

Murrindindi Shire Council

Aged and Disability Services Strategic Review

Options Assessment & Recommendations

5 March 2019

Acknowledgements

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Contents

Executive Summary	3
Background	9
Option 1: Continue Service Provision	11
Retain current suite of services	11
Enhancements to improve responsiveness and choice	12
Review of client fee structure	14
Option 2: Transition from Service Provision	16
Transition clients to alternative provider(s)	16
Local business development	18
Community information and individual support.....	19
Assessment of Strategic Options	20
Appendix 1: Development and Assessment Criteria	24
Appendix 2: Options Development and Refinement	25
Appendix 3: National Competition Policy	26
Appendix 4: Indicative Implementation Activities	26
Appendix 5: Indicative Process to Transfer CHSP Service Agreement	32
Appendix 6: Financial Estimates	34

Executive Summary

Background

This report provides advice to Murrindindi Shire Council to support decision-making about its future role in the provision of community based aged and disability services. Council's decision-making includes consideration of the broader role of local government in empowering residents as consumers of community care services and in supporting the development of a sustainable local service system. Council also has to keep in mind a range of other challenges confronting local governments in Victoria such as rate-capping, demographic shifts, cost growth, and increasing community expectations.

Council's consideration of its future role in aged and disability services is in response to the Commonwealth Government's Aged Care Reforms and the introduction of the National Disability Insurance Scheme (NDIS) which are fundamentally changing the operating and funding environment for the aged and disability services sector, particularly through increased market contestability and client choice.

Decision-making is complicated by uncertainty about future Commonwealth and State funding models. The specific details of funding arrangements for the full operation of the Commonwealth Home Support Program (CHSP) and HACC Program for Young People (HACC-PYP) in Victoria (post 2020) have not been disclosed as yet. However, it is highly likely on the basis of trends, policy statements and program guidelines that the shift away from an operating environment based on block funded grants to a more competitive operating environment is unlikely to be reversed.

Local market risks

Future risks to community outcomes (ie service quality & access) and issues impacting the financial sustainability of service provision will vary depending on market maturity:

- If MSC continues to provide services and there is a limited number of alternative providers it faces risks in relation to potential growth in the level of financial contribution over time. Additionally, MSC's large market share blocks new entrants who may better meet client needs. Continuation of service delivery by MSC may inhibit other local service providers from growing their service impacting their long-term sustainability.
- If MSC continues to provide services in a highly competitive market it faces significant financial risk if its offering is not attractive to clients (or funding agencies) because of its relatively high staff & overhead costs and lack entrepreneurial / marketing expertise. There is no guarantee that in a competitive funding environment MSC will be successful in attracting a Commonwealth/State government contract and/or maintain sustainable market share in a consumer choice funding model. Additionally, MSC risks potentially being in breach of National Competition Policy if it subsidised higher costs through rates revenue.
- If MSC discontinues service delivery and there is a limited number of alternative providers there are risks in relation to potential service gaps (ie there may be particular services, client cohorts or geographic areas at risk). Additionally, there may be limited competition to drive improvements in quality & cost.

- If MSC discontinues service delivery in a highly competitive market there are risks in relation to inequitable access. Particularly vulnerable clients are those that do not have the capacity to effectively exercise choice in a competitive market and/or may be at risk from unscrupulous providers.

Market sounding

Through an initial consultation round with current local providers, three current local organisations (Nexus Community Health, Menzies Support Services and Darlingford Upper Goulburn Nursing Home) informally expressed an interest in offering community care services in Murrindindi in a market environment. These three organisations indicated that they would be interested in collaborating to ensure full coverage across the shire consistent with their current catchments: Nexus in the West and Menzies & Darlingford in the East.

The three interested organisations could increase their current capacity (ie service delivery, management and admin staff; rostering, client management and billing systems; and policies etc) to effectively provide current service levels.

These organisations could not guarantee employment for all current MSC staff and would need to undertake their own recruitment process. However, staff would be encouraged and supported by MSC to seek employment with the alternative service providers. It is important to note that other Councils exiting from service delivery have found that the majority of their staff have taken up employment opportunities with the new service provider/s.

All organisations consulted expressed a strong interest in building on existing relationships and the strengths of individual organisations to develop & implement innovative service offerings, address service gaps & capacity issues and improve client & community outcomes. Currently, these organisations are already developing or conducting innovative initiatives that are improving client and staff outcomes.

It is important to note that MSC is likely to be in direct competition with local service providers if a decision was made to continue service delivery.

Focus areas for option development and assessment

Three key focus areas with associated evaluation criteria were identified on the basis of alignment with Council's strategic objectives (ie referenced to the 2017-21 Council Plan) and reflecting Councillors' & community concerns/interests (from consultation meetings). These focus areas are:

- (i) community outcomes
- (ii) financial sustainability
- (iii) operational feasibility

Further detail on focus areas and evaluation criteria is provided in Appendix 1.

Strategic options

A range of potential options were considered in the course of the project. These options were either rejected or refined at successive iterations during the project by applying the identified focus areas. A summary of the results of the process to develop / reject options is presented at Appendix 2. On the basis of this development & assessment process two strategic options were finalised for Council's consideration.

Option 1: Continue Service Provision involves changes to MSC's current service model to respond to the new operating environment. The new optimised model involves:

- continuation of the current suite of services
- enhanced service responsiveness & flexibility to increase attractiveness to clients and funding agencies
- a review of the client fee structure to address financial sustainability risks

Option 2: Transition from Service Provision involves MSC discontinuing its current role as a service provider. To facilitate a seamless transition Council would work with and support the incoming service provider/s to develop strong and connected services. Council would continue to provide support for the aged population more broadly, providing community information, advocacy and service planning.

Options assessment

Financial sustainability

Over a ten-year period the estimated total cost to Council is higher for Option 1 (\$3.58m) when compared to Option 2 (\$2.68m). Option 2 has higher short-term transition costs but significantly lower estimated ongoing Council contribution to operating costs than Option 1 (refer to Appendix 6).

Operational feasibility

Both options should be implementable by July 2020, however, there are differing implementation challenges with each option.

Option 1 requires a significant change in policy and culture for MSC: from a focus on demand and risk management to a service that is entrepreneurial, flexible and responsive. This will require more flexible staff capacity and changes to operating practices to be more responsive to client demands.

Despite efforts to improve service attractiveness, there is no guarantee that in a competitive funding environment MSC will be successful in attracting a Commonwealth/State government contract and/or maintain sustainable market share in a consumer choice funding model. Financial risk is increased by the uncertainty of demand for services, and therefore revenue, to cover transition costs, corporate overheads and fixed staff costs.

There is also no certainty regarding compliance with National Competition Policy (NCP) until an applicable test case is determined (refer to Appendix 3). If NCP prevents Council from contributing to operating costs there would be a reduction in service quality and/or client fees impacting service attractiveness and therefore financial sustainability in a competitive environment.

Option 2 will require a prompt Council decision with limited time for alternative providers to demonstrate their operational effectiveness prior to July 2020. In particular, a significant period will be required for (i) Council to approve transition, (ii) recommend alternative providers to the Commonwealth (iii) the Commonwealth to conduct a due diligence process to approve the recommended provider/s and (iv) transition clients and support the necessary increase in capacity for the new provider/s.

Community outcomes

Option 1 has intrinsically less risk in relation to disruption to current clients & staff and ensuring service quality & access across the shire. Proposed service enhancements should improve responsiveness to client needs, however MSC’s ongoing service delivery role is likely to block other market entrants and thereby limit client choice. Access may be impacted by increased fees, coupled with the potential absence of a cheaper alternative provider.

Option 2 will involve change (and therefore potential concerns) for a client cohort which is generally change adverse. It will also result in an ongoing reduction to staff hourly rates and travel allowances, however this may be off-set by one-off redundancy payments, salary packaging (offered by community-based providers) and potentially an increase in total hours worked. In terms of community benefits, the lower cost base of alternative providers may flow through to relatively lower client fees. Additionally, it is likely that as the market develops clients will have greater choice and providers will initiate innovative service offerings to improve client & community outcomes.

The following table provides a summary of the benefits and risks of each strategic option:

	Option 1 Continue Service Provision	Option 2 Transition from Service Provision
Community outcomes	<ul style="list-style-type: none"> Less disruption to current clients & staff and ensures service quality and access across the Shire Continued service delivery by MSC may block new entrants who may better meet community needs; and limit economic development opportunities including the growth of existing local service providers (impacting their long-term sustainability) 	<ul style="list-style-type: none"> Potential for greater choice, innovative service offerings and lower client fees with alternative service providers Reduction to staff hourly rates and travel allowances, however may be off-set by one-off redundancy payments, salary packaging (community organisations) and increase in total hours
Financial sustainability	<ul style="list-style-type: none"> Higher estimated total cost to Council over 10 years for Option 1 (\$3.58m) when compared to Option 2 (\$2.68m) 	<ul style="list-style-type: none"> Option 2 has higher short-term transition costs but significantly lower estimated ongoing Council contribution to operating costs

	Option 1 Continue Service Provision	Option 2 Transition from Service Provision
Operational feasibility	<ul style="list-style-type: none"> Significant change in culture and policy required to implement proposed service enhancements Uncertainty with regard to application of National Competition Policy and MSCs ability to attract Commonwealth/ State government contract and/or maintain sustainable market share (increasing risk to financial sustainability) 	<ul style="list-style-type: none"> MSC can take a proactive role in local service system design and activities to support local service providers to grow their capacity and empower residents as consumers of community care services No certainty that the Commonwealth/ State will approve MSC's recommended alternative provider/s

Recommendations

Neither option is clearly superior to the other, nor is there any significant risk that clearly disqualifies either option. Therefore Council's decision will be a reflection of its desired role and how it can best add value to its communities.

Input from Councillors and MSC executive officers identified the following points to guide Council's decision-making:

- MSC has a role in providing services to minimise quality & access risks and should continue service delivery if exiting would result in service gaps
- there is no basis for MSC to continue to deliver services if there is an appropriate alternative provider(s)
- MSC should be fiscally responsible and actively respond to potential financial sustainability risks
- it is appropriate for MSC to have a role in developing an effective market for community services (particularly business development activities that support local businesses and/or enable growth in local employment opportunities)
- MSC has a broader role in supporting all older people and people with a disability not just those eligible for Commonwealth/State funded programs

Option 2 Transition from Service Provision is the option most aligned with these decision parameters:

- continued service delivery (Option 1) would require a commitment to maintaining the current level of Council contribution to service, whereas exiting service delivery (Option 2) would significantly minimise financial sustainability risks
- preliminary market sounding indicated that appropriate alternative providers would be interested in providing services in the shire, although MSC's current dominant position in the local market is a barrier to the entry and the ongoing sustainability of potential alternative providers
- MSC's continued role in service provision (Option 1) provides more certainty that access to a quality service will be maintained. However, under Option 2 the risk of service disruption can be managed through the active involvement by MSC in local service system design and activities to support alternative providers in growing their capacity

- Option 2 provides greater opportunities for client choice and the development of innovative service responses to meet diverse needs. The potential benefits of an effective local market for community service are more likely to be realised if MSC takes an active role in supporting the development of a sustainable local service system and empowering residents as consumers of community care services
- transition from service delivery provides an opportunity to reallocate resources and re-position Council's role to respond to other areas of need for all older residents and those with a disability; to promote better community outcomes; and to break community perceptions of entitlement to aged and disability services funded through the rates base

It is recommended that Council:

1. *ENDORSE Option 2 Transition from Service Provision which includes:*
 - *recommending an alternative provider/s to the Commonwealth/State government and working collaboratively to support a smooth transition for clients*
 - *undertaking business development activities to attract additional local service providers*
 - *Council providing community information and individual support*
2. *APPROVE officers to prepare a transition plan for subsequent Council approval which would include process, timelines and resourcing for:*
 - *communicating with the Commonwealth/State regarding service agreements*
 - *formal confirmation of interest from alternative service providers*
 - *approach to co-design the local service system (including assurance of capacity and capability of individual providers to provide access to quality services)*
 - *development of MSC's community education and individual support program*
 - *client transition*
 - *workforce change management*
 - *stakeholder communications*
3. *APPROVE officers to conduct initial consultation with funding agencies and potential alternative service providers and inform Council of recommended alternative provider/s*

Background

The Commonwealth Government's Aged Care Reforms and the introduction of the National Disability Insurance Scheme (NDIS) are fundamentally changing the operating and funding environment for the aged and disability services sector, particularly through increased market contestability and client choice. Local governments in Victoria are also facing a range of other challenges such as rate-capping, demographic shifts, cost growth, and increasing community expectations.

