City of Prospect

Section 48 Local Government Act 1999
Prudential Report

Community Hub, Library & Innovation Centre Project (CLIC)

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This Prudential Report has been independently prepared by John Jovicevic, Partner, Dean Newbery & Partners (Reviewer), for the City of Prospect (Council) in accordance with the prescribed requirements for certain activities of Section 48 of the Local Government Act 1999 (Act).

Before a council engages in any project:

(i) Where the expected expenditure of the council over the ensuing five years is likely to exceed 20 per cent of the council’s average annual operating expenses over the previous five financial years (as shown in council’s financial statements); or

(ii) Where the expected capital cost of the project over the ensuing five years is likely to exceed $4,000,000 (indexed); or

(iii) Where the council considers that it is necessary or appropriate.

...it must consider a Prudential Report that addresses all of the prescribed matters outlined in Subsection 2 of Section 48 of the Act.

Council’s estimate of the projected total capital cost is $17.67 million (m) (comprising construction cost $16.19m, project management fees $1.48m). In addition to the capital cost, temporary relocation costs of Council staff and services has been estimated of $0.39m.

Given the $17.67m estimated capital cost, Section 48 (ii) of the Act applies to the Community Hub, Library & Innovation Centre Project (CLIC) (Project).

The purpose of a Prudential Report is for the Reviewer to determine whether the Elected Members have (or will have) all of the necessary information to enable them to make an informed decision regarding the project in question. As such, it is not the role of the Reviewer to recommend proceeding or otherwise with a Project, or to direct Elected Members to any particular option or outcome.

Where the Reviewer considers that there is insufficient material to enable Elected Members to make a fully informed decision, such matters need to be raised in the Prudential Report.

Accordingly, this Report outlines matters considered to be outstanding for the purposes of Elected Members making a fully informed decision regarding the Project, including for matters that could potentially adversely impact on the estimated total capital cost of $17.67m.

Subject to addressing the following outstanding matters, in my opinion Elected Members will have sufficient information to be in an informed position to proceed or otherwise with the Project:-

OUTSTANDING MATTERS TO BE ADDRESSED

1. At the time of finalising this Report, Council had not secured alternate accommodation necessary for the temporary relocation of all Council staff and services required during the
construction phase of the Project. Council’s Administration is currently in negotiations with the Town of Walkerville, however no formal arrangements have been concluded.

Based on estimates provided by SGS Economics & Planning (SGS), Council’s Administration has projected the temporary relocation costs to be $0.39m. Given these arrangements have not been finalised, there is a risk that this cost is understated.

2. At the time of preparing this Report, Council had not finalised negotiations for the relocation of its Prospect Depot. To fund part of the expected construction cost for the Project, Council has considered selling the Prospect Depot and to lease alternate depot space. Options considered are the Town of Walkerville or Adelaide City Council depot facilities.

In a report presented to Elected Members 28 November 2017, Council was informed that the Town of Walkerville has yet to agree to sub-lease its depot.

Should Council proceed with selling its Main North Road Depot site, it will need to secure an alternate facility from which to conduct its depot operations. Before that decision is made, Council needs to be satisfied that it is in its long term financial and operational best interests to move its depot operations.

3. At the time of preparing this Report, the Community Land revocation process for Council’s Main North Road Depot site had not been approved by the Minister for Local Government.

4. Council’s Administration have included unrealised annual operating cost savings of $160,000 to be achieved from the co-location of all Council services in the new CLIC facility. Annual operating cost savings of $160,000 have been taken up in Council’s Long term Financial Plan (LTFP) commencing FY2019, indexed annually.

In my view, unrealised future operational savings for the Project should not be factored into the Elected Members decision making process until they are clearly identified.

5. A detailed assessment into the ongoing daily running costs of the CLIC and the estimated ongoing maintenance costs has not been completed based on the latest concept designs. The draft LTFP assumes these costs will be the same as those currently incurred by the Council for running the existing Prospect Road Civic Centre and Thomas Street Library. There is a risk that these costs are understated given costs are not based on a ‘like-for-like comparison’.

6. Council’s Administration have also taken up in its FY2019 LTFP projected unrealised annual operating cost savings of $25,000 as a result of the projected relocation of Council Depot operations to a leased site.
In my view, taking up such savings before they are identified should not be factored into the Elected Members decision making process for the Project.

7. Community consultation was undertaken for the Project within the 2017/18 Annual Business Plan which disclosed borrowings of $8.7m (for the Project). Based on the latest projected construction cost, $2.21m in additional borrowings is now required ($10.91m in total).

Council has developed a stand-alone web page on its own online community engagement hub web site which provides access to all key documents that disclose information for the Project (access via: https://cityofprospect.engagementhub.com.au/community-hub-library-innovation-centre). The web site allows the public to view all documents and reports concerning the Project, as well as provide opportunity to submit feedback.

The Community Reference Group established for this Project has also been consulted on financial aspects of the Project, as well as afforded the community the opportunity to provide feedback at Council Workshop and ordinary Council Meetings.

In reviewing the 2017/18 Annual Business Plan document, there was no specific reference to the projected total cost of the Project. Reference was only made to the projected capital expenditure in FY2018 - $3.5m. The construction cost of the Project included in the LTFP cash flow projections presented in the 2017/18 Annual Business Plan was $14m (FY2018: $3.5m, FY2019: $10.5m).

The construction cost of the Project has now increased to $17.67m, being an increase of $3.67m since the Annual Business Plan was adopted in June 2017.

