AGENDA ITEM NO.:  15.1

TO:       Council on 24 January 2017

DIRECTOR:         Cate Hart, Chief Executive Officer

REPORT AUTHOR:    Nathan Cunningham, Director Community & Planning

SUBJECT:       Community Hub, Library & Innovation Centre (CLIC) Site and Option Selection

Use the following LINK to go to the full report, including Attachments:


1. EXECUTIVE SUMMARY

1.1 In 2015 a process began to select a site for a new facility to house (at the very least) all the services and functions currently performed within the Thomas Street Centre.

1.2 The process has included workshops, discussions, site tours, research, staff advice and consultant reports. It has now reached a point where a justified recommendation can be made regarding the site and preferred development option for the Council’s new Community Hub, library and community centre (CLIC).

1.3 The detailed report presented herein outlines the work undertaken and seeks to respond to all matters associated with making this important decision. To assist in the decision making process BRM Holdich were engaged to bring all the information together and to quantify the analysis undertaken by SGS Economics and Planning (SGS), previously engaged to assist Council in determining the community and financial impact of all the identified development options across the two shortlisted sites for the CLIC refer Attachment 1-24.

1.4 Questions regarding centrality of the City of Prospect and visitation of each site, clarification of option affordability and long term financial impact or benefit, sensitivity analysis, updated site valuations, confirmation of the development market appetite for either site and its further impact on financial sustainability, as well as the ability to use Open Space or Car Park funds held in reserve by Council are also addressed in this report.

2. RECOMMENDATION

(1) That after consideration of all the factors, the discussions, the workshops, the library and community facility tours, the expert consultant reports and the views of Council’s Audit Committee, Council now adopts Option 6a from the SGS Economics & Planning report (adopted December 2016) including:

   a. development of the City of Prospect’s new Community Hub, Library & Innovation Centre at 128 Prospect Road, Prospect;
b. co location of the civic facilities and Council administration;
c. a mixed use facility with a development partner;
d. relocation of the depot functions; and

e. sale of the Main North Road site

(2) The Chief Executive Officer is authorised to move the project forward into a
design phase (as per the Project Plan), ensuring the partnership options
are fully explored for the 128 Prospect Road site.

3. RELEVANCE TO CORE STRATEGIES / POLICY

3.1 Council’s Community Engagement and Consultation Policy – November 2012

3.2 Strategic Plan to 2020 Theme 1 – People “Know, empower, celebrate, educate and
activate our community”

   Strategy 1.1 Know our community
   Strategy 1.4 Celebrate our diverse and creative community

3.3 Strategic Plan to 2020 Theme 2 – Place “Loved heritage, leafy streets, fabulous
places”

   Strategy 2.1 Respect the past, create our future

3.4 Strategic Plan to 2020 Theme 4 – Services “Leaders of the sector providing efficient,
responsive, accessible services”

   Strategy 4.1 Excellence in Infrastructure
   Strategy 4.2 Sound Financial Management
   Strategy 4.4 Accountable and people-focused services

The actions and initiatives detailed within this report are directly connected to the
above aspects of Council’s current Strategic Plan.

The following Outcomes and Targets are also relevant:

- A busy and vibrant local business environment focused on the Prospect
  Village Heart
- 5% annual increase in participation and utilisation of library services
- In partnership with the community, a City recognised for its diversity, its
  range of local attractions, its local history, character, heritage and stories
- Investment, employment and development encouraged across our City
- Diverse development is encouraged on Main Road corridors

4. COMMUNITY INVOLVEMENT

4.1 Community involvement for this project is outlined within Annexure One in the attached
BRM Holdich report (Refer Attachment 22). That discussion provides a summary of
community consultation completed to date for this project which has been the subject
of earlier Council reports in 2016.
5. DISCUSSION

Background

5.1 The Community Hub, Library & Innovation Centre (CLIC) project has a considerable history, dating back to August 2015 when the State Government Department for Education and Child Development (DECD) formally advised Council that its current lease of the Thomas Street Centre (expiring August 2019) was not being extended.