Project objectives

Murrindindi Shire Council (MSC) is taking a proactive approach to responding to the new competitive environment for community services. MSC commissioned *INCITE information* to undertake the Aged and Disability Services Strategic Review. The purpose of this review is to:

- provide the options for Council in relation to the provision of aged and disability services from 2020
- inform Council's decision about the most appropriate, effective and sustainable role it can and should play into the future

Key questions for the review include:

- should MSC continue as a provider for A&D services? (what are the risks & benefits of continuing or exiting service delivery?)
- what other roles could MSC play in the A&D services sector?
- what other activities, outside the A&D services sector, could MSC provide to support older people and people with a disability?

Project approach

The project used an iterative, co-design approach with multiple elements including:

- key stakeholder consultation:
 - Councillors
 - MSC executive management team
 - MSC staff (at Yea and Alexandra)
 - community (at Yea and Alexandra)
 - Commonwealth government
- workshops with a MSC working group
- document review
- output and financial analysis
- consultation with a community reference group
- consultation with local, potential alternative service providers:
 - Alexandra District Health Service
 - Darlingford Upper Goulburn Nursing Home
 - Kellock Lodge Alexandra Inc
 - Menzies Support Services
 - Nexus Community Health
 - Yea and District Memorial Health

Options development and assessment

Three key focus areas were identified to guide the development & assessment of options:

- Community outcomes:
 - services are available to all residents regardless of geographic location, socioeconomic status or complexity of need
 - no significant adverse impact in relation to the range, level or quality of services available
 - promotes social inclusion, client choice & control and economic development
 - impact on current Council staff's salary and conditions is minimised where possible
- Operational feasibility:
 - can be implemented by July 2020
 - builds on the strengths of MSC and other organisations
 - promotes innovation and collaboration
 - complies with legal and regulatory obligations
- Financial sustainability:
 - maintain (or reduce) Council contribution to the cost of delivering Commonwealth/State funded programs

Further detail on focus areas and evaluation criteria is provided in Appendix 1: Development and Assessment Criteria.

A range of potential options were considered in the course of the project. These options were either rejected or refined at successive iterations during the project by applying the identified focus areas. A summary of the results of the process to develop / reject options is presented at Appendix 2.

On the basis of this development & assessment process two strategic options were finalised for Council's consideration:

- Option 1: Continue service provision
- Option 2: Transition from service provision

Option 1: Continue Service Provision

Option 1: Continue Service Provision involves:

- retaining the current suite of services
- enhancements to improve responsiveness and choice
- a review of the client fee structure

This option builds on the strengths of MSC's existing service including an established reputation for high quality, trusted service delivery. Changes to the current service delivery model are intended to improve the attractiveness of the service offering to clients and funding agencies and respond to financial sustainability risks.

Retain current suite of services

MSC currently provides a suite of integrated, high-quality, local services. Services include home care, personal care, respite care, home maintenance & modifications, delivered meals and social support. These services are provided through a wide range of funding programs with the most common being:

- Commonwealth Home Support Service (CHSP) – entry level services for people aged over 65+ years
- Home and Community Care Program for Young People (HACC-PYP) – services for people with a disability aged <65 years
- 'Private' – brokerage services provided on a 'full cost recovery' basis

A decision to continue service provision would require MSC to build upon its existing and well-recognised strengths. The strengths of the MSC as a provider of community care services include:

- a strong reputation of trust
- a commitment to providing quality and accessible services
- a stable workforce of caring, qualified and experienced staff
- a high level of understanding of community needs
- strong accountability to the community

This option involves continuation of all current services to all existing client cohorts including older people, people with a disability and those needing short-term care following discharge from hospital.

The option does not include expanding the current suite of services or to different funding streams. This was considered to be outside the current capability of MSC and was also likely to adversely impact existing local providers (potentially impacting the ongoing viability of some local organisations). In addition, the current suite would not be reduced because of the likely impact on operational viability and effectiveness (ie reduce the necessary scale to conduct a service and impact linkages between service types). However, it is proposed that significant service enhancements would be made within the current suite of services/programs (refer Figure 1).

It is important to note that this option would involve:

- the continuation of sub-contracting in line with current arrangements (ie domestic maintenance and meal preparation)
- MSC registering as a NDIS provider if Council decides to provide community care services to people with a disability, because a significant number of HACC-PYP clients should transition to the NDIS when it is rolled out in the region from 1 January 2019

Enhancements to improve responsiveness and choice

It will be important to build upon Council's existing value proposition of quality and trust with increased responsiveness to individual client needs. Increasing the attractiveness and perceived value of Council's service offering in the new environment will be critical to:

- maintain current clients and attracting new clients
- compete on quality not price
- increase client fees without significantly impacting demand for services

MSC's offering of community care services has evolved over time in response to various internal and external drivers. Many of these drivers inhibit MSC's ability to provide services that are more flexible and responsive to client needs. These drivers/limitations include:

- staff capacity: with any new approach or change, some staff may find it challenging, particularly meeting new requirements for increased flexibility and responsiveness
- program guidelines: the scope of services offered is currently limited to chargeable activities under program guidelines and do not recognise that clients are likely to be receptive to pay market rates for additional or non-eligible services
- OH&S and client safety: organisations policies and practices are developed and implemented to minimise risk but may be in response to a single previous incident and/or may be too strictly applied by staff
- funding and budget limitations: MSC has previously had a number of demand management policies in place to ensure service levels remain within block funding targets and budgeted Council-funded service outputs

A client-centric service offering for community care services would include a flexible and responsive approach to the development and delivery of services. For example, this may include:

- allowing more flexibility for staff to respond to client requests that may vary from regular service instructions
- reviewing current limitations of tasks placed on service instructions (within parameters of program guidelines and client & staff safety)
- expanding the range of offerings to include services provided at market rates or providing additional services which a client may have been deemed ineligible.

Implementation of a responsive service will require a more flexible workforce (e.g. addition of some casual positions) and negotiation with union and staff regarding any required changes to organisation structure, roles and responsibilities and pay and conditions. Recruitment activities will need to be undertaken to increase capacity. A complete review of policies and procedures will also be required. Indicative transition activities for Option 1 are presented at Appendix 4.

Proposed enhancements of individual services to increase responsiveness to individual client needs are detailed in the table below.

Figure 1: Service enhancements by service type

Service types	Objective of enhancements	Illustrative examples
Home Care, Personal Care, Respite Care & Domestic Maintenance	To respond more flexibly to client's expressed needs and not be limited to pre-determined activities or quantity of service	<ul style="list-style-type: none"> • expanded range of activities offered (e.g. dusting, 2nd bathroom, linen service, gardening, windows and spring cleaning) • additional hours of service: eligible hours plus fee for service • responsiveness to client direction: opportunity to vary tasks from regular instructions • flexibility on day & time services are provided including weekend and after-hours services (particularly for personal care & respite)
Social Support	To be more responsive to the diversity of individual needs by providing (and connecting people to) a wider variety of opportunities for social connection	<ul style="list-style-type: none"> • provision of individual social support or small groups activities • in-home social support: community visitation program • connection to existing community clubs • support to participate in mainstream activities and events • focus on community transport • recognise diversity of interests/needs: intellectual, cultural and outdoor experiences
Delivered Meals	Providing alternatives to home delivered meals (where appropriate) through connection with home support and personal support services	<ul style="list-style-type: none"> • assisted shopping and meal preparation • meals in small groups at local cafes or restaurants • client monitoring must be provided through other services if meal not delivered to home

Review of client fee structure

The level of client fees is likely to increase whether MSC or an alternative provider delivers aged and disability services. A stated expectation by the Commonwealth Government is that clients would be expected to provide a higher contribution to the cost of service delivery in the future.

Community consultation revealed that clients may be willing to pay more for services provided by MSC given the importance of trust and local connection & accountability. It is also important to note that while they may prefer MSC's service, several clients expressed concerns about their capacity to afford higher client fees.

An increase in client fees is required to address financial sustainability risks. Council contributed \$231,812 to the cost of delivering aged and disability services in 2017/18 - and is budgeted to increase to \$279,000 in 2018/19. CHSP and HACC-PYP programs are currently operating at a budget deficit with Council contributing approximately 13% to the cost of delivering these services. Privately funded services and VHC services are currently close to 'breaking even' with a small budget surplus - this is as expected given they are priced for cost recovery.

Figure 2: Total expenditure and revenue - 2017/18 FY

Funding Stream	Total Expenditure	Total Revenue	Deficit/ (Surplus)
CHSP and HACC-PYP	1,376,895	1,196,286	180,609
Respite for Carers	75,155	96,316	(21,161)
Veterans Home Care	65,461	79,166	(13,705)
Private	533,370	580,366	(46,996)
Other*	245,637	112,572	133,066
TOTAL	2,296,518	2,064,706	231,812

*Note: 'Other' includes costs for Aged and Disability Co-ordinator position, and grant revenue and expenditure for volunteer co-ordination and service system support programs

There is a significant risk that Council's contribution to the cost of delivering CHSP and HACC-PYP programs may increase over-time as funding agencies tighten acquittal of funds against hours delivered. In addition, there is an opportunity to review the price charged for private services to ensure all costs are recovered including corporate and management overhead costs (which are not included in the expenditure figures above).

It is proposed that the current fee structure is reviewed and client fees are increased to a 5% to 10% premium on market prices. A financial hardship policy should be implemented to reduce the potential impact on the accessibility of services.

The following table compares MSC's client fees to that charged by Nexus Primary Health. Currently MSC client fees are currently marginally higher than Nexus (with the exception of the fee per meal for CHSP & HACC-PYP clients which is lower than the fee charged by Nexus).

Figure 3: Client fees per hour (Mon-Fri 7am-7pm) * – MSC and Nexus 2018/19

	CHSP / HACC-PYP Clients**			Private Clients		
	MSC	Nexus	% Diff	MSC	Nexus	% Diff
Home care	\$6.25	\$6.20	0.8%	\$50.90	\$49.85	2.1%
Personal care	\$4.70	\$4.60	2.2%	\$53.80	\$49.85	7.9%
Respite care	\$3.15	\$3.10	1.6%	\$53.80	\$49.85	7.9%
Home maintenance	\$12.55	\$12.40	1.2%	\$67.70	\$64.30	5.3%
Delivered meal	\$9.45	\$11.80	-19.9%	\$17.45	\$15.20	14.8%

* Note: For ease of interpretation information on client fees is limited to the rates for services delivered in normal hours (Mon – Fri 7am–7pm) - additional fees apply for travel costs and service provided outside weekly standard hours.

**Client fee is in addition to the grant unit price paid by Commonwealth/State

The following table provides an indicative revised pricing structure based on applying a 7.5% premium on Nexus Primary Health fees as the industry benchmark. It is apparent that there is greater opportunity to increase client fees for CHSP and HACC-PYP subsidised services than for private services.