To avoid potential adverse comment that the community consultation for the Project is inadequate, the information currently made publically available should be updated.

8. Importantly, Elected Members must consider a costed, detailed design confirming that the construction phase of the Project can be delivered within the projected $17.67m budget. Concept design plans have been prepared by JPE Design Studio (JPE) and cost estimates by Rider Levitt Bucknall (RLB). As the time of preparing this Report, a final concept design had not approved by Elected Members.

I understand that a final design is planned to be approved at the 19 December 2017 meeting of Council. Any potential cost variations due to design features should therefore be known at the time of this meeting.

The latest concept designs prepared by JPE for the facility are significantly reduced when compared to the concept proposals originally presented to Council in December 2016 by SGS.
In discussions with the CLIC Project Lead officer, it is our understanding that the original proposed design by SGS had intentionally ‘over stated’ space allocation desired for individual stakeholders/users instead of considering a design that would ensure integration of space to enable ‘multi-use’ areas.

9. Based on discussions with the CLIC Project Lead officer, the concept designs being considered by the Elected Members and Administration for the new facility do not allow for any additional space/room for growth in staff numbers, given the proposed layout and space provided.

Given the ever increasing compliance and regulatory driven environments that all businesses operate within, there is a risk the new facility will not cater for any future growth needs in staff resources. Additional space could potentially be found with the removal of the commercial leased areas – but this would result in a reduction in projected revenue from the Project with the decreased income from letting of commercial space.

10. The concept design brief for JPE does not specify the internal staff accommodation and layout requirements. To ensure that the special requirements are adequate for all staff and services, the following should be determined:

- Staff work stations: permanent or temporary workstations for staff.
- Number of permanent staff offices and meeting rooms required.
- Office accommodation layout requirements to ensure sufficient space is allocated for specific teams/groups of employees that need to work in close proximity.
- Space required for the storage and distribution of IT infrastructure required for the expected workforce in the facility (i.e. IT servers, photocopiers/scanners, records retention and storage, etc.).

Failure to now properly address the above will adversely impact on the available floor space, staff morale, staff productivity, aesthetics and desired work place efficiency targets.

Importantly, Knight Frank Australia provided the following feedback on the concept design to be considered by Elected Members concerning the commercial lease space:

“Further design work needs to be undertaken on the lift/entrance foyer as the private tenants will not want to enter their office space via the library and afterhours security will need to be provided”.

11. Potential commercial tenants for the new CLIC facility have yet to be secured and an expression of interest has not been undertaken to identify any potential key tenants. Revenue projections of $120,000 annually have been forecasted in Council’s LTFP from FY2021.
Given that no commercial tenant to date has been secured and that there is currently vacant commercial premises within close proximity of the Project, there is a risk that there will be a period of vacancy and therefore revenue projections may potentially be overstated in some years within the LTFP, should a tenant not be secured or the rate of rent not achieved.

12. Council’s LTFP does not include any potential future revenue from the recovery of ‘outgoing’ expenses that would be normally recoverable under a commercial tenancy agreement. No estimate as to the potential amount of expenses that could be recovered has been estimated by the Administration as at the time of preparing this Report.

13. Given that Council is considering including a commercial tenancy within the CLIC facility, to avoid any potential Competitive Neutrality Principle issues, the rate of rent charged to any commercial tenant must be market based.

14. Council’s ten year LTFP does not factor revenue projections from the increased Rates revenue from the forecasted sale of Main North Road and Prospect Road properties.

15. The Project Risk Assessment needs to be updated to account for the matters noted above. Council’s Executive Leadership Team and Project Executive Group (PEG) need to reconsider the Risk Register and ensure that the proposed mitigating controls and residual risk ratings are appropriate.

From our experience with other similar projects, a list of further risks to be considered for inclusion in the risk register are outlined in Section 9 of this Report.

16. Based on the most recent design and Project costs, whole-of-life costs as required in the Act have not been projected by Council’s Administration (noting that most if not all long term projects do not project whole-of-life costs, given the very high degree of estimation required).
KEY PROJECT RISKS

1. In our experience, large scale, complex developments such as this Project more often than not have significant potential for cost blow-outs. This highlights the importance of Council ensuring that it has in place high standard contract documentation and contract management procedures ‘fit for purpose’ for the Project.

2. The built scope of the Project expands and results in increased capital costs to be funded by Council.

3. Project Management cost estimates have been based on a 9% cost base. Should tenders received for the construction works have a rate higher than 9% applied for Project Management costs, this will result in additional construction costs to be funded.


5. Council is not able to secure a financially and operationally satisfactory arrangement for its Depot operations. Expected annual savings from the relocation of the Depot facilities are not realised and therefore need to be funded.

6. Expected annual savings from the development of the CLIC are not able to be quantified and therefore will not be realised. Operating costs of the new facility will therefore be higher than forecasted in the draft LTFP which will need to be funded.
Short Form Prudential Report

The Project is a major redevelopment of the City of Prospect’s (Council) existing Civic Centre located at 128 Prospect Road, Prospect and the relocation of Council’s Nailsworth community facility (incorporating the Council library facility) into the redeveloped Civic Centre. Council’s Prospect Library facility is currently located at 1 Thomas Street Nailsworth and the site is leased from the South Australian Department of Education and Child Development (DECD).

The lease held with DECD is due to expire in August 2019. Council has been notified by DECD that an extension on the lease will not be granted, given their intention to reoccupy the building at the end of lease.