5.2 Since that time, staff and the Elected Members have undertaken considerable research, been involved in many workshops and tours of facilities as well as given consideration (including community input) to what new library (and associated) services would look like. This background work was undertaken concurrently with consideration of a preferred site.

5.3 In December 2016, Council identified 5 sites as possible locations for the new facility. Following further investigation and the use of a multi-criteria analysis prepared by Inizio Consulting Council determined to undertake a detailed investigation of two sites that were considered suitable for the CLIC facility. The two sites identified were:

- the Prospect Civic Centre site on Prospect Road, and
- Prospect Works Depot (and former Milk Depot) sites on Main North Road, Gordon Road and Johns Road.

5.4 SGS Economics and Planning (SGS) were then engaged in August 2016 to provide advice in respect to these two sites on the basis of their overall expertise and experience in community and economic analysis. Their report focussed on the economic and social costs and benefits for various development options associated with each site.

5.5 The further analysis from SGS set the scene for an evaluation/assessment process to be undertaken which ranks (and weighs) key criteria to assist the Council in reaching a decision on site and scope of development. Their report provided four criteria which Council can use to assist in its decision making.

5.6 Also in December 2016, BRM Holdich were engaged to provide independent analysis of all the work undertaken to date in order to ensure an independent recommendation could be put to Council on the preferred site and development option for the CLIC.

5.7 The criteria, introduced by SGS and then weighted by BRM Holdich in consultation with elected members at a December Workshop includes –

5.7.1 Alignment with Council policy / strategy
Note – All the options are aligned in some way to Council’s Strategic Plan to 2020, with some options having stronger alignment than others.

5.7.2 Community Benefit
Note – This factor has always been put forward as the most important outcome for the future development and is suggested as having the highest weighting.

5.7.3 Financial Analysis
Note – This is clearly also a significant factor. It has been revealed that ALL options are affordable within Council’s accepted parameters.
5.7.4 **Project Risk**
Note – This is also a significant factor but again ALL options have been demonstrated to sit within Council’s accepted Risk profile.

5.8 BRM Holdich has analysed all the available information including Council reports, consultant reports as well as workshop and site tour notes ([Attachment 1-24](#)). Their body of work focuses on the key criteria set out in the SGS Report (and noted above), and weighs the key criteria in order to establish a comparable framework for a informed decision making process.

5.9 Colliers International were engaged to provide advice focusing on the market appetite for partnerships at the two sites and to clarify whether it differs. A qualitative review was undertaken which concluded quite strongly that “there is no doubt in our mind that the market appetite when considering both sites will be significantly greater for Prospect Road than that which can be expected for Main North Road”.

5.9.1 This position can be interpreted in two ways and influences the Risk Assessment incorporated in the BRM Holdich report:

1. It reduces the risk associated with sourcing a partner for the Prospect Road options as opposed to the Main North Road options.

2. It demonstrates a sale of the Prospect Road site may not be as difficult as the Main North Road site (based on market appetite).

5.9.2 Colliers also touch on whether community facilities are seen in their own right as a trigger for other localised investment and uplift and have concluded this is not the case.

5.10 Whilst Council staff and all of the consultants have been working over many months to provide information in order to inform the Council decision, ultimately the decision on how to move forward rests with the Elected Members. The recommendation contained in this report has been determined through consideration of all the research and information available to date together with the range of discussions undertaken with Elected Members, the community and the risk and financial analysis.

**Visitation**

5.11 The LibrariesAlive report ‘Library Services to the Future’ was endorsed at Council’s August 2015 meeting; with one of its recommendations highlighted as follows:

“That participation rate, the percentage of eligible residents actually using the library, be adopted as the library’s most important performance indicator, and that the participation rate headline all formal reporting by the library to the Council”.