Figure 4: Client fees – Current and proposed (7.5% premium on industry benchmark)

	CHSP / HACC-PYP Clients			Private Clients		
	Current	Proposed	% Increase	Current	Proposed	% Increase
Home care	\$6.25	\$6.67	6.6%	\$50.90	\$53.59	5.3%
Personal care	\$4.70	\$4.95	5.2%	\$53.80	\$53.80	0.0%
Respite care	\$3.15	\$3.33	5.8%	\$53.80	\$53.80	0.0%
Home maintenance	\$12.55	\$13.33	6.2%	\$67.70	\$69.12	2.1%
Delivered meal	\$9.45	\$12.69	34.2%	\$17.45	\$17.45	0.0%

Whilst this analysis demonstrates there is an opportunity to increase client fees, the level of increase tolerable to clients will not allow for full cost recovery and MSC will still be required to contribute to the cost of service provision. However, a review of client fees would minimise financial risks to the extent that the increase in revenue would offset any unit cost increases enabling the level of Council contribution to be maintained (or reduced).

It is important to note that full cost recovery would have an adverse impact on accessibility. Additionally, an increase in client fees would make the services unattractive to most clients and therefore financially unsustainable.

Option 2: Transition from Service Provision

Central to this option is MSC discontinuing its role in service delivery. In order to support an effective transition from service provision the option includes three inter-related activities:

- transitioning clients to an alternative provider(s)
- MSC's active involvement in local business development
- MSC conducting community information and individual support activities

Transitioning clients to alternative provider(s)

Process and timing for transition

The timing and process to transition services to an alternative provider would vary for each different funding stream:

- CHSP and HACC-PYP: A transition from service provision for CHSP and HACC-PYP could include the transfer of MSC's service agreements to an alternative provider(s) in consultation with relevant Commonwealth and State departments. Alternatively, MSC can exit service delivery at the end of a service agreement and the Commonwealth/State can enter into a new agreement with the alternative service provider/s. Whilst the Commonwealth does not have a prescribed process for how Council should select their preferred alternative provider, they have advised that transferring an existing CHSP service agreement to an alternative provider would entail a rigorous and relatively lengthy process (3-6 month) for the Commonwealth to undertake their own due diligence and approve Council's recommended alternative. The process for transferring MSC's CHSP agreement is discussed further at Appendix 5. Given the complexity and lead time required to transfer MSC's service agreements, it is proposed that MSC cease service delivery at the end of a service agreement and the alternative provider/s enter into a new agreement with funding agencies.
- NDIS: If Council was to transition from service delivery it is anticipated that MSC would not register as an NDIS provider. From 1 January 2019 when the NDIS is rolled out in the region, clients eligible for NDIS would be supported by MSC to transition to their choice of NDIS registered provider.
- Private: Discontinuation of private services would involve advising aged care package providers and other organisations that purchase services from MSC of the intention to discontinue service delivery and negotiate timing based on capacity of alternative providers.

A formal and transparent process would be required to determine whether alternative service providers, individually or in partnership, have the capacity and capability to guarantee coverage across all services, client types and geographic locations.

It is important to distinguish between (i) a 'traditional' transparent selection process (e.g. Expression of Interest) from (ii) MSC taking an active role in facilitating local system design with alternative local providers. This would involve MSC leading a process with interested service providers to design a local service system that is responsive to community needs whilst promoting the sustainability of local service providers. A normal Eloy process does not encourage collaboration between potential providers to ensure appropriate service coverage (refer to results of Market Sounding below re East / West coverage) nor does it support the development of more innovative

service offerings.

The co-design process would include the development of a transition strategy that details the responsibilities of MSC and the alternative provider(s) to support the transition of clients & carers and capacity building of alternative providers. Indicative transition activities for Option 2 are presented at Appendix 4.

Market sounding

Attributes of a desirable alternative provider from the perspective of both community and Councillors include:

- Local: locally based staff or organisation to maintain local client / community connection & accountability, support local employment and economic activity
- Capacity: demonstrated ability & capacity to ensure that the required level and range of services is available
- Trusted: reliable with transparent accountability mechanism to minimise risk of deteriorating quality & access and exploitation of vulnerable clients
- Accessible: services should be responsive to the differences between individual clients (eg location, demographic, economic capacity, health conditions and personal preferences)
- Acceptable to Commonwealth / State: larger provider, typical for sector

INCITE information consulted the following local service providers to determine their interest in providing the community care services currently provided by MSC:

- Alexandra District Health
- Darlingford Upper Goulburn Nursing Home (Darlingford)
- Yea and District Hospital
- Nexus Primary Health Care (Nexus)
- Menzies Support Services (Menzies)
- Kellock Lodge

It is important to note that it was outside the scope of this project to conduct a due diligence to confirm the capacity & capability of organisations to provide services at an appropriate quality and volume.

Neither Alexandra District Health nor Yea and District Hospital expressed an interest in providing any of the community based aged and disability services currently provided by MSC. However, both organisations confirmed their commitment to continuing meal preparation if required and to ongoing collaboration with MSC and other local providers to ensure effective and appropriate service coverage for their catchments.

Kellock Lodge indicated a strong interest in exploring opportunities to increase its involvement in community care services in the future. However, due to changes in its governance arrangements and the likely resource requirements to respond to the upcoming Royal Commission into residential aged care it indicated that it does not have the capacity to plan for or to commence delivering these services in the short to medium term.

Nexus, Menzies and Darlingford indicated a high level of interest in opportunities to increase the volume and range of community care services they provide in the Shire. All three organisations were interested in the specific opportunity to enter into a service agreement with the Commonwealth/State if MSC decided to transition from service provision.

Additionally, all three organisations recognised their differing strengths and expressed an interest in exploring/developing a collaborative arrangement to provide services across the shire. It is important to note that:

- Nexus had a preference for providing services in the West of the shire, whilst Menzies and Darlingford had a preference for the East of the shire
- Nexus has been providing primary and community care services in northern regional Victoria for over thirty years. Nexus has recently expanded significantly through the transfer of the CHSP service agreement for the City of Greater Shepparton, and previously the transfer of the CHSP service agreement for Strathbogie
- Nexus currently provides community services in the shire and operates a GP clinic located in Kinglake. Nexus is also developing satellite service delivery model to support locally based teams to respond to concerns about travel costs and promoting local service responsiveness
- Menzies currently has a relatively limited scope geographically (primarily Alexandra) and client type (people with disabilities). However, Menzies has a range of innovative initiatives to increase the scope of services and improve client outcomes eg running programs to both client cohorts to break-down 'silos' between aged care and disability services (and providing an opportunity for mutual benefit: eg older people caring & mentoring people with a disability and people with a disability injecting energy and enthusiasm into daily activities for older people)
- Darlingford is currently limited to residential aged care services but could work in close collaboration with Alexandra District Hospital (ADH) to provide community care through ADH's satellite community health services (note that ADH's CEO is currently also CEO for Darlingford)

These organisations could not guarantee employment for all current MSC staff. However, all three organisations recognised a need to increase their workforce capacity and therefore indicated that they would seek to undertake their own recruitment process which would include encouraging MSC staff to submit an application.

Local business development

Business development activities should be undertaken to attract and grow the number of service providers in the community services sector, particularly local small businesses. This would involve focusing Council's current business development services on the community service sector.

Business development activities are likely to include:

- promoting the business opportunities in the community care sector (eg. prospectus, information sessions)
- providing practical information and training for business setup
- providing financial incentives, ie. seed funding / grants

In addition to supporting local economic development, business development activities will attract new service providers providing clients with greater choice. Small businesses are also likely to provide innovative service offerings and tailored approaches to meeting diverse needs.

Community information and individual support

Community information and individual support is required to empower clients to exercise choice & control and minimise access risks for vulnerable clients.

Community information would involve a suite of communication activities to promote community and client understanding about program changes and system operation. A number of information channels should be used such as:

- social media
- local newspaper
- Council one stop shop and Mobile Library
- information pack through Council staff (eg direct care staff during transition then potentially through customer service and/or library staff ongoing)
- information to existing health providers (eg GPs)
- information sessions at community clubs

Some other less traditional methods that may be considered include:

- directory with information on available providers
- Council endorsement of service providers
- online platform for community endorsement
- service provider 'expo'

Individual support would include guidance to individual clients and carers to improve access to service system and accountability of providers. Support may include assistance with:

- registering on My Aged Care
- contacting referral agencies & service providers for service commencement
- complaints processes

Support could be provided by Council through:

- dedicated phone line
- in-person support at different locations on specific days of the week
- Council officer or volunteer

Assessment of Strategic Options

Neither option is clearly superior to the other, nor is there any significant risk that clearly disqualifies either option. This is not surprising because the same criteria were used to both develop and assess options, therefore potential risks were minimised and potential benefits maximised for both options.

Community Outcomes

Option 1 minimises the risk of service disruption and adverse impact workforce impact by maintaining the existing range of services. Services should also improve over time through enhancements to improve flexibility and responsiveness to individual needs. Option 1 also supports stability of local market whilst it is developing and maintains capacity to provide services in the future (in case of market failure); however, by maintaining a large market share, MSC's continuing role in service delivery is a barrier to new entrants and therefore limits choice for clients and restricts economic development opportunities.

Option 2 provides Council with a mechanism to influence the quality and access of services provided by recommending appropriate alternative provider/s to the Commonwealth/State and supporting them to build their capacity to effectively provide services. Ongoing business development activities will attract new service providers providing choice for clients and also support local economic development. Additionally, community information and individual support services will empower clients to exercise choice & control and minimise access risks for vulnerable clients.

Workforce impact

Option 2 is likely to have negative impacts on staff pay and conditions. Community Support Workers employed by MSC are covered by the Murrindindi Shire Council Enterprise Agreement, No.8, 2018. Community care staff employed by Nexus and Menzies are covered by the Social, Community, Home Care and Disability Services (SCHCDS) Industry Award 2010. The following table provides a comparison of the SCHCDS Industry Award to the current MSC EA.

Figure 5: Comparison of MSC EA to the SCHCDS Industry Award

This table has been redacted as it contains confidential information.

The change in award conditions may be off-set by redundancy payments, salary packaging (offered by community-based providers) and a possible increase in total paid hours available for staff employed by alternative providers. The projected growth in demand and current workforce shortages indicate that MSC's skilled, motivated and experienced staff should be well-placed in a competitive labour market

Discontinuation of service delivery would result in 46 positions being made redundant. Currently MSC has a headcount of 11 office based staff (7.1 EFT) and 35 Community Support Officers (EFT cannot be calculated due to fluctuating hours worked). One position (1 EFT) would be created to resource the community information and individual support service.

Operational Feasibility

Implementable by July 2020

Both options should be implementable by July 2020, however, there are differing implementation challenges for each option.

Option 1 requires a significant change in policy and culture: from a focus on demand and risk management to a service that is entrepreneurial, flexible and responsive. This will require more flexible staff capacity and changes to operating practices to be more responsive to client demands, with changes dependent on successful negotiation with union and staff. Despite efforts to improve service attractiveness, there is still no guarantee that in a competitive funding environment MSC will be successful in attracting a Commonwealth/State government contract and/or maintain sustainable market share in a consumer choice funding model.

Option 2: alternative local providers are likely to require a significant level of support by MSC to ensure an effective level of service coverage. This would include facilitating local system design to ensure full coverage across the shire for all client cohorts, promoting collaboration to develop and implement innovative service offerings and support to develop required capacity (eg knowledge transfer, systems development (eg rostering, client management, billing etc), policy development, staffing etc.)