Existing Council services delivered out of the Thomas St site are the Prospect Library, Prospect Gallery, Toy Library, Local History Collections and Digital Hub.

Council therefore needed to undertake an investigation to identify potential alternate sites and options to house its library services and community programs.

A Council workshop was held on 10 February 2015 to provide Elected Members with an overview of current services and programs as well as commence discussions about possible future opportunities for the Prospect Library.

Council engaged Libraries Alive! Pty Ltd (LA!) in May 2015 for the purpose of “evaluating current services and functions of the Library, the Art Gallery and the Digital Hub located in rented premises at 1 Thomas Street, Nailsworth, plus the provision of professional advice in relations to future development of the library service”.

LA! met with the Elected Members at the 2 June 2015 Council Workshop where a presentation on the preliminary report was made. LA! concluded that the “Thomas Street Centre has outlived its usefulness as a library and community space”.

LA! presented the following summary of the current Thomas Street facility:
Following the 2 June 2015 Council Workshop, LA! was instructed to provide an estimate to Elected Members as to the potential construction and fitout cost for developing an alternate library site.

Key building requirements per the revised scope was that the design needed to encapsulate a ‘service-based benchmark’ that would better reflect the broad range of services provided from a whole-community facility (rather than using population based benchmark designs factors) and that the collection size is to increase to 47,000 items (40,000 items at the time) to reflect the increase ten-year population growth forecasted.

LA! provided Elected Members recommendations at the 25 August 2015 Council Meeting where the final report was submitted and provided the following 5 recommendations:
16. Recommendations

Planning for a new library should start immediately. Given lead times for site identification, construction, fitout, service and staff development, the clock is already ticking down to August 2019. If planning is delayed, and a new facility is not ready at the end of the lease, and DECD resume their building, Council faces capital and operating costs to move and fit out a temporary location, and then additional costs to move again to a permanent home.

For forward planning purposes, Council needs to make financial provision of $8m for a new library, subject to updates on construction costs, fitout costs, and professional fees.

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.

That in its forward planning the library embrace a community participation model for the design of future spaces and the development of future services, and establish appropriate consultative mechanisms, for example, a Library Reference Group, for establishing community requirements and preferences.

That the library develop and implement a social media strategy that recognises a new people-centred service delivery model and uses social media to encourage not just contact but co-operation on content creation with its customers.

After considering LA!’s report, Council adopted the following resolution at the 25 August 2015 Council Meeting:

**Item 15.2 Future of Library Services**
Cr Bowman moved Cr Groote seconded

1. The ‘Library Services to the Future’ Project report (Attachments 2-23) is endorsed and the following recommendations (taken from the report) are adopted:
   a. Planning for a new library to commence immediately
   b. Financial provision of up to $8m be made in the Long Term Financial Plan for a new library, (subject to updates on construction costs, fit out costs, and professional fees). Note – Lease options to also be considered in detail, for further discussion.

2. Staff to commence the process of exploring new sites that meet the building size and layout requirements as outlined in the report.

3. Staff to continue discussions with the Department of Education and Child Development (DECD) regarding the end of lease at 1 Thomas Street, Nailsworth to reach mutually agreeable outcomes regarding timing.

4. Staff to continue discussion with neighbouring Councils to continue to explore what services may look like more broadly across the region and how this may influence future planning of Library Services.

CARRIED UNANIMOUSLY 139/15

Council subsequently approved an $8m provision to be included in the Long Term Financial Plan (LTFP) for the Project.

At its meeting 15 December 2015, Council were provided with details of seven suggested sites where the Project could be undertaken. These sites were identified and discussed at a Council Workshop (held on 10 November 2015) with a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) undertaken for each option, to further refine the options.

Following completion of the SWOT analysis, four potential sites were shortlisted:

- Prospect Depot/Tram Barn (Main North Road)
- Northpark Shopping Centre (Main North Road)
- Prospect Oval Precinct (Main North Road/Wilcox Avenue)
- Prospect Civic Centre (Prospect Road)

As a result of information presented to Elected Members at the 15 December 2015 Council Meeting, the following resolution was adopted:
From January 2016 – March 2016, Council undertook consultation with the community over its proposed ‘LibraryPLUS’ concept facility. Council received 503 responses from the consultation conducted.

Community consultation feedback was used to “refine the community aspirations for a new facility”. Council’s Manager Library Services presented the “Community Consultation Report – LibraryPLUS Project: 28 April 2016” which was presented to Elected Members at the Council Meeting held 24 May 2016. The report noted the following:

“City of Prospect’s plan for a new ‘LibraryPLUS’ facility at the end of lease of the Thomas Street Centre attracted overwhelming positive feedback from the community who participated in the first consultation phase from January to March 2016. The overall feeling expressed by those engaged is that a LibraryPLUS facility is essential for the City of Prospect.

The multi-faceted consultation process which included face-to-face discussions, online surveys (also available in hard copy) with web site information and fact sheets satisfied the aims of the community engagement strategy developed for this stage of the project. A total of 503 responses were received to the survey as a result of various methods of engagement.”
Following from the community feedback received, Council resolved the following at the 28 June 2016 Council meeting:

**Item 15.2 LibraryPLUS – Locational Site Analysis**

Cr Evans moved Cr Harris seconded

1. Council endorses the Prospect Civic Centre (Prospect Road) and the Tram Barn/Depot site (Cnr Main North Road and Johns Road) for further detailed analysis as the site for the City of Prospect LibraryPLUS. The analysis of these two sites is to include:- concept plan preparation, market testing, risk analysis, site opportunities and constraints, opportunity cost consideration, staff / operational impact assessment and financing options.