5.12 To assist in considering community accessibility, an assessment has been made to determine the central point (geometric centroid) of City of Prospect. As indicated in Figure 1 (below and as [Attachment 28](#)), this has been calculated as being located approximately at the western edge of the RSL Building at Prospect Oval/ Memorial Gardens. It is noted that:

5.12.1 both sites under consideration for the CLIC are an approximate 680m walk from that point using the road network, with the Main North Road Depot site being slightly closer through an ‘as the crow flies’ measurement.
5.12.2 Figure 1 also shows the two sites in respect to walkability through concentric circles showing both a 400m and 800m radii from each site. These radii were selected for comparison based on well-established planning and placemaking principles; recognising that people can be expected to walk a 400m journey on most occasions with an 800m journey being the maximum extent an average person will walk before selecting a motorised mode of transport.

**Figure 1 Centre Point of City of Prospect**
5.12.3 Figure 2 below (and as Attachment 29) highlights some key sites such as schools within the 400m and 800m radii of each potential development site. This Figure demonstrates there are three (3) schools within 800m of the Prospect Road site and two (2) schools within 800m of the Main North Road site.

5.12.4 It is also noted that the Prospect Road site and its walkable catchment is wholly within the Council boundary whereas a portion of the catchment of the
Main North Road site beyond the 400m radius is outside the Council boundary.

5.13 Based on Council’s Geographic Information System overlayed with ABS Census data it can also be determined there is a higher residential density (people per hectare) in close proximity to the Prospect Road site than the Main North Road site. This is demonstrated by the fact that the residential density within 400 metres of the Prospect Road site is 27.8 persons per hectare whilst the residential density within 400 metres of the Main North Road site is 25.9 persons per hectare (utilising ABS data of 2.43 average persons per household from 2011 Census).

5.14 What is not factored into these statistics is the number of recent development approvals for higher density developments which Council’s Planning Team has been processing since the inception of the Urban Corridor Zoning in 2013. Those developments (apartments and townhouses on Prospect and Churchill Roads) will further increase the level of residential density in proximity to the Prospect Road site.

5.15 Additionally, the State Government has commenced a significant investigation into the viability and preferred routes for a tram network across metropolitan Adelaide. Two routes have been reviewed for the City of Prospect being Prospect Road and Churchill Road. The initial report outlining the multi criteria analysis indicates Prospect Road to be the favoured route with the greatest anticipated return on investment. The likely implementation of the tram along Prospect Road is considered to be a significant advantage for public transport users and would positively influence the visitation rate of the Prospect Road site.

5.16 As a result of the existing and potential future development it can be considered that the Prospect Road site has more residents who are within easy walking distance compared to the Main North Road site. The additional growth through the Urban Corridor Zone suggests the number of residents proximate to Prospect Road will grow at a higher rate than Main North Road which allows us to draw the conclusion that a CLIC on Prospect Road is likely to generate a higher increase in patronage than if offered on Main North Road.

Figure 2 Residential Densities
5.17 Concern has been expressed in respect to the ability for the existing Thomas Street Centre users who reside on the east side of Main North Road to access the Prospect Road site, particularly given the difficulties in crossing Main North Road. This is based on a view that vehicle movement across Main North Road is restricted with limited opportunity of right hand turns. Both sites would require the majority of residents residing on the east side of Main North Road to cross it.

The SGS report outlines that the Prospect Road site also has a higher expectation in respect to combining visits to a new CLIC with other activities due to its existing
convenience/capability (due to shopping, entertainment, and food purchasing etc). This would underpin a higher increase in patronage for the CLIC at that site as opposed to the increase anticipated should the development occur on Main North Road. This has been determined due to the current range of activities in proximity to that site which includes a greater number and range of retail outlets.

**Utilisation of Open Space or Car Park Fund**

5.18 Council has both an Open Space fund and Car Park fund. Both funds can be used to support the development of either site but detailed clarification is provided below.

5.18.1 The Development Act 1993 requires that money contributed to the Car Parking Fund may be spent by Council only on providing, establishing, maintaining or improving parking facilities along Churchill, Prospect and Main North Roads, and part of North East Road (i.e. within the Urban Corridor and Centre Zones). Council’s Off Street Car Parking Development Fund Policy states that money will be spent only where legally binding agreements with land owners can be entered into to ensure parking areas remain open to the public, and shall be used (in order of priority) for establishing new shared car parks, establishing new car parks on a single property, or making improvements to existing car parks. This confirms that either development site is able to utilise the Car Parking Fund to support the development of the CLIC.