Additionally, there may be limited time for alternative providers to demonstrate their operational effectiveness prior to July 2020 due to the time required for (i) Council to approve transition, (ii) recommend alternative providers to the Commonwealth (iii) the Commonwealth to conduct a due diligence process to approve the recommended provider/s and (iv) Council to transition clients and support the necessary increase in capacity for the new provider/s.

Meets regulatory requirements

Option 1: there is no certainty regarding the application of National Competition Policy for MSC to continue delivering services until an applicable test case is determined.

Under National Competition Policy (NCP) each State and Territory is obliged to apply competitive neutrality policy and principles to local government and to all government agencies. The objective of competitive neutrality is:

'...the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government business should not enjoy any net competitive advantage simply as a result of their public sector ownership.'

Our without prejudice assessment is that National Competition Policy is likely apply to community care services delivered by MSC in the future given the current level of Council contribution and the likelihood of alternative providers offering services in the Shire.¹

There are three ways in which Councils can comply with competitive neutrality:

- i. Full cost reflective pricing: includes all direct, indirect costs and advantages of public ownership
- ii. Commercialisation: separate regulatory functions from direct service delivery
- iii. Corporatisation: establish a new business entity (alone or with another organisation).

Neither commercialisation nor corporatisation would meet operational feasibility criteria. Additionally, full cost pricing is likely to make MSC services (i) inaccessible to low income clients and (ii) unattractive to clients and therefore financially unsustainable.

A public interest test is required to demonstrate that a competitive neutrality measure (eg full cost pricing) would compromise other public policy objectives (eg equitable access, appropriate service quality and volume etc), which, if successful, make the business activity exempt from the NCP.

Appendix 3 provides further information on the NCP.

Option 2: there is no certainty that the Commonwealth will approve MSC's recommended alternative provider. However, following expiration of the current CHSP service agreement in June 2019, MSC has no legal obligation to continue to deliver CHSP services (analogously, there is no any legal requirement to register as an NDIS provider or to provide private brokerage), the Commonwealth would then be required to conduct its own procurement process to contract an alternative provider.

Innovation & collaboration

While Option 1 expands MSC's current opportunities to develop more innovative and collaborative service offerings, Option 2 appears to offer a greater likelihood of more innovation and collaboration:

- the identified alternative providers (particularly Menzies and Nexus) have a history and culture of developing innovative initiatives (eg Nexus is investigating the use of the European Buurtzorg model (self-directed teams), Menzies conducting music programs for disability clients in residential aged care to provide social support & community inclusion to both cohorts)
- smaller alternative providers are likely to be more agile and flexible to respond to client need and less risk averse in piloting new initiatives

¹ NOTE that our comments DO NOT constitute legal advice nor are they findings of a formal public interest test of MSC's A&D services. MSC may wish to seek legal advice and/or undertake a formal public interest test as separate activities outside the scope of this review.

- alternative providers have an environmental imperative to collaborate because of their capacity limits and geographic distribution
- collaboration can be built upon an existing relationship and network

Financial Sustainability

Financial estimates have been prepared for the ten year period 2018/19 to 2027/28, including:

- Council contribution to annual operating costs
- one-off transition costs

The table below provides total cost estimates for the ten year period. Annual estimates and a breakdown of transition costs are provided at Appendix 6.

For Option 1: Continue service delivery, Council contribution to operating costs has been assumed to be maintained at \$280,000 per annum (plus 2% indexation p.a). In addition to improvement in service responsiveness, it is anticipated that program re-design efforts would drive some productively improvements (ie. volunteer co-ordination, partnership opportunities, resource sharing etc.). Transition costs for Option 1 include a transition support role, staff training and stakeholder communication activities.

For Option 2: Transition from service delivery, costs associated with current service provision will discontinue from 1 July 2019, however \$120,000 per annum (plus 2% indexation p.a) has been estimated as the ongoing cost to Council to resource community education and individual support services. The largest transition cost for Option 2 is for staff redundancies estimated at \$700,000. Other transition activities costed include resources to manage a process to select alternative providers, a transition support role, stakeholder communication activities and legal advice (if required).

In summary, over a ten year period the total cost to Council is higher for Option 1 (\$3.58m) when compared to Option 2 (\$2.68m). Option 2 has higher short-term transition costs but significantly lower estimated ongoing Council contribution to operating costs than Option 1 (refer to Appendix 6).

Figure 6: Estimated Council Contribution to Operating and Transition Costs

	Option 1: Continue service delivery	Option 2: Transition from service delivery
Council Contribution to Operating Costs	3,010,203	1,449,462
Total Transition Costs	570,000	1,235,000
Total Costs Over 10 Years (2018-19 to 2027-28)	3,580,203	2,684,462

Appendix 1: Development and Assessment Criteria

COMMUNITY OUTCOMES	
Service quality & access	<p>No significant adverse impact in relation to the range, level or quality of services available</p> <p>Services are available to all residents regardless of geographic location, socio-economic status or complexity of need</p>
Social inclusion	Promotes a <i>'sense of belonging to a caring and well connected community'</i> (Council Plan p12) for older people and people with a disability
Client choice & control	Supports residents' capacity & capability to navigate system and exercise choice
Fair work	Impact on current Council staff's salary and conditions is minimised where possible
Economic development	<i>'Supports & encourages local businesses to work together, thrive and grow'</i> (Council Plan p21)
OPERATIONAL FEASIBILITY	
Implementation feasibility	Can be implemented and operational by July 2020
Innovation & collaboration	<p>Provides a <i>'fresh approach to attract new and existing business investment'</i> (Council Plan p21)</p> <p>Promotes <i>'Work(ing) with our partner agencies to ensure people of all ages can access the health and community services they need'</i> (Council Plan p16)</p>
Operational capacity & capability	<p>Builds on the strengths of MSC and other local organisations</p> <p>Council has the necessary capacity and capability to support new arrangement</p>
Legal & regulatory compliance	<p>Complies with:</p> <ul style="list-style-type: none"> – National Competition Policy – Commonwealth funding agreement obligations – relevant industrial awards – Corporations Act and / or other relevant legislative requirements
FINANCIAL SUSTAINABILITY	
Financial sustainability	Maintains (or reduces) the current level of Council contribution

Appendix 2: Options Development and Refinement

A range of potential options were considered in the course of the project. These options were either rejected or refined at successive iterations during the project by applying the identified focus areas. A summary of the results of this process is presented in the table below.

	Potential option	Development outcome
1	Optimising MSC's current service	Developed for consideration by Council as option 1
2	Modifying MSC's current service (ie either expanding or reducing the current range of services)	Rejected for further development & consideration by Council: <ul style="list-style-type: none"> – expansion of service considered outside current capability of MSC and likely to adversely impact existing local providers – reduction in service likely to impact operational viability and effectiveness (ie necessary scale to conduct a service and linkages between service types)
3	Sub-contracting to alternative providers	Rejected for further development & consideration by Council: identified issues relating to difficulty of effectively transfer of risk and capability of specifying and managing contracts
4	Establishing a new entity for service delivery	Rejected for further development & consideration by Council: did not meet operational feasibility criteria in relation to implementation by July 2020
5	Collaborating with other providers to deliver services (eg other local governments, health services or not for profit organisations)	Rejected for further development & consideration by Council: did not meet operational feasibility criteria in relation to implementation by July 2020
6	exiting service delivery by winding down slowly	Rejected for current consideration by Council – this option is based on passive wind-down by MSC rather than active market development
7	Exiting service delivery by transfer to an alternative provider(s)	Included as an element of option 2 for consideration by Council
8	Conducting local market steward activities (eg support to clients and/or other service providers)	Included as an element of option 2 for consideration by Council

Appendix 3: National Competition Policy

Source: DTF Vic (2012) Competitive Neutrality Policy

Background: Overview of NCP

Victoria is a party to the inter-governmental *Competition Principles Agreement 1995* (CPA) which is one of the three agreements that underpin National Competition Policy (NCP). Under the CPA, each State and Territory is obliged to apply competitive neutrality policy and principles to local government and to all government agencies. The objective of competitive neutrality is set out in Clause 3(1) of the CPA:

'...the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government business should not enjoy any net competitive advantage simply as a result of their public sector ownership. These principles only apply to the business activities of publicly owned entities, not to the non-business, non-profit activities of these entities'

Government departments, agencies and local governments are responsible for determining, on a case by case basis, whether a business activity is "significant" in the relevant market and therefore subject to the NCP.

The CPA does not provide a definition of "significant business activities". In determining whether its business activity is significant or not, assessment of the nature and extent of the relevant market, as well as the probable nature and extent of the competition within that market, is required.

The "relevant market" can normally be identified on the basis of the competing goods or services which could reasonably be used interchangeably by most customers or consumers. In addition to this, the relevant market may also be identified in terms of the geographic area or areas in which sellers of a good or service operate and to which consumers can practically turn for the good or service in question.

The question of whether a business activity is "significant" in the relevant market can only be determined on a case-by-case basis. Some of the factors which could be considered in this regard include:

- the size of the relevant business activity in relation to the size of the relevant market
- the influence or competitive impact of the business activity in the relevant market
- the resources the business activity commands and the effect of poor performance
- whether the costs of providing services by the entity are being predominantly met by users

Following a determination that an activity is "significant", an assessment of the expected benefits and costs of introducing appropriate competitive neutrality measures is required. An assessment of the potential benefits of applying competitive neutrality measures should include, but is not limited to:

- increased market contestability which enables competition in the markets that have been traditionally dominated by public sector businesses. Such contestability produces incentives for businesses to lower prices and provide greater choice for consumers

- improved performance of government businesses in comparison with competitors. Competitive neutrality increases the incentives for the business to operate efficiently thereby encouraging better use of the community's scarce resources
- clarifying non-commercial objectives, and thereby determining whether the business is effectively meeting these objectives.

There are three ways in which Councils can comply with competitive neutrality:

- Full cost reflective pricing: includes all direct, indirect costs and advantages of public ownership such as tax exemptions (and applies to all three competitive neutrality measures)
- Commercialisation: separate regulatory functions from direct service delivery
- Corporatisation: establish a new business entity (alone or with another organisation).

Finally, if it is considered that the implementation of a competitive neutrality measure would compromise other public policy objectives, a public interest test should be conducted in order to demonstrate the case for not implementing the measure in question. If implementation of a competitive neutrality measure is shown to be not in the public interest, then the business activity in question is exempt from the NCP.

Note that competitive neutrality does not apply to businesses or services that Councils' sub-contract to a third party provider. However, Councils are required to ensure that internal bidders or external third parties do not enjoy any competitive advantages such as subsidisation of unit price, in awarding contracts.

Recent legal advice to Darebin City Council

Darebin City Council (DCC) has recently shared legal advice it has received from Maddocks (as of 31 October 2018) in regard to the application of NCP on Council delivered CHSP funded services. Maddocks' advice indicates that:

- DCC's CHSP services are likely to be considered as a significant business activity. However, Maddocks equivocates on the basis that there is no certainty of a definitive position until a complaint has been determined by the Commissioner for Better Regulation
- it is likely a public interest test would find that Council's public policy objectives would not be jeopardised by DCC providing full cost-reflective CHSP services.

This is primarily because the size and sophistication of the aged care services market indicates that other providers would be able to deliver the CHSP services – and contribute to Council's policy objectives – if full cost reflective services reduced the number of clients that could access Council's services; and that there are alternative ways that Council could achieve its policy objectives if full-cost services were a barrier to achieving objectives.

- if Council chooses not to comply with the competitive neutrality principles and continues to provide subsidised CHSP services following the withdrawal of block funding, the primary risk for Council is a complaint to the Commissioner for Better Regulation.
- beyond the Commissioner's complaint resolution process, there is no formal mechanism for the Commonwealth or State Government to take action against a council in respect of noncompliance with NCP

It is not clear how far Maddocks' advice would be applicable to the different circumstances of a smaller, regional local government, with potentially thin markets and limited resources to implement alternative ways to achieve policy objectives.