2. In shortlisting the two sites above, Council acknowledges that no further assessment is to occur on any other sites for a new LibraryPLUS facility. The group multi-criterion assessment process considered the Prospect Oval Precinct, options in and around Northpark Shopping Centre and Audley House as potential locations, however, these sites failed to rate highly.

*Carried Unanimously 95/16*

Council’s resolution from its 28 June 2016 meeting narrowed the Project development to two sites, being:

- Prospect Civic Centre (Prospect Road)
- Tram Barn/Depot Site (Cnr Main North Road and Johns Road)

Council engaged SGS Economics and Planning Pty Ltd (SGS) in 2016 to undertake an economic and social analysis exercise on the various options available to Council to consider in relocating the library services. SGS were instructed to appraise the potential sites and to undertake a “market analysis, consideration of site opportunities and constraints, opportunity cost assessment, staff/operational impact and financing options”.

SGS completed their assessment and provided a report to Council in December 2016 with the stated intention that they will provide the necessary information to “empower Councillors and management to make a decision on the best site for the replacement library and the extent of development on the site”.

The SGS report did not provide any formal recommendations to Elected Members on a preferred site, rather it focused on providing a quantification as to the expected community benefit and the estimated financial cost for each option presented.

SGS provided 9 possible options across both sites for Elected Members to consider. A summary of those options were as follows in Table 1 below per SGS’s report.
Table 1: Base Case and Options Framework – SGS Report December 2016

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Community hub at Main North Road (MNR) + relocation of depot (Base Case)</td>
</tr>
<tr>
<td>2</td>
<td>Community hub at MNR + mixed use development + retention of depot at MNR</td>
</tr>
<tr>
<td>2a</td>
<td>Community hub at MNR + mixed use development + relocation of depot</td>
</tr>
<tr>
<td>3</td>
<td>Community hub at MNR + new Civic Centre at MNR + retention of depot at MNR</td>
</tr>
<tr>
<td>4</td>
<td>Community hub at MNR + new civic centre at MNR + mixed use development at MNR + disposal of Prospect Road site + retention of depot and MNR</td>
</tr>
<tr>
<td>4a</td>
<td>Community hub at MNR + new Civic Centre at MNR + mixed use development at MNR + disposal of Prospect Rd site + relocation of depot</td>
</tr>
<tr>
<td>5</td>
<td>Community hub at Prospect Rd + new Civic Centre at Prospect Rd + retention of depot + sale of MNR site</td>
</tr>
<tr>
<td>6</td>
<td>Community hub at Prospect Rd + new Civic Centre at Prospect Rd + retention of depot + sale of MNR site + mixed use development at Prospect Rd.</td>
</tr>
<tr>
<td>6a</td>
<td>Community hub at Prospect Rd + new Civic Centre at Prospect Rd + sale of MNR site + mixed use development at Prospect Rd + relocation of depot</td>
</tr>
</tbody>
</table>

Council engaged BRM Holdich (BRMH) to commission a report to “analyse and summarise the body of work undertaken by Prospect with regard to each of the elements above in order to inform a quantitative assessment to assist Elected Members in determining the preferred site and form of development”.

The BRMH report was presented to Elected Members at the 24 January 2017 Council Meeting. Based on the report prepared by BRMH, Council adopted Option 6a presented in Table 1.

Extracts from the report prepared by the Administration for the 24 January 2017 Council Meeting highlighted the following:

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.
5.21.8 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).

A Community Reference Group (CRG) was formed at the 20 December 2016 meeting of the Project Executive Group (PEG). PEG is a specific project group made up of Elected Members, Council Administration and external contractors involved in the Project. A Terms of Reference was developed for the CRG which detailed their purpose to be as follows:

3. The Community Reference Group (CRG)

3.1 Purpose

Council is committed to consulting with the community at each stage of the CLIC Project to ensure the facility reflects community needs and aspirations.

One component of the community consultation is the Community Reference Group, a group of community representatives and stakeholders gathered to provide advice to the Project Executive Group (PEG) regarding the development and implementation of the CLIC Project.

The Community Reference Group will help the Project Executive Group and Council to understand what people from a broad cross section of our community believe are important considerations when designing and building the new facility by:

- Providing information and advice from diverse perspectives
- Reflecting the concerns and issues of stakeholders and the general public and making recommendations as appropriate.
- Commenting and/or making recommendations according to reports, plans and requests from the Project Executive Group
- Serving as a “sounding board”

The advice and opinions of the Community Reference Group will be considered by the Project Executive Group and incorporated into the CLIC Project design and implemented where appropriate and possible (taking into consideration influences such as budgetary constraints, legislative requirements, alignment with Federal, State and Council strategic objectives).

The contributions made by the Community Reference Group to the CLIC Project will contribute to the new facility being the best it can be - thoughtful and considerate in design, functional, appealing and inspiring for all who visit.
The composition of the CRG is to be made up of various community representatives. Per the Terms of Reference, the following stakeholders are to be included in the membership of the CRG:

Composition
Membership will include a range of relevant community representatives, including:

- Business Owner (Innovation focus)
- Council staff and Elected Member
- Culturally and Linguistically Diverse (CALD) Community Group (or Resident) (recognising our demographic)
- Digital Hub Volunteer
- (Dis)ability Group (or Resident)
- Friends of the Library
- High School
- History Group
- Indigenous Group (or Resident)
- Kindergarten
- Library Member
- Library Volunteer
- Older Person
- Playgroup
- Primary School
- Prospect Residents Association
- Public Art Advisory Board
- Tertiary Learning Institution (Innovation focus)
- Young Person

Since its meeting held 24 January 2017, Council have engaged various consultants to provide information necessary to develop a concept design for the Project for Elected Members to consider. For the purposes of this Prudential Report, the latest concept design and costings presented to Council for consideration at the 28 November 2017 meeting have been considered.

