in this category as long as it does not result in the following:</i></p> 	<p>Paxon is satisfied with the City's current approach and treatment.</p>

Findings	Recommendations
<ul style="list-style-type: none"> • <i>Individual projects don't exceed 15% over budget.</i> • <i>Annual budget doesn't go into deficit.</i> • <i>Initiatives are within the capacity of the long-term financial plan."</i> 	
<p>Crisis Management Plan</p> <p>A Crisis Management Plan was drafted by Riskwest in December 2018. The draft plan was updated by the Coordinator Risk Management in June 2019 (for training and walkthrough). The plan was approved by the Executive Leadership Team in December 2019. A validation exercise for the plan was conducted in November 2019. The plan addresses prolonged outages for approximately one month. This plan does not cover emergencies like pandemics (Covid-19). Riskwest who prepared the original plan will conduct a specific assessment to take account of Covid-19.</p>	<p>Paxon is satisfied with the City's current approach.</p>

5.9 Governance

Governance was not included as a risk in the scope of the engagement. However, Paxon considered whether it as a risk during the performance of the review to ensure that Governance provides adequate framework to support appropriate and accurate processes and decision making to ensure sustain financial sustainability.

Findings	Recommendations
<p>New Committee</p> <ul style="list-style-type: none"> • Paxon was informed the Budget Review and Expenditure Committee (Committee) is struggling to gain traction. At present not all Councillors are members of the Committee. It is normal practice for Councillors to request detailed reports from City management to enable Councillors to make informed decisions. Compilation of such reports places a significant demand on the City’s resources; and • Paxon notes the Committee has held two meetings since its inception. 	<p>The City should consider investment in software tools and techniques which will enable it to expedite the gathering of relevant information (external and internal) and the actual writing of reports. This investment will enhance the effectiveness and efficiency of all reports produced by the City.</p>
<p>Governance Framework</p> <ul style="list-style-type: none"> • Paxon notes the City does not have a Corporate Governance Charter nor a Governance Framework. Paxon found the following local governments do have Governance Frameworks: <ul style="list-style-type: none"> ○ City of Wanneroo; and ○ City of South Perth. • Paxon notes the City has a Code of Ethics and a Code of Conduct. However, these documents focus on employees and councillors. Thus, it is inward looking. A Governance Framework is outward looking and will enhance the level of trust external stakeholders feel when interacting with the City. 	<p>The City should introduce a Governance Framework. The City should consider the Governance Frameworks of the:</p> <ul style="list-style-type: none"> • City of Wanneroo; and • City of South Perth.
<p>Code of Ethics</p> <p>Paxon examined the City’s “Code of Ethics- Employees – January 2013”. Specifically, Paxon noted:</p> <ul style="list-style-type: none"> • Section 4 “Ethical Conduct”; and • Section 5 “Responsibility to Disclose or Report”. 	<p>Paxon is satisfied with the City’s current approach.</p>

Findings	Recommendations
<p>Code of Conduct</p> <p>Paxon examined the City’s <i>“Code of Conduct – 2018 – Council Members and Committee Members”</i> which articulates this role in section 1.1 entitled: <i>“Role of Council Member”</i>:</p> <p><i>“In fulfilling the various roles, Council Members activities will focus on:</i></p> <p><i>...achieving sound financial management and accountability in relation to the City of Bayswater’s finances.</i></p> <p><i>...In carrying out its functions the City of Bayswater is to use its best endeavours to meet the needs of current and future generations through integration of environmental protection, social advancement and economic prosperity.”</i></p> <p>(emphasis added)</p>	<p>Paxon is satisfied with the City’s current approach.</p>
<p>Audit and Risk Management Committee</p> <p>Paxon examined the <i>“Terms of Reference”</i> of the Audit and Risk Management Committee which discloses the following:</p> <ul style="list-style-type: none"> • <i>“Objective”</i>: <i>“The primary objective of the Committee is to provide independent oversight so that Council can be satisfied with the performance and effectiveness of the City’s financial reporting, governance systems, risk management and internal control practices.”</i>; and • <i>“Duties and Responsibilities”</i>: <i>“In addition to the above functions, the Committee also has the following responsibilities:</i> <p><i>... Receive progress reports on the City’s Integrated Planning and Reporting Framework (IPRF) documents including the Strategic Community Plan, Corporate Business Plan, Workforce Plan, Asset Management Plans and the Long-Term Financial Plan.”</i></p>	<p>Paxon is satisfied with the City’s current approach.</p>