The recently established Office for the Commissioner for Better Regulation's (OCBR) role is to undertake competitive neutrality investigations. Where a complaint is made, the Commissioner decides whether an investigation is necessary; conducts the investigation if necessary, and advises the government-owned business on any actions needed to assure compliance with the Competitive Neutrality Policy. While the Commissioner has no enforcement power and does not make any recommendations relating to compensation or termination of contractual arrangements, it is important to note that the Victorian Government has consistently stated support for competitive neutrality between government-owned and private enterprises providing the same service. Both Commonwealth and State Governments may apply a range of measures to respond to an explicit refusal to comply with the Commissioner's recommendations.

Without prejudice assessment of the application of NCP on MSC's A&D services

Note that the following comments are based on an impartial assessment of MSC's A&D service in light of Vic DTF guidance re. National Competition Policy. These comments DO NOT constitute legal advice nor are they findings of a formal public interest test of MSC's A&D services. MSC may wish to seek legal advice and/or undertake a formal public interest test as separate activities outside the scope of this review.

1. MSC's A&D services appear to be a significant business and therefore consideration should be given to how MSC could comply with the NCP post 2020
2. Alternative local providers have informally indicated an interest in providing CHSP, NDIS and Aged Care Packages in a future competitive market. It is uncertain if current local providers would lodge a complaint with the Commissioner for Better Regulation if MSC continued to deliver subsidised services. However, new providers wishing to enter the market (or current providers at a future date) may lodge a complaint with the Commissioner
3. Full cost reflective pricing appears to be the only mechanism for Councils to comply with competitive neutrality, because it is unlikely that commercialisation or corporatisation could be successfully implemented by July 2020
4. The operating cost for MSC's service delivery is higher than the unit price paid by the Commonwealth. This requires Council to significantly subsidise its services. In addition, an even higher level of subsidisation could apply if full cost pricing was calculated ie reflecting the additional benefits of Council ownership such as payroll tax, land tax and company tax needs was added to the output costs
5. To remove this subsidy would require MSC to increase its pricing to cover the higher cost base. Therefore this cost would be met by clients, families & their carers
6. To avoid the significant increase in costs to clients, MSC would need to consider a public interest test to identify potential policy and socio-economic reasons why it should to continue to subsidise it's A&D services and not implement full cost reflective pricing

7. A public interest test may identify benefits of CHSP services delivered in-house that outweigh the costs, in particular, the removal of the subsidy for A&D services would jeopardise Council's ability to deliver on its ageing and disability policy objectives, for example market failure resulting in:
- inequitable access to services
 - significant risk to service quality and volume
 - risk of service availability in specific geographies or to specific cohorts
 - risk that market may not deliver services (such as group-based services)
 - dependence on CHSP services to deliver services outside the remit of CHSP that realise Councils ageing policy objectives

Appendix 4: Indicative Implementation Activities

Figure 7: Indicative Implementation Activities – Option 1: Continue Service Provision

Program Design	<p>Implementation of the proposed changes to the community care services delivery model will need to consider the following key activities:</p> <ul style="list-style-type: none"> • facilitating a co-design process to confirm and prioritise service enhancements to be implemented • reviewing and updating operating policies and procedures • reviewing and updating the fees policy
Workforce Transition	<p>The transition towards a responsive and flexible service would require a shift away from the current rules based approach to managing risk. Staff will require support to build their capacity to use greater discretion in decision-making in response to client requests, including:</p> <ul style="list-style-type: none"> • developing and delivering principles based training for staff • ongoing advice & support from supervisors to guide decision-making • clear information on service parameters (ie. activities not chargeable under funding agreement) <p>Implementation of the will also include the following activities:</p> <ul style="list-style-type: none"> • ongoing communication with staff regarding proposed changes and the process and timelines for the transition • renegotiation with union and staff regarding changes to organisation structure, roles and responsibilities and pay and conditions • developing Position Descriptions for new roles • allocating existing employees to new roles based on match to staff capability and expression of interest process
Communications and Marketing	<p>Communication and marketing activities required during the transition include:</p> <ul style="list-style-type: none"> • communication with clients and the community regarding the Commonwealth’s aged care reforms Council’s decision to remain a service provider • ongoing communication with current clients in relation to the new service offering, new mechanism for client engagement & communication and new fee structure • active marketing of Council’s value proposition

Figure 8: Indicative Implementation Activities – Option 2: Transition from Service Provision

CHSP and HACC-PYP service agreements	Commence communication with funding agencies to advise them of MSC’s decision to transition from service provision and determine appropriate process to manage current service agreements
Local system design	<p>Facilitate collaborative co-design between new providers to ensure:</p> <ul style="list-style-type: none"> • comprehensive service coverage for East and West of shire • reduction of unnecessary duplication and inefficiencies • identification of potential system enhancements and innovative service offerings <p>Program design for MSC’s community education and individual support services</p> <p>Commence research and planning to support advocacy role with Commonwealth and State governments</p>
Business development and support for alternative providers	<p>Knowledge transfer and support to promote appropriate capacity eg:</p> <ul style="list-style-type: none"> • staff numbers and capability • systems (eg rostering, client management, billing etc) • policies and procedures • infrastructure and equipment <p>Support recommended providers to meet Commonwealth due diligence requirements</p> <p>Business development activities to attract and support new local providers</p>
Workforce Transition	<p>Workforce transition include the following activities:</p> <ul style="list-style-type: none"> • ongoing communication with staff regarding proposed changes and the process and timelines for the transition • consultation with union and staff regarding termination process and redundancy payments • developing Position Descriptions for new roles • recruitment to new positions
Client transition	<p>Client transition include the following activities:</p> <ul style="list-style-type: none"> • notify all current clients regarding a proposed change • address client concerns and provide some support to clients during transition process to a new provider • assist the new provider with appropriate client information to support an effective handover process
Communications and Marketing	<p>Communication and marketing activities required during the transition include:</p> <ul style="list-style-type: none"> • communication with clients and the community regarding the Commonwealth’s aged care reforms and Council’s decision to discontinue as a service provider • promote consistent communication messages for all new providers

Appendix 5: Indicative Process to Transfer CHSP Service Agreement

Advice from the Commonwealth is that the only formal guidance for the transfer of an existing CHSP service agreement to an alternative provider is at section 6.1.8 of the CHSP Program Manual (2018):

“Service providers must notify the Department in writing of their proposal to transfer all or part of their services. The service provider must negotiate with the Department on a suitable transition date with the replacement organisation. The service provider must assist the Department and new service provider/s in the transition of goods and/or services to achieve an effective transition. Including, client care continuum with the provision of the goods and/or services from your organisation to the new provider.” CHSP Program Manual 2018 p86

INCITE information received the following informal advice from the Assistant Director responsible for CHSP for the catchment that includes the Murrindindi LGA (note that this process may vary across different CHSP catchments):

- i. Council, as an existing service provider, should notify the appropriate Commonwealth Government officer as soon as they are aware of an intention to discontinue service delivery. A meeting between the Commonwealth and MSC would assist in clarifying the required process to transfer a service agreement
- ii. Council can conduct its own process to select an alternative provider: the Commonwealth does not have any explicit requirements.

However, Council only has an authority to recommend an alternative provider: the final decision to approve an alternative provider is with the Commonwealth. Therefore, if the Commonwealth is not satisfied with the transparency, rigour or probity of the process to select an alternative provider they may not approve the recommended provider.

The Commonwealth will also consider the capacity & capability of an alternative provider (see point v): they have indicated a preference for previous experience delivery aged care and CHSP services in particular

- iii. Following selection of a recommended provider, Council should notify the Commonwealth in writing. The Commonwealth will then exchange a formal Consent with Council seeking permission to approach the recommended provider directly and to commence formal discussion on the transition process with MSC
- iv. Following Council’s consent, the Commonwealth will then send a Consent letter to the recommended provider to access data and to commence formal discussion on the transition process
- v. The recommended provider is required to complete a Statement of Significant Matters to assist the Commonwealth to conduct its due diligence process
- vi. Following the due diligence process, advice will be provided through the Commonwealth hierarchy advising the Minister’s delegate (eg the Department Secretary or Deputy Secretary) to either approve or reject the alternative provider

This process is likely to take three to six months from the point of formal notification (point iii).

The Commonwealth considers that it is extremely important that MSC does not publically announce a new provider until approved by the Minister's delegate (point vi). Public communication prior to this approval would likely result in rejection of the recommended provider.

Following approval a separate process is required to transition clients to the new provider, which includes communication & support for clients and carers and hand-over between organisations.

NOTE:

It is important to note that the process above is entirely predicated on MSC transferring a current service agreement. The current service agreement for CHSP expires at end June 2019 and the Commonwealth is not able to provide any clarification of the terms and funding levels for the 2019/20 agreement.

MSC has no legal obligation to provide services beyond July 2019, nor would it have to comply with the Commonwealth's process to transfer an agreement if it was not the service provider.

If the Commonwealth did not approve MSC's recommended provider and MSC declined to continue service delivery from July 2019, the Commonwealth would be obliged to conduct a formal procurement process; in addition to time and resources there is no guarantee that alternative providers would be available.



Appendix 6: Financial Estimates

This table has been redacted as it contains confidential information.

END

Title:	Portfolio Councillor Policy
Type:	Council
Adopted:	"[Insert Date]"
File No:	19/17328
Attachments:	

1. Purpose

Murrindindi Shire Council has established the Portfolio Councillor system. The purpose of Portfolio Councillor Policy (Policy) is to articulate the role and support to be provided to Portfolio Councillors.

2. Rationale

With the appointment of Portfolio Councillors, it is desirable that the objectives of establishing these roles and the support that will be provided to Councillors is articulated.

3. Scope

This Policy applies to Portfolio Councillors and Council officers who have a responsibility in ensuring that the Portfolio Councillor is kept informed on key matters relating to their area of portfolio responsibility.

Portfolio's and the representative Councillor will be appointed annually by Council resolution. In order to enable Councillors to gain a broader experience of portfolio roles, Councillors will generally not represent a portfolio for more than two years.

The role of the Portfolio Councillor recognises that the day to day management and direction of staff in implementing Council policy and strategy remains the responsibility of the relevant Director. Good governance identifies that the authority of Councillors can only be exercised when they meet formally as Council at a properly constituted Council meeting. Outside the Council meeting, individual Councillors have no authority.

4. Definitions

Nil

5. Policy

5.1 Objectives of the Portfolio Councillor System

The objectives of establishing a Portfolio Councillor system are:

- to enable Councillors to have a greater understanding and input to strategic and policy development on portfolio issues. This facilitates the active and regular engagement of Councillors in major planning, projects and services related to the portfolio
- to enable Councillors to advocate and 'champion on strategic and policy issues to Council and the community
- to enable the briefing of other Councillors on specialist areas by the Portfolio Councillor
- to assist Councillors develop the fullest possible understanding of matters being put to the Council, through the Portfolio Councillor leading discussion of relevant items.

Portfolio Councillor

5.2 Portfolio Councillor's Duties

The role of the Portfolio Councillor will include:

- advocating on strategic and policy issues to Council and the community
- briefing of other Councillors on strategic areas through specific workshops or presentation of reports
- represent Council on local, regional or state bodies of relevance to the portfolio
- act as the spokesperson of Council on matters relating to the portfolio, including, quotes in media releases and speaking on radio and television as required
- where there is a relevant Council committee, to be the nominated chair for that committee unless legislative provisions provide otherwise.