A report has been presented to Council at least monthly since January 2017 detailing updates on the Project at Council Meetings and Workshops where consultant’s findings and recommendations have been presented.

The total estimated cost of the Project is $17.67m plus additional temporary relocation costs at $0.39m.
A capital budget of $14m was adopted in Council’s Long Term Financial Plan (LTFP) which was included in the Annual Business Plan 2017 – 2018 (2018 ABP). At the 28 November 2017 Council Meeting, Council’s Administration presented an updated LTFP to incorporate recommended concept design and required borrowings to fund the construction cost.

**Funding for the $17.67m construction cost is outlined in Table 2 below:**

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Council Land/Property Sales</td>
<td>$6.6 million</td>
</tr>
<tr>
<td>External Borrowings</td>
<td>$10.91 million</td>
</tr>
<tr>
<td>Existing Cash Reserves</td>
<td>$0.16 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17.67 Million</strong></td>
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A review of the 2018 ABP document noted there was no specific reference to the total cost of the Project. Reference was only made to the projected spend in FY2018 being $3.5m. The construction cost of the Project included in the LTFP’s cash flow projections was $14m (FY2018: $3.5m, FY2019: $10.5m).

The construction cost of the Project has now increased to $17.67m, being an increase of $3.67m since the 2018 ABP was adopted. Community consultation on the impact of the increased construction cost and borrowings on the LTFP has not been undertaken.

The updated draft LTFP presented to Elected Members at the 28 November 2017 Council Meeting reported that Council will continue to meet its key financial targets with the inclusion of updated construction cost and increased borrowings.

Included in the report prepared by the Administration for the 28 November 2017 Council Meeting, the following comments were provided in reference to the updated LTFP projections:
3.6 Funding Model and Long Term Financial Plan Impact

Following feedback from the Workshop on 7 November 2017, staff updated the Long Term Financial Plan (LTFP) model to determine the impact of the recommended project scope and budget, which were subsequently presented as part of the information accompanying the report to Council on 14 November 2017. Adjustments to the LTFP model in order to fund the revised scope included:

- Increase of Asset Sale Income of $0.5m (from $6.1m to $6.6m);
- Inclusion of Commercial Lease Income of $120k per annum from 2020-2021 (based on the lower end of estimates provided by Knight Frank of $315-$325/m² pa);
- Inclusion of Recurrent Operational Savings identified in the 2017-2018 first budget review $170k, effective from 2017-2018 and beyond, which would be additional to the operational savings previously identified by SGS (of $160,000p.a.) through their economic and social analysis.
- Borrowing an additional $2.25m (increased from $8.66m to $10.91m);

Annual loan repayments of $207k for a period of 15 years could be funded by a one-off increase of the Rates Income in 2018-2019 by 0.9% to 3.65% plus Growth (up from 2.75%). Projected Rates increases would remain at 2.75% plus Growth for 2019-2020 and beyond.

With the inclusion of the above items, it was confirmed that Council would continue to achieve all of its 10 year (long term) key financial targets. In addition, it will achieve its individual year targets with the exception of the Operating Surplus Ratio in 2019-2020. This individual year is below the target range due to the introduction of depreciation and interest costs from the construction.

The LTFP confirms that Council has the cash reserves to meet the costs of this deficit year. Overall, the updated LTFP 10 year dashboard presents as follows:

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</tr>
</thead>
<tbody>
<tr>
<td>Operating Surplus Ratio - %</td>
<td>Actual</td>
<td>0.5%</td>
<td>(1.5%)</td>
<td>1.2%</td>
<td>0.4%</td>
<td>(2.4%)</td>
<td>0.4%</td>
<td>0.0%</td>
<td>2.0%</td>
<td>3.3%</td>
<td>3.0%</td>
<td>5.2%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Net Financial Liabilities Ratio - %</td>
<td>Actual</td>
<td>(18% - 30%)</td>
<td>(12%)</td>
<td>(15%)</td>
<td>56%</td>
<td>84%</td>
<td>87%</td>
<td>81%</td>
<td>75%</td>
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<td>50%</td>
<td>46%</td>
<td>35%</td>
</tr>
<tr>
<td>Asset Sustainability Ratio - %</td>
<td>Actual</td>
<td>(20%) - (100%)</td>
<td>110%</td>
<td>110%</td>
<td>212%</td>
<td>362%</td>
<td>91%</td>
<td>89%</td>
<td>94%</td>
<td>83%</td>
<td>83%</td>
<td>100%</td>
<td>113%</td>
</tr>
</tbody>
</table>

Based on revised modelling prepared by the Council’s Administration, it was concluded that the additional construction costs and borrowings required to fund the Project will not result in the Council failing to meet its key performance indicator benchmarks.

