

**Item 5.1 Released from confidence 12 July 2023**

# **AGENDA**

## **Confidential Special Council Meeting Tuesday, 13 June 2023**

Members of the public are advised that meetings of Council are live streamed on Council's YouTube Channel and video recorded.

**I hereby give notice that a Confidential Special Council Meeting will be held on:**

**Date: Tuesday, 13 June 2023**

**Time: 5:00 PM**

**Location: Tirkanthi Kuu Room  
Level 1 at Payinthe  
128 Prospect Road  
Prospect**

**Chris White  
Chief Executive Officer**

**Order Of Business**

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- 1 OPENING**
- 2 ON LEAVE**
- 3 APOLOGIES**
- 4 DECLARATION BY MEMBERS OF CONFLICT OF INTEREST**

## 5 CONFIDENTIAL ITEMS

### 5.1 STRATEGIC LAND PURCHASE

**File Number:** IC23/153

**Author:** Chris White, Chief Executive Officer

**Responsible Executive:** Chris White, Chief Executive Officer

The Council is satisfied that, pursuant to Section 90(2) & (3) of the *Local Government Act 1999*, the information to be received, discussed or considered in relation to this agenda item is:

- (b)(i) information the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council
- (b)(ii) information the disclosure of which would, on balance, be contrary to the public interest.

### EXECUTIVE SUMMARY

Council has become aware of a key parcel of land becoming available for sale on Main North Road. The parcel of land, located at 142-148 Main North Road, Prospect ("the site"), is 5,522m<sup>2</sup> in area and adjoins the eastern boundary of Prospect Oval.

Council at its Special Council Meeting on 6 June 2023 resolved the following:

1. *Having considered Item 5.1 Strategic Land Purchase receives and notes the report.*
2. *Having considered Item 5.1 Strategic Land Purchase, supports staff in progressing investigations into a potential purchase of 142-148 Main North Road, Prospect as Operational Land on the basis of the information presented in the staff report and attached valuation.*
3. *Direct the CEO to urgently write to the Minister for Planning, seeking grant funding support for a potential purchase of this site, and commit to quarantine an a percentage of the site for future public realm provision.*

This report serves as a placeholder for further information that staff are preparing for Council to consider, ahead of a Special Meeting planned for 5pm on Tuesday, 13 June 2023. The additional information being prepared by Council staff falls broadly into three parts:

- A. Further information concerning the development potential, feasibility, and possible future yield and income potential from a purchase of the site.
- B. Information concerning the finance implications of a purchase of the land in both the short and long term, with particular reference to the possible purchase amounts that may be considered; and
- C. Information in relation to the specific governance and legislative processes that will need to be adhered to in order to affect a purchase, should Council elect to proceed.

The purpose of this report is to seek Council's direction in relation to submitting an expression of interest (EOI) to purchase this parcel of land.

Consistent with the earlier report to the Special Council Meeting on 6 June 2023 (*Item 5.1 Strategic Land Purchase*), Staff have not offered a recommendation to proceed/not proceed with an EOI.

Should Council wish to proceed with an EOI, Members will be provided with the appropriate wording of potential recommendations (after having sought legal advice) to safeguard council's interests in accordance with **Part C – Governance Process and Legal / Legislative Requirements** of this report.

## RECOMMENDATION

### That Council:

1. Having considered Item 5.1 Strategic Land Purchase receives and notes the report.
2. Considers its position in relation to a potential Expression of Interest in purchasing 142-148 Main North Road, Prospect.

## DISCUSSION

### Context

142-148 Main North Road, Prospect (“the site”) is a parcel of land adjoining the south eastern boundary of Prospect Oval. The site sits at the corner of Kintore Avenue and Main North Road, and consists of multiple parcels with access from both frontages.

A full background into the site and its location and context are included in the attached valuation prepared by **Gary Taplin Valuations SA** at the request of Council staff, included as **Attachment 1** to this report (“valuation”).

As outlined in the valuation, the property was formerly a car dealership and servicing facility, and most recently, has been leased by an adjoining retailer for storage, loading and unloading of vehicles. It includes various capital improvements, including a fairly modern showroom, workshop facility, and various fenced and secured yards.

From a Council perspective, it notably adjoins Prospect Oval adjacent to the current location of the cricket nets, which are located in the south eastern portion of Prospect Oval.