5.18.2 Similarly, the Development Act 1993 requires that money contributed to the Open Space Fund may be spent by Council only for the purpose of acquiring or developing land as open space, though this money may be spent anywhere within the City of Prospect. Council’s Open Space Reserve Fund Policy defines open space as “a Council owned or controlled area which is permanently set aside and/or used for public recreation and/or reserved to protect or buffer natural areas”. This confirms that a road reserve is not classified as Open Space for the purpose of utilising the Fund, however if open space is being created for the benefit of the community at either site, the Open Space fund can be used to support the development of the CLIC at either site.

**Financial Modelling**

5.19 On 10 January 2017 a Council workshop was undertaken which considered the financial impacts of the CLIC development on the Long Term Financial Plan (LTFP). Council staff modelled three options on the basis these represented the extent of financial impact on the LTFP. The financial model for the development options presented covered 2a, 4a and 6a and the following table clarifies the options and what they mean for each site.

**Table one: CLIC Development Options from BRM Holdich Report**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 2a</th>
<th>Option 3</th>
<th>Option 4</th>
<th>Option 4a</th>
<th>Option 5</th>
<th>Option 6</th>
<th>Option 6a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location of CLIC</td>
<td>Mixed use development</td>
<td>High mixed use development</td>
<td>High mixed use development</td>
<td>Low mixed use development</td>
<td>Low mixed use development</td>
<td>Moderate use development</td>
<td>Moderate use development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated CLIC and Civic Centre</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Location of depot</td>
<td>Elsewhere</td>
<td>Main North Road</td>
<td>Elsewhere</td>
<td>Main North Road</td>
<td>Main North Road</td>
<td>Elsewhere</td>
<td>Main North Road (portion)</td>
<td>Main North Road</td>
<td>Elsewhere</td>
</tr>
</tbody>
</table>
5.19.1 The impacts of the options on the LTFP target ranges were also considered as part of the annual review of targets by the Audit Committee on 12 January 2017. As an outcome of their meeting, the Audit Committee has recommended that Council undertake a sensitivity analysis on the following assumptions within the SGS Report and their subsequent use within the LTFP modelling:

(1) Borrowing Interest Rates
(2) Property Sale Income
(3) Development Income and Capacity

5.19.2 The first of these is covered in the following paragraphs. The second two points have been addressed in the advice received from Colliers International outlined earlier in the report.

5.19.3 Each option presented at the workshop 10 January 2017, contained borrowings sourced from a 15 year fixed loan with half yearly principal and interest repayments. The interest rate included in the model was sourced from the Local Government Finance Authority (LGFA) on 15 December 2016. This loan time is known by LGFA customers as a Normal Credit Foncier and is LGFA’s standard product.

5.19.4 Subsequent to the workshop, staff have met with the LGFA and have begun discussions around what financial products are available and suitable for the project. While a Credit Foncier loan may be the end product, Cash Advance Denture Loans (CAD) may be used in the interim to provide funding during construction and prior to settlement of any sale proceeds that are anticipated. The product is similar to a line of credit with a variable interest rate and available for settlement (repayment) at any time. Settlement could be made via conversion to a Credit Foncier in the case of rising interest rates to protect future exposure.

5.19.5 To consider the financial sensitivity of the development, changes in interest rates were analysed to determine what cost change would be experienced. In the case of rising rates this will be unfavourable, whereas falling interest rates will have a favourable variance.