Council’s Administration has engaged Bentley Chartered Accountants (Bentleys) to undertake an independent review and assessment of the accuracy of the LTFP model. This review engagement is scheduled to be completed in February 2018.
Notwithstanding that the Prudential Review has yet to be finalised, Council has commenced proceedings to sell 132-134 Prospect Road and Council Depot facilities (218 Main North Road and 82 Johns Road). The proceeds from the sale of these properties is to be used to offset part of the Project construction costs.

The sale of the Council Depot site will require Council to secure alternate facilities from which to operate its Depot operations. As at the time of preparing this Report, Council has yet to secure an alternate site. Various options are being considered by the Administration however site selection, relocation costs, ongoing operating costs and impact on existing operations have not been determined.

The draft LTFP assumes annual Depot rent cost of $45,000 will be incurred to ‘lease’ an alternate facility and that ongoing annual savings of $25,000 in ‘efficiencies and cost savings’ will be realised from moving from the existing site.

**Upon reviewing the draft LTFP, the $25,000 annual savings modelled have not be quantified and therefore there is a risk that these savings may not be realised by Council.**

The concept designs for the project is the redevelopment of the existing City of Prospect Civic Centre located at 128 Prospect Road, Prospect. The concept design integrates the existing heritage listed Town Hall into the redeveloped centre.

The Project has been designated the Community Hub, Library and Innovations Centre (CLIC). The CLIC consolidates all library and community services from the Thomas Street facility and existing services provided from the Prospect Road site into one multi-function facility.

The CLIC is a proposed three story development with basement and undercroft parking facilities with the design integrating the existing Town Hall. The CLIC will be a mixed use facility that will house all of Council’s Administrative functions, library facilities, community meeting spaces and commercial tenancy options.

Based on the latest concept designs, the ground floor is proposed to house gallery activities, library collection and associated services with additional community spaces to be provided on the first floor alongside Council administration space. The top floor is to house more Council administration space as well as offer commercial lease space.

The CLIC is estimated to have a total area of 2,500sqm over three levels which incorporates 380sqm of commercial office space.

Council’s draft LTFP assumes that an annual saving of $160,000 will be achieved by co-locating all Council services (excluding the Depot) to the new CLIC.

**Upon reviewing the draft LTFP, the $160,000 annual modelled savings have not be quantified and therefore there is a risk that these savings may not be realised by Council.**
Council have engaged JPE Design Studio (JPE) to prepare concept designs for Council to consider that will accommodate all required services and facilities in the proposed CLIC. Council have also engaged Rider Levett Bucknall (RLB) to prepare cost estimates for the CLIC based on the JPE concept designs.

Council has engaged Jim Allen & Associates (JAA) to provide external assistance to the Administration in overseeing the management of the Projects design, procurement and contract administration through the design and construction phase.

The proposed concept design and cost estimated for the CLIC were presented to Elected Members at their Council Meeting held on 14 November 2017.

RLB have estimated the construction cost to be $16,186,000 (excluding project management costs) based on the following exclusions from this cost estimate:

- Professional fees
- Relocation and decanting costs
- Land and legal costs
- Latent conditions and contaminated ground conditions
- Future development site and / or plaza to rear of existing Town Hall
- Vine Plaza and prospect Road public realm upgrade
- GST

RLB have also excluded the following costs form the Town Hall works:

- Seismic upgrade
- Asbestos removal
- Re-roofing
- Heritage façade restoration works (suggest $100K PC Sum)
- Major acoustic upgrade
- Additional Amenities

Included within the $16,186,000 construction cost is a $740,000 provision to undertake a general refurbishment works in the Town Hall.

For the purposes of this Prudential Review, the Project construction cost of $17.67m ($16.19m construction cost plus $1.48m project management costs) has been applied.

Given the above excluded costs, once detailed concept designs have been developed and detailed costs have been prepared based on those designs, any additional costs are to be captured in the information presented to Elected Members.

Should there be design changes this may also result in additional costs being incurred which will need to be also factored/funded.
Council must ensure that the design and quality of the facilities will meet today’s service standards expected by the community, as well as ensure that the design will meet the minimum 30 year life expectancy of the facility within the $17.67m construction cost estimate set for the Project.

Once Council has endorsed a design for the Project (subject to Council endorsing the Project to proceed), a Development Application will need to be prepared.

Key Development Application requirements such as traffic impact reviews and public consultation on the design of the facility may further be required.

Subject to the Development Application being successful, it is expected that an open tender process for selecting the successful builder will need to be completed by in early 2018 to ensure that construction of the CLIC can be completed by August 2019 which is the deadline for moving out of the Thomas Street site.

Council’s CLIC Project Lead Officer has prepared an initial Project Risk Register which was presented to the PEG meeting on 5 December 2017. Given more work has been completed by external consultants since the Risk Register was developed, further updates should be made to the register and presented to Elected Members and the PEG when information is known or further risks identified during the course of the Project.

A detailed Prudential Report has been prepared that addresses the key requirements of Section 48 of the Act for Elected Members and the Council Administration’s consideration.
Prudential Report – Introduction

1.1 Prudential Issues

1.1.1 This report has been prepared in accordance with the requirements of Section 48 of the Local Government Act 1999 (the Act).

1.1.2 As at the time of preparing this Report, Council was in the process of updating its Prudential Management Policy to present to Council for adoption.

1.1.3 The Project meets the criteria necessary for Council to have a Prudential Report prepared, given that the total project cost is projected to exceed $4 million.

1.1.4 John Jovicevic, Partner, Dean Newbery & Partners was engaged by Council to prepare the Section 48 Prudential Report.