5.3 Support Provided to Portfolio Councillors

Support to Portfolio Councillors to enable them to fulfil this role will be provided through:

- a designated Director being appointed as the primary contact for the Portfolio Councillor
- induction by the Director, and other relevant staff or organisations, in relation to the key issues affecting the portfolio
- the designated Director will initiate regular meetings with the Portfolio Councillor, and other Council officers where relevant, to keep them briefed on issues (not less than bimonthly) and at other times necessary for the Portfolio Councillor to fulfil their role
- facilitating the participation of the Portfolio Councillor in relevant committees
- the provision of memberships, publications, training and/or conference attendance where appropriate to enable the Portfolio Councillor to be informed on issues relevant to their portfolio.

5.4 Reporting of Portfolio Councillors

Council will enable the Portfolio Councillor to report on matters that are relevant to their portfolio by:

- presentation of minutes and recommendations of committees that are related to their portfolio at the Ordinary Meeting of Council
- presenting a report on the strategic/policy activities of the Portfolio Councillor at the Ordinary Meeting of Council
- leading discussion at Councillor Briefing Sessions on matters relevant to their portfolio
- leading discussion in the development and annual review of the Council Plan.

6. Related Policies, Strategies and Legislation

- *Local Government Act, 1989*
- *Governance Local Law No. 2, 2014*
- Councillor Code of Conduct

7. Council Plan

This Policy supports the Council Plan 2017-2021 strategy under the Our Promise strategic objective to 'represent and advocate for our community in a transparent and equitable way'.

8. Management and Review

This Policy will be implemented by members of the Executive Management Team and monitored by the Chief Executive Officer.

This Policy will be reviewed by Council in May 2021.

Responsible Officer: Chief Executive Officer
"[Insert Date Approved / Adopted]"

TRIM Reference: 19/17328

9. Consultation

Review of this Policy has been conducted by the Executive Management Team and Councillors.

10. Human Rights Charter

This Policy has been developed with consideration of the requirements under the Charter of Human Rights and Responsibilities.



MINUTES

of the

AUDIT AND RISK ADVISORY COMMITTEE MEETING

THURSDAY 14 MARCH 2019

at

Murrindindi Shire Council
Council Chamber
Perkins Street
Alexandra

3.00 pm

INDEX

<u>1.</u>	<u>PRESENT/APOLOGIES</u>	<u>2</u>
<u>2.</u>	<u>DECLARATIONS OF INTEREST</u>	<u>2</u>
<u>3.</u>	<u>CONFIRMATION OF MINUTES</u>	<u>2</u>
<u>4.</u>	<u>REVIEW ANY BUSINESS ARISING FROM PREVIOUS MINUTES</u>	<u>2</u>
4.1	Audit and Risk Advisory Committee charter.....	2
<u>5.</u>	<u>RISK MANAGEMENT</u>	<u>3</u>
5.1	CEO's Questionnaire.....	3
5.2	CEO's Update.....	3
5.3	Review Risk Register.....	3
5.4	Review Investment and Borrowing Policies.....	4
5.5	Review Protected Disclosure Arrangements and Reports.....	6
5.6	Reports and Publications of Interest to Local Council's.....	8
<u>6.</u>	<u>AUDITS - INTERNAL</u>	<u>8</u>
6.1	Review Internal Audit Reports and Management Responses.....	8
6.2	Follow Up Significant Issues Raised by Internal Audit.....	8
6.3	Review Implementation of Previous Audit Actions.....	8
6.4	Review Scopes of Audits by HLB Mann Judd.....	8
6.4.1	Closed Discussion with the Committee and Internal Auditor.....	8
6.4.2	Draft Strategic Audit Plan from HLB Mann Judd.....	9
<u>7.</u>	<u>FINANCIAL REPORT</u>	<u>9</u>
7.1	Review Significant Accounting and Reporting Issues.....	9
7.1.1	Related Party Disclosures Policy.....	9
7.2	Review Quarterly Financial Statements.....	11
<u>8.</u>	<u>MANAGEMENT REPORTING</u>	<u>14</u>
8.1	Local Government Performance Reporting Framework.....	14
<u>9.</u>	<u>GENERAL BUSINESS AND FUTURE PLANNING</u>	<u>15</u>
9.1	Annual Assessment of Committee's Performance.....	15
<u>10.</u>	<u>OTHER REPORTS</u>	<u>17</u>
10.1	Victoria's Social Procurement Framework.....	17
<u>11.</u>	<u>NEXT MEETING</u>	<u>17</u>

1. PRESENT/APOLOGIES

Present:

- Michele Sheward (Chair)
- Ian McKaskill
- Claude Baxter
- Cr Sandice McAulay (Mayor)
- Cr Leigh Dunscombe
- Cr Margaret Rae

In attendance:

- Craig Lloyd, Chief Executive Officer
- Michael Chesworth, Director Corporate and Shared Services
- Tara Carter, Manager Governance and Risk
- Graham Haylock, Manager Business Services
- Mark Holloway, Partner, HLB Mann Judd

2. DECLARATIONS OF INTEREST

Nil

3. CONFIRMATION OF MINUTES

3.1 Minutes of the Audit Advisory Committee Meeting held on 13 December 2018.

Officer Recommendation

That the Minutes of the Audit Advisory Committee Meeting held on 13 December 2018 be confirmed.

RESOLUTION:

I McKaskill / Cr M Rae

That the Minutes of the Audit Advisory Committee Meeting held on 13 December 2018 be confirmed.

CARRIED

4. REVIEW ANY BUSINESS ARISING FROM PREVIOUS MINUTES

4.1 AUDIT AND RISK ADVISORY COMMITTEE CHARTER

Attachment(s): *Audit and Risk Advisory Committee Charter (refer Attachment 4.1)*

At the December 2018 Audit Advisory Committee Meeting the Committee made a recommendation to Council for several changes to be made to the Committee's Charter. All

recommended changes were adopted by Council at its January 2019 Ordinary Meeting, and the revised Charter is attached for information.

Noted.

The Committee Annual Report to Council was not completed in 2018. This will be circulated to the Committee prior to it being presented at the Ordinary Meeting of Council on 24 April 2019.

5. RISK MANAGEMENT

5.1 CEO'S QUESTIONNAIRE

Attachment(s): *Chief Executive's Questionnaire to Directors - 2019-02 February - CEO (refer Attachment 5.1)*

The Chief Executive Officer presented this at the meeting.

Noted.

5.2 CEO'S UPDATE

The Chief Executive Officer will provide a verbal update on the following matters:

- organisational restructure implementation
- the Regional Council's Transformation Program (shared services)

RESOLUTION:

I McKaskill / C Baxter

The report from the CEO be noted and that concern expressed by the Audit and Risk Advisory Committee will not have sufficient opportunity to review the risks associated with the Regional Council's Transformation Program (shared services) due to the timelines of the Program and the requirement for a resolution at the April 2019 Meeting of Council.

CARRIED

The Committee has requested a presentation of the Risk Profile associated with the decisions made by Council at the April Council meeting, so that the Committee can assess that the risks have been appropriately identified and addressed.

5.3 REVIEW RISK REGISTER

At the Audit Advisory Committee Meeting in November 2018 the following report was presented to the Committee:

- a copy of the Strategic Risk Register that was presented at the September 2018 Audit Advisory Committee meeting. At the meeting it was requested that management review the Strategic Risk Register to remove duplication and to reassess the risk ratings. Due to the establishment of new managerial positions as part of the restructure, this work is yet to be finalised and an updated report will be provided to the March 2019 Committee meeting.

It is recognised by the Council's Executive Team that this is a high priority piece of work. It is also recognised that the majority of the Council's third level manager positions have new incumbents that have commenced during the last four months as the new organisational structure has been implemented. During this time there have been a range of acting roles, with executive managers prioritising the continuity of critical business, including the initial preparation of the draft 2019/20 annual capital and operating budgets to meet the timelines for considered Council input prior to public release.

Since the last Committee meeting the procurement process associated with internal auditor services and associated contractual arrangements have also been finalised. The Executive Team has been in discussion with the new internal auditor HLB Mann Judd to incorporate an audit review of the Council's risk management framework as the initial audit in the proposed Draft Strategic Audit Plan (refer agenda item 6.4.2). Under the auditor's guidance this will include the refreshing of the Strategic Risk Register for presentation at the May Committee meeting and ensure awareness and input of the new management team.

The strategic risks in the current register have been incorporated into (and have helped shape) the draft Strategic Audit Plan (refer agenda item 6.4.2).

Progress on the review and testing of the Business Continuity Plan has likewise been further deferred for the same reasons above and this too is being recommended as a priority internal audit focus for 2019, as will be discussed at item 6.4.2.

RESOLUTION:

I McKaskill / C Baxter

That the Committee expresses its ongoing concern about the need for Council's Executive to conduct, or at least schedule, a live test of the Council's Business Continuity Plan this financial year.

CARRIED

5.4 REVIEW INVESTMENT AND BORROWING POLICIES

Attachment(s): *Draft Investment Policy (refer Attachment 5.4a)*
Draft Investment Policy originally tabled at 8 March 2018 meeting (refer Attachment 5.4b)

Purpose

The purpose of this report is to update the Audit and Risk Advisory Committee (Committee) on proposed changes to be made to the Investment Policy (Policy), which incorporates the comments and suggestions made by Committee members at the Committee meeting held on 8 March 2018.

Officer Recommendation

That the Audit and Risk Advisory Committee notes the proposed revisions to the revised draft Investment Policy.

Background

The Policy is an organisational policy that provides the context and framework for the management of Council's financial investments. This Policy was adopted in 2014. The Policy was reviewed by the Committee at the 8 March 2018 meeting with the Committee providing feedback and requesting that a revised policy be drafted and tabled at a future meeting incorporating the following changes, as noted in the Committee meeting minutes.

The Committee had made the following suggestions:

- legislative restrictions with investment to be mentioned near the beginning of the Policy
- counter party and credit rating to be included
- segregation of investments to be clearer
- provide a statement to terms/returns
- look at other councils Investment Policy
- the wording within the agenda report is clearer than the same details in the Policy.

The revision of the Policy was unfortunately delayed due to resourcing issues, including the implementation of a new organisational structure. A review has now been undertaken incorporating the above and additional changes

Discussion

The following are the notable changes that have been made from the original draft:

- Section 3. Scope has been expanded:
 - notes that the Policy covers the investment of any Council funds and applies to any Council officer who has responsibility for funds management
 - now includes reference to Section 143 of the *Local Government Act 1989*
- Section 4:
 - principles have been replaced with objectives
 - sub section on legislative requirements added – includes extract from Section 143 of the *Local Government Act*
 - expanded wording in Maximising Return sub-heading to make clearer the cash flow expectations
 - added sub-heading for Internal controls/authorisation
 - added clarity around authorisation:
 - all investments must be approved by either the Manager Business Services (Principal Accounting Officer), Director Corporate and Shared Services or Chief Executive Officer
 - added credit and maturity parameters:
 - no more than 30% of the total portfolio can be invested with a single institution
 - no more than 30% of the total portfolio can be invested with institutions with a credit rating of A-3/BBB
 - no investments are to be made with institutions with a credit rating of B/BB or lower
 - maturity terms allow 'at call' to 10 years
 - added table of finance institutions with current Standard & Poor's credit ratings
 - added definitions of credit ratings
 - removed section on Investment Term (replaced by table in credit and maturity parameters)
 - Updated reporting sub-section:
 - report to be prepared for the Executive Team.

Relevant Legislation

This Policy will at all times comply with the powers, restrictions and other requirements applying to Council under Section 143 of the *Local Government Act 1989*.

Council Plan/Strategies/Policies

This report relates to the Council Plan 2017-2021 Strategy under Our Promise to maintain Council's financial sustainability through sound financial and asset management.