5.19.6 In the event of an interest rate change of 0.25%, an adjustment of average annual interest payable will be experienced. The variance for each option would be as follows:
- Option 2a $8,700 per annum
- Option 4a $13,177 per annum
- Option 6a $12,765 per annum

5.19.7 With all three options, interest rates would have to move by 0.75% (favourably or unfavourably) before any material change would be experienced in the ten year average of the Key Financial Indicators listed below.
5.19.8 The 10 year LTFP Key Financial Indicators presented in the workshopped options were as follows:

<table>
<thead>
<tr>
<th>10 Year Average Indicator</th>
<th>Target Range*</th>
<th>Option 2a</th>
<th>Option 4a</th>
<th>Option 6a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Surplus Ratio</td>
<td>1.0%-3.0%</td>
<td>1.5%</td>
<td>1.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Net Financial Liabilities Ratio</td>
<td>10% - 60%</td>
<td>44%</td>
<td>51%</td>
<td>52%</td>
</tr>
<tr>
<td>Asset Sustainability Ratio</td>
<td>100%-120%</td>
<td>100%</td>
<td>97%</td>
<td>96%</td>
</tr>
</tbody>
</table>

* Target Ranges as per Audit Committee Recommendation 12 January 2017

5.19.9 It is also worth noting that if the Council borrowing drawdown was varied from the amount modelled this would also have an impact on the average annual interest paid.

5.19.10 This variance in principal borrowing is most likely to occur if the sale of asset and/or development rights is not able to be realised as modelled/valued, or if savings in the overall project were identified before it commenced.

5.19.11 The average annual interest paid on borrowings per $100,000 over 15 years is $2,500. As outlined in respect to interest rate movements, principal changes will have a varied movement in either direction. The variance impact on different events will be as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Likely Reaction</th>
<th>Reaction Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction on Sales Realised</td>
<td>Increase in Borrowings</td>
<td>Unfavourable Impact</td>
</tr>
<tr>
<td>Additional Sales Income Realised</td>
<td>Reduction in Borrowings</td>
<td>Favourable Impact</td>
</tr>
</tbody>
</table>

5.19.12 Included in the SGS report assumptions for option 6a is a one-off cost of $365,000 for the temporary relocation of staff from the Civic Centre during the construction period. This figure is simply derived from known commercial office space leasing rates. If option 6a is endorsed, there are a number of alternatives in respect to accommodating staff including use of the Town Hall, Irish Harp Room and Councils Depot which could result in reducing this cost considerably.

5.19.13 Regardless of the site and option to be pursued, grant funding will also be sought in an effort to reduce borrowings together with realising the objective of delivering the best CLIC that we can provide.

5.19.14 Each $250,000 (saved) equates to approximately 1% adjustment to the Operating Surplus Ratio in one year. Reducing this one-off cost of staff
relocation will have a large (favourable) impact on the Operating Surplus in the first year of the project.

5.20 Council’s Audit Committee meeting held on 12 January 2017 considered the process to date in respect to the CLIC Project and endorsed the following:

(1) That the Audit Committee having considered Item 11.1 Community Hub, Library & Innovation Centre (CLIC) – Project Management Process receives and notes the report as being satisfied with the processes undertaken for the CLIC Project.

(2) That the Audit Committee recommends a report to Council includes a sensitivity analysis on the probabilities of variance in projected borrowing interest rates, property sale income, development income and capacity to fund the CLIC Project in the event of substantial variation.

(3) That the Audit Committee recommends to Council as the CLIC Project progresses specialist expertise be engaged to assist in the project deliverables, particularly if a mixed use development option is chosen.

(4) That the Audit Committee recommends Council notes that independent experts have attempted to balance social and financial measures to determine the various options. These options have specific assumptions that are subjective and should be understood.

(5) That the Audit Committee recommends to Council that should an option be adopted all the elements within the option should be considered in totality, as risk mitigation has been factored into each option. Should elements of an option not be realisable or accepted then Council should reconsider the merits of the option including risks and financial implications.

Carried AC2/17

5.20.1 The Audit Committee also recognised that Council had generated a range of options to assist in determining the site for CLIC and that many of those options comprise a number of components. This has resulted in the decision no longer being one of site alone, but also of scale. The Committee concurred that it is important for all of the elements to be undertaken in totality within the option to be pursued, and should elements not be realisable, then Council would need to revisit the resulting impacts on the LTFP.