1.1.5 I have relied on the financial and technical information presented by Council’s Administration and reports provided by external consultants engaged by the Council.

1.1.6 I have not undertaken due diligence work as to the financial or technical standing of the information presented for the purposes of preparing this Prudential Report.

1.1.7 A draft of this report has been provided to Council’s Administration prior to being formally issued, to verify all facts and assumptions are accurate per information supplied for the purposes of preparing the Prudential Report.

1.1.8 It is my understanding that Council’s Director Community & Planning is preparing a report (Administration’s Report) to be presented to Council. This report should be read in conjunction with this Prudential Report that outlines work carried out by the Administration to address information contained in this Prudential Report for Elected Members consideration.

1.1.9 The Prudential issues required to be addressed in this report per Section 48 of the Act are:

(a) the relationship between the project and relevant strategic management plans;

(b) the objectives of the Development Plan in the area where the project is to occur;

(c) the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;

(d) the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that
have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;

(e) if the project is intended to produce revenue, revenue projections and potential financial risks;

(f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;

(g) the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;

(h) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);

(i) the most appropriate mechanisms or arrangements for carrying out the project.

(j) if the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994.
2 Relationship Between the Project and Relevant Strategic Management Plans

2.1 Strategic Management Plans

2.1.1 Council is required per Section 122 of the Act to develop and adopt Strategic Management Plans.

2.1.2 With relevance to this Project, Council’s Strategic Management Plans are required to address the following matters:

   2.1.2.1 *Identify the principal activities that the council intends to undertake to achieve its objectives* (Section 122(1)(b)).

   2.1.2.2 *Council’s Strategic Management Plans are required to address strategic planning issues within the area of the council, with particular reference to (and in a manner consistent with) the Planning Strategy and set out the council’s priorities for the implementation of planning policies* (Section 122(2)(a)).

2.2 City of Prospect Long Term Financial Plan 2018 - 2027

2.2.1 The Council’s Administration has adopted the LTFP for the period FY2018 – FY2027 as part of the 2018 ABP and Budget process.

2.2.2 Council undertook public consultation of the FY2018 Budget and LTFP with the Project included in the document.

2.2.3 Within the 2018 ABP, the following reference is included regarding the Project:
The most exciting of the new plans is the redevelopment of the Prospect Road Civic Centre site to co-locate all of Council services into one place. With Prospect Oval being the approximate centre of the City, the chosen location is only a couple of kicks of a footy away and closer to the projected population growth around Prospect and Churchill Roads.

The new facility has the working title of CLIC, an acronym for the planned Community Hub, Library and Innovation Centre. The site will also be home for all of Council administration requirements with a strong customer service focus and an expectation that the amenities will fulfil community requirements for many decades to come.

Council’s commitment to transparency and community engagement has led to the development of an interactive website that comprehensively captures all of the informing reports and decision making processes for this project. ‘Click on the CLIC’ website from www.prospect.sa.gov.au

2.2.4 The LTFP projects the key financial performance indicators and targets for the period FY2018 to FY2027 in accordance with the requirement of Section 122 of the Act.

2.2.5 Included in the financial estimates contained within the adopted LTFP is the development of the CLIC at a total construction cost of $14 million.

2.2.6 Specific reference to the amount projected to be spent on the Project within the ABP was not referenced beyond FY2018 which noted that $3.5m would be spent. Additional capital works were included in LTFP capital expense projections however no further mention of the financial contribution required by Council was made.

2.2.7 The 2018 ABP references the CLIC web site so users can be directed where to find additional information should they wish about the project.

2.2.8 Given the change in scope and construction cost for the CLIC since the 2018 ABP and LTFP were adopted, an updated draft LTFP incorporating the latest financial information on the Project has been completed by the Council Administration. The updated draft LTFP was presented to Elected Members at their 14 November 2017 Council Meeting.

2.2.9 The estimated construction cost of $17.67m has now been included in the draft LTFP.
2.2.10 Increased borrowings of $2.25m required to fund construction costs have also now been reflected in the draft LTFP.

2.2.11 The Project is in line with the strategic objectives detailed in Council’s draft LTFP.

2.2.12 Feedback received from community consultation on the revised scope of the Project as included in the draft LTFP will need to be considered by Elected Members when considering whether to proceed with the Project.

2.2.13 It was noted that Council’s Infrastructure & Asset Management Plan (IAMP) could not be found on the Council’s web site. Upon investigating this matter with the Council’s Administration, it was reported that the IAMP was retracted during the 2018 ABP adoption process and it is being updated as at the time of preparing this Report. As advised by Council’s Administration, the IAMP is expected to be presented to Council in early 2018 for readoption. Council should ensure that this matter is addressed as a matter of high priority to ensure compliance with the requirements under the Act.

2.3 Strategic Plan to 2020 (Strategic Plan)

2.3.1 In line with reports prepared for the Council relating to the Project, Council’s Administration have summarised the following links between the Project and Council’s Strategic Plan:
Reference: Item 15.2 – Project Update – Community Hub, Library & Innovation Centre (CLIC) report – 28 November 2017 Council Meeting Agenda

- Council’s Community Engagement and Consultation Policy (adopted November 2012) provides the framework to engage and consult with our community such to enable their participation in and contribution to Council’s decision making.