Findings	Recommendations
<p>Budget Review and Expenditure Committee</p> <p>Paxon examined the “<i>Terms of Reference</i>” of the Budget Review and Expenditure Committee which discloses the following:</p> <ul style="list-style-type: none"> • “<i>Objective</i>”: <p>“<i>The primary objective of the Committee is to provide guidance and oversight as part of the Budget process and workshops, as well as review and monitor monthly expenditure and delivery of significant or strategic financial commitments and financial and/or economic impacts on or by the City of major capital projects.</i>”;</p> <p>and</p> • “<i>The roles and functions of the Committee are to</i>: <ul style="list-style-type: none"> (a) <i>Guide and assist the City in determining the funding requirements for maintaining assets and meeting normal operational requirements,</i> (b) <i>Consider funding requirements for capital works projects, including major projects that are at risk of going over budget,</i> <p><i>and any adjustments required to the scope of major projects to meet budgetary limits.</i></p> <ul style="list-style-type: none"> (c) <i>Identify any cost offsets, or grant funding opportunities to reduce the financial impact of major projects on the budget and Long-Term Financial Plan.</i> (d) <i>Review expenditure reprioritisation opportunities to maintain alignment between the Long-Term Financial Plan and the Strategic Community Plan, Asset Management Plan, Workforce Plan, ITC Plan and other key planning documents.</i> (e) <i>Support the principles of long-term financial sustainability in the development of the annual budget and rate setting statement.</i> (f) <i>Provide support and direction for the development of policies relating to the City’s financial sustainability, rating strategies, grant funding and investments.</i> (g) <i>Review and monitor expenditure. “</i> 	<p>Paxon is satisfied with the establishment of this committee and its term of reference. The Committee should be utilised more in particularly with the recommendations that are present within this report for the City to develop an integration framework for long term planning that includes all levels of the City.</p>

Reference List

References are as follows:

No.	Reference
1	Australian Local Government Association, <i>National Financial Sustainability Study of Local Government – Commissioned by the Australian Local Government Association – November 2006</i> , Sydney https://fdocuments.in/document/national-financial-sustainability-study-of-local-government-national-financial.html
2 to 3, 7 and 11	Department of Local Government and Communities, 2016, <i>Integrated Planning and Reporting – Long Term Financial Plan Guidelines – September 2016</i> , Perth https://www.dlgsc.wa.gov.au/docs/default-source/local-government/integrated-planning-and-reporting/integrated-planning-and-reporting-long-term-financial-plan-guidelines.pdf?sfvrsn=fdb403b4_4
4	Australian Bureau of Statistics, 6401.0 Consumer Price Index, Australia, TABLES 3 and 4. CPI: Groups, Weighted Average of Eight Capital Cities, Index Numbers and Percentage Changes https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0March%202020?OpenDocument
5	Australian Bureau of Statistics, 6345.0 Wage Price Index, Australia, Table 2a. Total Hourly Rates of Pay Excluding Bonuses: All Sectors by State, Original (Financial Year Index Numbers for year ended June quarter) https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6345.0Mar%202020?OpenDocument
6	Australian Bureau of Statistics, 6427.0 Producer Price Indexes, Australia, Table 17. Output of the Construction industries, subdivision and class index numbers https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6427.0Mar%202020?OpenDocument
8	Local Government and Shires Association of NSW, 2006, <i>Are Councils Sustainable, Final Report: Findings and Recommendations, Independent Inquiry into the Financial Sustainability of NSW Local Government</i> , Sydney https://www.lgnsw.org.au/files/imce-uploads/35/final-report-findings-and-recommendations.pdf
9 to 10	Department of Local Government and Communities, 2016, <i>Integrated Planning and Reporting – Framework and Guidelines – September 2016</i> , Perth

Perth

Level 5, 160 St Georges Terrace
Perth Western Australia 6000
Telephone: +61 8 9476 3144
Facsimile: +61 8 9476 3188
GPO Box 2753, Perth WA 6001

Melbourne

Level 27, 101 Collins Street
Melbourne VIC 3000
Telephone: +61 3 9111 0046
Facsimile: +61 3 9111 0045

Sydney

Level 57, MLC Centre, Martin Place
Sydney NSW 2000
Telephone: +61 2 8355 3690
Facsimile: +61 2 8355 3689

www.paxongroup.com.au

providingvalue

PAXON

PERTH

Level 5, 160 St Georges Terrace, Perth WA 6000
Telephone: +61 8 9476 3144

SYDNEY

Level 15, 56 Pitt Street, Sydney NSW 2000
T: +61 2 8379 6144

MELBOURNE

Level 27, 101 Collins Street, Melbourne VIC 3000
Telephone: +61 3 9111 0046

ADELAIDE

Level 30, 91 King William Street, Adelaide SA 5000
Telephone: +61 8 8113 5739

BRISBANE

Level 19, 10 Eagle Street, Brisbane QLD 4000
Telephone: +61 7 3121 3240

DARWIN

Level 16, 19 Smith Street The Mall, Darwin City NT 0800
Telephone: +61 8 6314 3066