5.20.2 Council’s LTFP is prepared based on modelling of 10 years, whereas the SGS have presented Net Present Value information based on a 20 year model. The savings to be realised from co-location ($163,701pa – model 4a and 6a) are realised beyond the 10 years so the graph below has been prepared which depicts the accumulative cost of each CLIC model. The initial peak of construction costs is incrementally reduced by asset sales and by savings achieved through co-location.
5.20.3 As demonstrated above, in option 6a the cumulative effect of asset sales and ongoing co-location savings outweigh the additional construction cost by year 13 following construction and this continues for the life of the development. Option 4a takes until year 18 to realise the effect and option 2a does not offer asset sales or co-location savings.

5.20.4 As stated at the Workshop 10 January 2017, Council has the ability to service the required borrowings of all models considered at the workshop within its current LTFP target ranges. This view was reinforced by Council’s Audit Committee.

5.20.5 As part of moving the CLIC project forward, Council must undertake a Prudential Review of the project assumptions. The timing of the Prudential Review is to follow the decision on site and scope which is the subject of this report. The Prudential Review will challenge the assumptions identified by the Audit Committee. Internally, Officers have also undertaken this process and note that the models presented to the 10 January 2017 workshop did not include any variance to the LTFP assumption of Rate Revenue increases. The current LTFP assumption is an annual increase year on year of 3.5% (inclusive of 1.0% Growth each year). The Audit Committee has recommended that this assumption be retained.

Conclusion

5.21 The process to select a site has been extensive and what it has highlighted is that many options are available to Council, all affordable, some with greater project risk but all able to be managed.

5.21.1 The initial motivation for the initiative to develop a new CLIC was the notification of intent by DECD to end the Council’s long-term lease arrangement for the provision of a library, gallery and digital hub service at the Thomas Street Centre.
5.21.2 The options being discussed now include much more than replacing a library or simply the services provided at the Thomas Street Centre. The project options now include replacement of the Civic Centre, development partner opportunities for either site to develop a mixed use facility of highest and best use, and potential income generation for Council over the long-term.

5.21.3 Of particular note is that in order to pursue a number of the options, a willingness of Council to pursue the sale of Council assets is needed.

5.21.4 The detailed process has highlighted that co-location benefits for the Council are an important factor achieving long term community (and financial) benefits. Maximising the development potential of the selected site has also been a key desired outcome and option 6a is anticipated to deliver the overall greatest benefit to the Council.

5.21.5 The BRM Holdich report highlights a clear net present value advantage for Option 6a and the Prospect Road site (on page 10 of their report) which will result in longer term financial sustainability for Council and the development.

5.21.6 Colliers International have confirmed that achieving a partner (based on market appetite) is more likely with the Prospect Road site, and this further validates option 6a.

5.21.7 Overlaying the views of various consultants since 2015, balancing this with the expressed sentiment through the 2016 consultation process, considering the strengths and weaknesses of some of the library facilities visited by the Council throughout 2015 and 2016, and assessing the four key criteria through a quantitative process with appropriate weightings and running this all through an overall (holistic) community benefit lens option 6a and the Prospect Road site stand out as the preferred site and option worthy of a considered recommendation.

5.21.8 To conclude with absolute clarification, option 6a comprises a CLIC facility and new Civic Centre co-location at the Prospect Road site, likely on the lower floors of a development of up to four (4) storeys. It also includes a development partner (with the form of that arrangement still to be pursued and fully understood) where development rights might be sold, or floor space might be purchased by an alternate party, or space will be leased from the Council. Option 6a, as part of its funding model, also involves the relocation of Depot Operations and a further Council decision on the sale of the Main North Road site (includes the Council Depot and ex milk depot sites).

ATTACHMENTS

Attachments 1-24: BRM Holdich Report and Recommendation for Site and Option
Attachments 25-27: Colliers assessment of Market Appetite for the two sites
Attachments 28: Figure - Central point of Council Area and proximity to the two sites
Attachments 29: Figure - Map analysis of the two sites showing walkability and residential density