Financial Implications and Risk

The Policy has been developed to ensure investment decisions limit unnecessary exposure to risk and optimise return on investment whilst ensuring sufficient liquidity for Council's on-going operating commitments. It achieves this by providing guidance on cash flow expectations, internal controls, and investment parameters that ensure risk is mitigated through the proper diversification of the portfolio.

Conflict of Interest

There were no declared conflicts of the interest by officers in the preparation of this report.

Community and Stakeholder Consultation

This Policy was reviewed in consultation with Council's Audit and Risk Advisory Committee, to ensure that this Policy provided clear direction to Council officers regarding investment obligations and responsibilities.

RESOLUTION:

C Baxter / Cr L Dunscombe

That the Audit and Risk Advisory Committee notes the proposed revisions to the draft Investment Policy and suggests consideration of the referencing of financial delegations within the Policy.

CARRIED

5.5 REVIEW PROTECTED DISCLOSURE ARRANGEMENTS AND REPORTS

Attachment(s): *Protected Disclosure Policy 2017 (refer Attachment 5.5a)*
Protected Disclosure Internal Processes (refer Attachment 5.5b)

Purpose

The purpose of this report is to advise the Audit and Risk Advisory Committee on Council's Protected Disclosure Policy and Arrangements.

Officer Recommendation

That the report be noted.

Background

In accordance with the *Protected Disclosure Act 2012*, Council adopted a Protected Disclosure Policy (Policy) in 2013 and developed associated procedures to:

- encourage and facilitate disclosures of improper conduct or detrimental action
- enable the receipt and effective management of information relating to a Councillor or a Council officer or agent engaging in improper conduct or detrimental action
- ensure effective processes are in place to support people who have made protected disclosures, those who maybe the subject of a protected disclosure and those who may be witness to an investigation.

The Policy was last reviewed and updated by Council in January 2017 (refer Attachment 5.5) to incorporate recent legislative changes, which included expanded definitions of corrupt conduct and reference to the Chief Executive Officer's (CEO) mandatory reporting to Independent Broad-based Anti-Corruption Commission (IBAC) of suspected corrupt conduct. There have been no further legislative changes since then.

During 2017 the internal procedures for Protected Disclosure were revised to incorporate the above Policy changes.

The Policy and current procedures are available to all employees via Council's Intranet and all new employees receive a briefing on the procedures as part of their induction activities.

The Policy and a summary of the procedures are also made available to the general public via Council's website.

A register exists for recording protected disclosures.

To date there have been no matters reported to Council that have constituted protected disclosures.

Council's Protected Disclosure Coordinator (Director Corporate and Shared Services) and Protected Disclosure Officer (Coordinator Human Resources) have received regular refresher training undertaken periodically by IBAC on the legislative requirements and handling of protected disclosures.

Discussion

The Audit and Risk Advisory Committee (Committee) is advised that the reporting lines and responsibilities for overseeing the implementation of the Policy is currently under review to ensure appropriate alignment with the new organisational structure and the creation of the new Governance and Risk Department. A further update on this will be provided to a subsequent Committee meeting.

Upon review by the Committee in March 2018 it was suggested that simplified internal procedures be prepared to aid understanding of, and accessibility by employees and the public to the process of making a protected disclosure. This work will be presented at the meeting.

Council is currently implementing a new customer request management system to improve customer service responsiveness, and work is currently underway to ensure that appropriate controls are incorporated in the system to identify, protect and appropriately escalate disclosures received as customer requests through this system.

Once the above steps are completed the Policy will be updated where necessary and presented to Council for re-adoption. This will include any further input by the Committee from this meeting.

Employee refresher training on Fraud Management and Protected Disclosure procedures are scheduled for 2019.

Conclusion

Council has met its statutory obligations with respect to establishing and providing employees and public access to the Policy and procedures associated with the reporting of protected disclosures.

RESOLUTION:

C Baxter / Cr L Dunscombe
That the report be noted.

CARRIED

5.6 REPORTS AND PUBLICATIONS OF INTEREST TO LOCAL COUNCIL'S

Nil to report.

6. AUDITS - INTERNAL

6.1 REVIEW INTERNAL AUDIT REPORTS AND MANAGEMENT RESPONSES

Nil to report.

6.2 FOLLOW UP SIGNIFICANT ISSUES RAISED BY INTERNAL AUDIT

Nil to report.

6.3 REVIEW IMPLEMENTATION OF PREVIOUS AUDIT ACTIONS

Attachment(s): *Internal Audit Recommendations - Status of Actions February 2019 (refer Attachment 6.3)*

This report was presented by the Director Corporate and Shared Services.

RESOLUTION:

I McKaskill / C Baxter

The Committee requests that explanatory comments be provided as part of the reporting of progress on audit actions.

CARRIED

6.4 REVIEW SCOPES OF AUDITS BY HLB MANN JUDD

Nil to report.

6.4.1 CLOSED DISCUSSION WITH THE COMMITTEE AND INTERNAL AUDITOR

Opportunity was given for the Committee to meet with the internal auditor, Mark Holloway, without Council officers present to raise any relevant questions or matters to assist the internal auditor role.

The Committee has requested an opportunity to meet with the internal auditor without Council officers present every second meeting.

6.4.2 DRAFT STRATEGIC AUDIT PLAN FROM HLB MANN JUDD

Attachment(s): *Murrindindi Shire Council Draft Strategic Internal Audit Plan (2019 - 2022) (refer Attachment 6.4.2)*

This report was presented by HLB Mann Judd.

RESOLUTION:

C Baxter / I McKaskill

That the Committee has considered and endorses the Draft Strategic Audit Plan from HLB Mann Judd.

CARRIED

7. FINANCIAL REPORT

7.1 REVIEW SIGNIFICANT ACCOUNTING AND REPORTING ISSUES

7.1.1 RELATED PARTY DISCLOSURES POLICY

Attachment(s): *Draft Policy – Related Party Disclosures (refer Attachment 7.1.1)*

Purpose

The purpose of this agenda item is to present the draft Related Party Disclosures Policy (Policy) to the Audit and Risk Advisory Committee (Committee) for review and input.

Officer Recommendation

That it be noted that the Audit and Risk Advisory Committee has considered and reviewed the draft Related Party Disclosure Policy.

Background

The Australian Accounting Standards Board 124 (AASB 124) requires Council to make specific disclosures in relation to transactions and balances with related parties.

The VAGO External Audit Management Letter 2017-18 identified the need for Council to strengthen its Related Party Disclosure processes. The following weaknesses were identified:

1. identification of Key Management Personnel (KMP) and their corresponding related parties are also required to be identified
2. identification of KMP related parties and implementation/formal documentation of processes to identify any transactions
3. a reliance on disclosures and absence of further sense checks in respect to the completeness of disclosures
4. that ordinary returns were being used for related party declaration purposes. Ordinary returns are not sufficient for this purpose.

It was recommended that Council document and implement appropriate processes to ensure that all related parties and party transactions are identified and captured.

Discussion

The purpose of the Draft Related Party Disclosure Policy (refer Attachment 7.1.1) is to provide guidance in relation to Council's related party disclosure requirements under the *Local Government Act 1989* and relevant accounting standards. It outlines Council's specific responsibilities and those of its identified Key Management Personnel (KMPS).

This draft Policy has been developed to meet the external audit recommendation to ensure that Council has sufficient processes to identify and capture related party transactions.

The draft Policy has been written using several sources of information and best practice advice. It identifies Council's KMPs, defines the types of transactions and balances that need to be disclosed and where close family related transactions are relevant.

It commits to the collection of information twice annually through the attached disclosure form. The information relating to KMPs will be collated into a register and will be assessed by Council's Manager Business Services for inclusion in Council's Annual Financial Statement.

It further outlines the requirements of Council itself to identify any related party transactions with entities controlled by Council, how this information is collected and disclosed.

The aim of presenting this report to the Committee is to seek input and feedback in relation to the draft Policy and procedures prior to its adoption by the executive managers.

Council Plan/Strategies/Policies

This Policy supports the Council Plan 2017-2021 Our Promise strategic objective to 'maintain Council's financial sustainability through sound financial and asset management'.

Relevant Legislation

The *Local Government Act 1989* Section 413(3) requires Council to prepare its Financial Statements in compliance with Australian Accounting Standards. Under Australian Accounting Standard AASB 124 Related Party Disclosures (AASB124), all public sector entities are required to disclose their related party transactions.

Financial Implications and Risk

The VAGO Audit of Council's 2017/18 Annual Financial Report identified that Council needed to strengthen our processes in relation to Related Party Disclosures.

Conflict of Interest

There are no declared conflicts of interest in relation to this report.

Community and Stakeholder Consultation

There was no consultation required in the drafting of this Policy.

RESOLUTION:

Cr L Dunscombe / Cr M Rae

That it be noted that the Audit and Risk Advisory Committee has considered and reviewed the draft Related Party Disclosure Policy.

CARRIED

7.2 REVIEW QUARTERLY FINANCIAL STATEMENTS

Attachment(s): *2nd Qtr Financial Report (refer Attachment 7.2)*

Purpose

The report provides the quarterly financial report for the period ending 31 December 2018.

Officer Recommendation

That the Audit and Risk Advisory Committee receives the Quarterly Financial Report to 31 December 2018.

Background

The Quarterly Financial Report for the period ended 31 December 2018, was presented to Council, in accordance with the *Local Government Act 1989* at the Council meeting held on 27 February 2019.

The report includes the following statements are:

- Comprehensive Income Statement
- Balance Sheet (incorporating Changes in Equity)
- Statement of Cash Flow
- Statement of Capital Works
- Reconciliation of Non-Discretionary Cash & Reserves.

Discussion

The Statements for the second quarter to 31 December 2018 are included in Attachment 7.2.

Income Statement (Statement A)

The Income Statement for the period 1 July 2018 to 31 December 2018 – also within the attached report – is presented below:

Income Statement
For the period ended 31 December 2018

	Original Budget 2018/19 \$	September Revised Budget 2018/19 \$	Annual Revised Budget 2018/19 \$	Forecast Adjustment 2018/19 \$	YTD Budgets 31/12/2018 \$	YTD Actual 31/12/2018 \$	Budget/ Actual Variance (unfav) \$	%
Revenue								
Rates & Charges	20,525,445	20,565,445	20,612,589	47,144	20,569,020	20,504,282	(64,738)	0%
Special Charge	87,000	87,000	87,000	-	-	-	-	
Statutory fees and fines	888,678	998,678	1,049,980	51,302	535,462	534,502	(960)	0%
User fees	2,345,277	2,342,777	2,791,655	448,878	1,507,841	1,504,993	(2,848)	0%
Grants - Operating	7,346,704	5,715,096	5,790,501	75,405	3,485,525	3,489,013	3,488	0%
Grants -Capital	1,414,759	1,518,723	2,304,960	786,237	372,371	517,943	145,572	39%
Contributions - Cash	54,275	309,378	352,416	43,038	300,665	298,863	(1,802)	-1%
Contributions - Non Cash	400,000	400,000	805,000	405,000	-	-	-	
Reimbursements	382,114	382,114	475,425	93,311	175,518	160,071	(15,447)	-9%
Other revenue	1,181,015	1,115,514	1,238,489	122,975	414,082	425,773	11,691	3%
Total Revenue	34,625,267	33,434,725	35,508,015	2,073,290	27,360,484	27,435,439	74,955	0%
Expenses								
Employee Benefits	14,799,536	14,866,886	14,785,437	81,449	7,547,566	7,650,908	(103,342)	-1%
Materials and Services	9,798,106	11,536,479	11,545,557	(9,078)	5,311,433	5,361,952	(50,519)	-1%
Depreciation and amortisation	9,602,649	9,602,649	9,183,849	418,800	1,000	922	78	0%
Bad and Doubtful Debts	-	-	65,278	(65,278)	-	-	-	
Other Expense	313,338	313,338	330,065	(16,727)	162,497	164,916	(2,419)	-1%
Finance Costs (Interest)	55,050	55,050	55,050	-	20,520	20,546	(26)	0%
Total Expenses	34,568,679	36,374,402	35,965,236	409,166	13,043,016	13,199,244	(156,228)	-1%
Net gain(loss) on disposal of property, infrastructure, plant and equipment	(55,054)	96,830	223,845	127,015	294,414	135,911	(158,503)	
Surplus (deficit) for the period	1,534	(2,842,847)	(233,376)	2,609,471	14,611,882	14,372,106	(239,776)	-2%

The \$14.37 million operating result for the December 2018 quarter is \$239,776 or 2% unfavourable to the year to date budget. However, the forecast position for the financial year has improved by \$2.6 million moving from a predicted deficit of \$2.84 million to a deficit \$233,376.