The property has been offered for sale via Expression of Interest. It is expected that this process will require potential buyers to submit an expression of interest by **15 June 2023**.

Records and stakeholder discussions (notably with representatives of North Adelaide Football Club – NAFC) suggest that Council has previously expressed interest in potentially acquiring this parcel, in order to add it to the Prospect Oval precinct and leverage the potential merger value of the site in supporting future improvements to the Oval. As such, staff have determined to bring this report to Council to gauge potential interest in a purchase.

### **Part A – Feasibility and Visioning (Presentation During the Special Council Meeting)**

At the time of preparing this report, the Feasibility Study has not been completed. During the meeting, and subject to the Chairperson’s approval, staff will present a verbal report and presentation detailing the combined Baukultur / MRS advice, including the following:-

- Visualisation of concept vision for the site, incorporating feedback received from Council at the meeting on 6 June of basic Options 1-4.
- A detailed Option 5 will be presented incorporating elements of Options 1-4
- Relevant high level financial feasibility business case model will be presented providing indicative costs and returns, and options for asset ownership structures.
- Short and long term financial options including (for example) holding, developing, Joint Venture development, ground lease(s).
- Holding income options and potential, for years 1-3

**Part B – Financial Implications of Purchase / Funding Options**

To guide the early thoughts of members, information has been prepared below for review ahead of the meeting. More refined modelling may be available at the meeting, in particular upon review of the feasibility material that has yet to be received.

Due to the absence of the detailed feasibility study report at the time of reporting, the additional income quoted is based on the rental income assumption presented in the Confidential Report to the 6 June 2023 Special Council Meeting, and the valuation attached thereto (see **Attachment 1** to this report for the valuation). To this end, staff have elected to present an option that retains the hard stand for a potential short-to-medium term depot site, which would reduce the income potential of the site to an estimated \$247,000p.a. This is a conservative estimate, as in reality, some of the hard stand will not be required for the depot and could be leased with the remainder of the premises – but this in turn will be offset by around a \$92,000p.a budget saving from leasing the depot space at Campbelltown (resulting in an effective income of \$339,000p.a). It is assumed that this income can be secured for 5 years. It is also noted that these figures do not account for likely fuel savings from the shorter transit to work sites in Prospect, which may well be significant, but have not been modelled in the short time available.

Should Council support this purchase, it is proposed that the net cost of servicing the borrowing be funded from raising additional rate revenue.

Staff advise that for this process to have any realistic chance of success, **the importance of managing a debt-funded purchase through rating is critical**. Whilst the debt servicing shortfall appears relatively small in the grander scheme of Council’s budget, the overall financial impact of payments to both principal and interest across the long term is significant. Council’s budget is finely balanced, and modelling shows clearly that without rates revenue to compensate in the short to medium term, the purchase will tip Council’s financial KPIs into the red.

Unless this can be addressed via rating, **this will likely lead to the purchase failing the required Prudential Review**, and therefore failing the core requirement for financing by the Local Government Finance Authority. As such, the purchase will fall through in the absence of available debt funding.

The following table presents the quantum of borrowing (principle) and its impact: -

Principle Borrowed	Current CAD Rate  Based on 6.05% (7/6/23) + 0.25%	Interest Repayment Only	Assumed Additional Net Income	Net Cost	Approximate % of increase in rates	Impact to Operating Results	Impact to Net Financial Liability Ratio	Interest Cover Ratio
\$8.1m	6.30%	\$510k	\$339k	\$171k	0.68%	nil	Refer Note 1	Refer Note 1
\$8.5m	6.30%	\$536k	\$339k	\$197k	0.79%	nil		
\$9m	6.30%	\$567k	\$339k	\$228k	0.91%	nil	Refer Note 2	Refer Note 2

Note 1

Based upon the current Draft 23/24 Budget, borrowings of \$8.1m and increase in income of \$510k:-  
 The Net Financial Liabilities Ratio will exceed the upper threshold of 90% for the first two years peaking at 101% in 23/24 and fall just below it in year three.  
 The interest Cover ratio will exceed the upper threshold of 3% for the first three years peaking at in 24/25 at 3.5%

Note 2

Based upon the current Draft 23/24 Budget, borrowings of \$9m and increase in income of \$567k:-  
 The Net Financial Liabilities Ratio will exceed the upper threshold of 90% for the first three years peaking at 104% in 23/24.  
 The interest Cover ratio will exceed the upper threshold of 3% for the first four years peaking at in 24/25 at 3.7%

Based of the above assumptions (interest rates and net income), it is suggested that Council raise an additional rate revenue between 0.7% and 1% (depending on the level of borrowing) from the 2023/2024 financial year to fund Council’s Strategic Projects.