The major forecast adjustments for the quarter include:

Line Item	Adjustment	Main Contributing Factors
User Fees	\$448,878	Favourable adjustments (items predicted to exceed budget estimates): <ul style="list-style-type: none"> Alexandra landfill fees (\$365,000) Yea Saleyards (\$97,000) Offset by: <ul style="list-style-type: none"> Aged and Disability meals on wheels fees (\$16,000) – original budget overstated.
Grants - Capital	\$786,237	Capital grants received for the following projects: <ul style="list-style-type: none"> Fixing Country Roads (\$568,000) Yea Recreation Reserve Female Change Rooms (\$140,000) E-Waste Upgrades (Alexandra & Kinglake) (\$60,000) Kinglake Ranges Neighbourhood House (\$18,000)
Contributions – Non-cash	\$405,000	Gifted assets in relation to development: <ul style="list-style-type: none"> Millview Estate, Pheasant Creek
Depreciation and Amortisation	\$418,800	Depreciation figures have been revised in line with the actual expenditure at 30 June 2018 which included a revaluation of roads.

Balance Sheet (Statement B)

The Balance Sheet – Statement B as at 31 December 2018 shows a Cash and Cash Equivalents favourable variance of \$268,616.

Trade and Other Receivables shows an unfavourable year to date variance of \$571,303. This is predominately due to Rate Debtor collections which are tracking ahead of budget.

The overall revised budget position shows the projected level of cash as at 30 June 2019 of \$28.9 million which is \$0.88 million below the original budget for 2018/19 of \$28.13 million.

Cash Flow Statement (Statement C)

This statement provides a more holistic picture and reports the important information on Council's cash inflows and outflows. Net cash flow from operating activities in the Cash Flow Statement (a cash view of the operating statement) shows a favourable year to date budget variance of \$355,170 and a favourable forecast adjustment of \$666,371 - driven largely by receipt of user charges, fines and contributions.

Non-Discretionary Cash and Council Reserves (Statement E)

Included as part of this report is an additional reconciliation flowing from the cash flow statement of Council's Non-Discretionary Cash Flow requirements. This reconciliation lists all Council reserves together with funds held as Deposits or Trust which are required to be refunded, and an allowance for the provision of employee entitlements. This latter provision being a nominal amount of 25% of Council's Annual Leave Liability and 25% of the current Long Service Leave Liability. This is then offset against the level of projected cash at year end.

Councillor Expenses (GST Exclusive):

As agreed in the Councillor Reimbursement Policy that was adopted by Council at its February 2017 Ordinary Meeting, the following table details Councillor expenses for the second quarter period ending 31 December 2018.

Councillor Expenses for the 3 months ended 31 December 2018:

Councillor	Councillor Allowance	Mobile Phone	Training & Professional Development	Accomm. & Travel	Total
Cr S McAulay	\$16,766.64	\$317.76		\$2,847.82	\$19,932.22
Cr C Bisset	\$5,612.16	\$317.76		\$1,290.45	\$7,220.37
Cr J Ashe	\$5,612.16	\$317.76			\$5,929.92
* Cr R Bowles	\$5,545.18	\$317.76			\$5,862.94
Cr L Dunscombe	\$5,612.16	\$317.76		\$2,781.52	\$8,711.44
Cr E Lording	\$5,612.16	\$330.49		\$1,253.33	\$7,195.98
Cr M Rae	\$5,612.16	\$317.76			\$5,929.92
Subtotal	\$50,372.62	\$2,237.05	\$0.00	\$8,173.12	\$60,782.79

* Underpaid Councillor allowance error to be corrected in next quarter

It should be noted that accommodation and travel costs include the reimbursement of the claims which a Councillor may choose to submit for travelling to Council meetings, briefings and other functions which they attend in their capacity as a Councillor. Where a Councillor's residence is greater than 50 kilometres from the location of a Council meeting they may also claim the statutory remote area allowance.

It should also be noted that Councillors can elect for part of their allowance to be deducted for superannuation purposes.

Council Plan/Strategies/Policies

This report, in relation to the Annual Budget and quarterly financial reporting, is consistent with the Council Plan 2017-2021 strategy under Our Promise to maintain Council's financial sustainability through sound financial and asset management practices.

Relevant Legislation

The *Local Government Act 1989* (the *Act*) requires, under Section 126, that a Council must prepare a Strategic Resource Plan for a period of four years.

The *Act* also sets out in Section 127 that the Council must prepare a budget for each financial year. Then, in Section 138, the *Act* requires that quarterly financial reports must be presented to Council.

Financial Implications and Risk

The financial governance of a Council is an important role for Councillors. The risk of poor financial management can have a significant impact upon the governance of the Council. The financial implications flowing from this quarterly financial review are outlined in this report.

Conflict of Interest

There are no declared conflicts of interest by Council officers in the preparation of this report.

Community and Stakeholder Consultation

There was no community consultation required for the preparation of this quarterly budget report.

RESOLUTION:

Cr L Dunscombe / I McKaskill

That the Audit and Risk Advisory Committee receives the Quarterly Financial Report to 31 December 2018.

CARRIED

8. MANAGEMENT REPORTING

8.1 LOCAL GOVERNMENT PERFORMANCE REPORTING FRAMEWORK

Attachment(s): *Local Government Performance Reporting Framework Strategic Directions Paper 2018-21 (refer Attachment 8.1)*

In late January 2019, the Minister for Local Government, the Hon Adem Somyurek MP released the Local Government Performance Reporting Framework (LGPRF) Strategic Directions paper 2018-2021.

The LGPRF paper outlines the proposed development of the framework's supporting processes and systems over the next three years, including the introduction of revised indicators, targets for specific indicators, enhancements to benchmarking and administrative improvements to data uploads and submission.

The following table summarises the key actions planned over the next three years:

2018/19	2019/20	2020/21
<ul style="list-style-type: none"> refresh indicator sets, including improvements to core existing indicators, introduction of new indicators and removal of optional indicators, and any required regulatory changes design performance target system for selected datasets, including target setting methodology and display option in Know Your Council (KYC) review Community Satisfaction Survey (CSS) in early 2019 increase KYC functionality for councils, including a review of existing and future technical requirements for KYC website, development of a product roadmap with long term plans for user dashboards, improved analytics and benchmarking tools promote KYC, including social media campaign and site visits research alternative data sets with a focus on high value/low effort data sets available for inclusion in the framework. 	<ul style="list-style-type: none"> prepare performance target setting system expand benchmarking facilities via the council portal of KYC. develop and implement improved data uploading for indicators, including new interfaces and processes research and develop Application Programming Interfaces (API) for greater system integration improve alignment with Model Budget and Financial Reports research Public Value of Performance Reporting. 	<ul style="list-style-type: none"> deploy Performance targets implement enhanced benchmarking tools improve alignment with legislated planning and reporting cycles implement API for greater system integration between Local Government and councils assessment of new Local Government Act indicators resulting from Local Government Act objectives.

The changes that result from the 2018/19 short term actions are proposed to be in place for the 2019/20 reporting year. Council officers will be working with the relevant departments to ensure systems are in place to capture the data required from the changes.

Noted.

9. GENERAL BUSINESS AND FUTURE PLANNING

9.1 ANNUAL ASSESSMENT OF COMMITTEE'S PERFORMANCE

Attachment(s): *Annual Assessment of Committee's Performance Summary (refer Attachment 9.1)*

As detailed at section 2(s) of the Audit Advisory Committee Charter, the Audit Advisory Committee (Committee) shall 'be subject to a periodic review, including a review by the Council and the completion of a self-assessment program'.

This self-assessment has traditionally been taken by the Committee members on an annual basis, for presentation and review at the first meeting in the new calendar year. It was suggested that non-member Councillors as a collective and Executive managers as a collective to complete the self-assessment.

Submitters were required to score several questions based on the following index:

Performance					
Less than adequate		Adequate		More than adequate	
1	2	3	4	5	6

The survey was completed by four of the six Committee members and there were no collective assessments received. The Executive managers considered the assessment questionnaire but on reflection did not feel the assessment, in its current format, is suitable for external assessment, as it was felt the performance of the Committee is, to a large extent, dependent on the nature and quality of the information provided to it by Executive.

A summary of the results, including additional comments, are in Attachment 9.1.

Receiving four submissions instead of six provided a spread of scores being inconsistent. This was evident in:

- 1.8 – 'maintenance and fostering an ethical environment'. One submitter scored '3', two submitters '4' and one submitter '5'
- 4.4 – 'reviewed the effectiveness of internal control systems in place'. One submitter scored '2', one submitter '3' and two submitters '4'.

The 2017 and 2018 self-assessment had the same low score of '2' for the following:

- 1.7 – 'the level and effectiveness of appropriate Business Continuity and Disaster Recovery Planning'. One submitter scored this a '2' and the three submitters scored this a '3'. This would be largely due to the Business Continuity Plan not being fully tested
- 8.1 – 'Committee members have attended meetings on a regular basis'. This has been improved by changes to a Committee member during 2018 and changes to the Charter.

Overall the survey has not improved compared to 2017. What may have contributed to this is Council officer vacancies which lead to stretched resources, particularly in supporting roles to the Committee.

On a positive note, it is good to see consistent scoring with all submitters agreeing with:

- 1.4 – 'compliance with applicable laws and regulations' – rating of 4
- 1.5 - 'effective and efficient internal audit functions' – rating of 4
- 8.8 – 'activities of the committee have been conducted in accordance with the Committee's charter' – rating of 4.

RESOLUTION:

I McKaskill / Cr M Rae

That the report be noted and that Council officers present options for improving the survey instrument at a future meeting that incorporates an assessment of performance against the Committee Charter and an assessment by the Council's Executive.

CARRIED

10. OTHER REPORTS

10.1 VICTORIA'S SOCIAL PROCUREMENT FRAMEWORK

Attachment(s): *Introduction to Victoria's Social Procurement (refer Attachment 10.1a)*
 AASB 16 Leases (refer Attachment 10.1b)
 The New Leases Standard Part 1 (refer Attachment 10.1c)
 The New Leases Standard Part 2 (refer Attachment 10.1d)
 Technical Alert TA 2019-01 (refer Attachment 10.1e)
 Technical Alert TA 2019-02 (refer Attachment 10.1f)
 Technical Alert TA 2019-03 (refer Attachment 10.1g)

This report was presented by HLB Mann Judd.

11. NEXT MEETING

Thursday 9 May 2019 1.00pm at Murrindindi Shire Council - Council Chamber, Perkins Street Alexandra.

There being no further items of business, the Chairperson declared the meeting closed at 5:17pm.

CONFIRMED THIS _____

CHAIRPERSON _____