It is also recommended that Council to develop a business case and review the progress of this initiative within 5 years to determine if the development is worthy to continue to proceed, or alternatively, to consider selling off parts of the land, with a view to help offset the loan principle and any other costs incurred.

Should the return on investment be realised / projected to be realised in 5 years' time, Council can utilise the funding set aside for interest repayment to fund other Strategic initiatives, or alternatively, to deliver rate relief back to residents at that time.

Council will be required to set a maximum limit of the bid price and delegate the Chief Executive Officer (CEO) to submit an EOI. A recommendation in potential pricing will be presented to Council on 13 June, based on the valuation already at hand, together with the feasibility material currently being developed.

A potential risk of this process is that Council may be required to delay the adoption of the 2023/2024 Annual Business Plan until the Audit & Risk Committee and Council is satisfied with the outcome of the Prudential Review.

### **Part C – Governance Process and Legal / Legislative Requirements**

The conditions to be outlined in the EOI should note that the contract submitted by Council would require the following:-

- Offer subject to Prudential Review and feedback from Council's Audit and Risk Committee
- Offer subject to finance being secure from Local Government Finance Authority (LGFA)
- Settlement date on Council's terms to be subject to a date that finance could reasonably be secured.

A draft Expression of Interest form is currently being prepared by Council's lawyers, and will be provided to members for consideration as soon as it is ready. It is expected to include all relevant conditions necessary for compliance with the raft of legislative requirements applicable to local government land purchases, but will require Council approval for both the quantum of EOI and confirmation of the conditions. This will all be discussed at the Special Meeting on 13 June, 2023.

### **Conclusion:**

Staff are currently working very hard to prepare all the relevant materials to guide Council's consideration of the value proposition presented by the site, as well as information to guide a possible purchase of the site, should Council elect to do so.

The short time available has meant that this information is not currently ready, and much or all of the detail may not be available until the day of the Special Meeting itself (13 June 2023).

In the meantime, members have the valuation and original report, as well as the financial information contained in this report to consider.

The decision to purchase (or not purchase) the site will be a significant legacy in the long history of City of Prospect, and members are encouraged to give it careful thought and consideration – both in terms of the potential benefits, as well as the short-term and long-term financial and opportunity costs associated with the decision.

## **Community Plan: Towards 2040**

### **► Connected & Caring**

#### **FY 20/21 Measures**

- CC1.6 Use the City's locational advantage to connect with universities, research, Defence, industry and innovation precincts

**2 to 5 year timeline**

- CC2.2 Facilitate new bars, cafes, restaurants and other businesses which diversify our local offerings
- CC2.4 Ensure greater recognition and support of precincts and neighbourhood gathering places such as Collinswood Precinct, Broadview Sports and Recreation Precinct / Yarnta Tutu yarta, Nailsworth Hall, Charles Cane / Parndo yerta Reserve, Howard Street precinct across the City:
  - CC2.4.1 Make these great places and create promotional campaigns
  - CC2.4.2 Install wayfinding signage (and 'digital trails') in key locations to highlight important and historic sites, as well as shopping and recreational opportunities in those neighbourhoods
  - CC2.4.3 Develop new place-making and urban renewal initiatives in those neighbourhoods
  - CC2.4.4 Facilitate the attraction of a key 'anchor' or 'hero' business to each of those key locations

**► Active & Engaged****2 to 5 year timeline**

- AE2.9 Support the Eastern Region to deliver aspirations and objectives of the Regional Public Health Plan including projects which include open space connectedness, regional volunteering, mental health support, community transport and programs to address social isolation

**► Creative & Innovative****FY 20/21 Measures**

- CI1.2 Promote Prospect as an investment destination for new apartments & commercial developments

**2 to 5 year timeline**

- CI2.1 Attract an anchor business to enhance the innovation brand of our City
- CI2.9 Actively encourage and support all businesses and multi unit sites to equal or better general recycling levels.

**ATTACHMENTS**

Nil



**6 MEETING CLOSURE**