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

| Strategy 1.1 | Know our community | The Community Engagement Plan for the project is based upon the requirement to ‘know’ our communities, be inclusive of a broad cross section of our residents and ensure that residents are well informed of the steps being taken for the development of the CLIC. |
| Strategy 1.2 | Environmentally active, sustainably focused |
| Strategy 1.3 | Active living for every age, every stage |
| Strategy 1.4 | Celebrate our diverse and creative community |

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

| Strategy 2.1 | Respect the past, create our future | Delivery of the CLIC will be based upon that aspect of the Strategic Plan referring to ‘fabulous places’, requiring a high quality facility that is loved by our communities. |
| Strategy 2.2 | Loved parks and places |
| Strategy 2.3 | An accessible City |
| Strategy 2.4 | A greener future |

**Strategic Plan to 2020 Theme 3 – Prosperity “More jobs, more investment, more activity, more vibrancy”**

| Strategy 3.1 | A stronger local economy | The CLIC’s location in the heart of Prospect Road, in combination with the improved community facilities and longer hours of accessibility, will contribute to more vibrancy in this part of the city. |
| Strategy 3.2 | A more vibrant night-time |
| Strategy 3.3 | Leverage our digital advantage |
| Strategy 3.4 | International Prospect |
Strategic Plan to 2020 Theme 4 – Services “Leaders of the sector providing efficient, responsive, accessible services”

<table>
<thead>
<tr>
<th>Strategy 4.1</th>
<th>Excellence in Infrastructure</th>
<th>The strategies within Theme 4 of the Strategic Plan speak to Council’s requirement that the CLIC is delivered on time and on budget according to our standards of excellence.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 4.2</td>
<td>Sound Financial Management</td>
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<tr>
<td>Strategy 4.3</td>
<td>Responsible Waste Management</td>
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<tr>
<td>Strategy 4.4</td>
<td>Accountable and people-focused services</td>
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Intelligent Community Indicators

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<tr>
<th>3. Innovation</th>
<th>Intelligent Communities pursue innovation through a relationship between business, government and institutions (i.e. universities).</th>
<th>The new facility has the potential to provide for new relationships with businesses and institutions, whilst allowing access to broadband technologies and continuing to provide services to improve the community’s skills in the use of technology. There is also a clear desire to ensure that the building will achieve a high level of environmental sustainability.</th>
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<tbody>
<tr>
<td>4. Digital Equality</td>
<td>Allowing everyone access to broadband technologies and skills to use them</td>
<td></td>
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<tr>
<td>5. Sustainability</td>
<td>Economic growth while reducing the environmental impact of that growth</td>
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2.3.2 The Project is in line with the strategic objectives detailed with the Strategic Plan.
3 Objectives of the Development Plan in the Area where the Project is to Occur

3.1 Development Approval

3.1.1 The development site is located at 128 Prospect Road, and situated within the Council zone. The proposed site is the current Council Civic Centre.

3.1.2 Council’s CLIC Project Lead officer has advised that the Council’s Administration has assessed that a Development Application for the site would be categorised as a Category 2 Development which will require public notification.

3.1.3 Council has engaged JPE and JAA to assist with preparing the Development Application. Council’s Administration will undertake the initial assessment and prepare the necessary reports to be submitted to Council’s Development Assessment Panel (DAP).

3.1.4 Should there be any variations to the scope of the Project or additional projects to be carried out in the Project’s precinct, would be subject to separate potential Development Assessments and deliberation by Council.

3.1.5 Council’s Administration have advised that further work may be required to undertake a traffic impact review for the Project which will be included as part of the Development Application process.

3.1.6 As at the time of preparing this Prudential Report, a Development Application has not been completed for the Project. A Development Application will need to be prepared, submitted and approved prior to the construction phase of the Project can commence.

3.1.7 As part of the risk assessment completed by the Council’s Administration for this Project, there is an assessed ‘Unlikely’ risk rating (Risk Number 20) recorded against the risk that the ‘There is a risk that the design of the new facility does not meet planning policy, resulting in delays in achieving development approval (or negative community sentiment if approved)’.

3.1.8 Should Risk 20 actually be realised, the Council’s Administration have rated the consequence of the risk as being ‘Catastrophic’ to the Project and therefore, appropriate mitigating controls must be operating at all times to ensure this risk is appropriately managed.

3.1.9 Given Council have engaged external consultants to assist with the design development and Development Application process, the Council’s assessed risk for this aspect of the Project is deemed appropriate.
3.2 Development Approval – Consenting Authority

3.2.1 Council has obtained a ruling on 27 February 2017 from the Minister for Planning advising that the City of Prospect Development Assessment Panel is the relevant authority for the development application.
4 The Expected Contribution of the Project to the Economic Development of the Local Area, the Impact that the Project may have on Businesses Carried on in Proximity and if Appropriate, how the Project should be established in a way that Ensures Fair Competition in the Market Place

4.1 Contribution of the Project to Economic Development

4.1.1 The main objective of the Project is to delivery of community services, library facilities and provide accommodation for Council’s administrative services.

4.1.2 The total Project construction cost is estimated by Council’s Administration to cost $17.67m (excluding temporary relocation costs).

4.1.3 Capital works is to be predominantly undertaken by external contractors, engaged and contract managed by Council’s Administration.

4.1.4 The Project is expected to generate economic and employment multiplier benefits to the broader economy during the construction phase of the Project.

4.1.5 Based on the Project’s capital expenditure estimate, together with estimates of potential employment benefits with other similar sized projects, it is estimated that between 150 – 200 jobs will be created/sustained during the construction phase.

4.1.6 As at the time of preparing this Prudential Report, the Administration were undertaking an assessment of staff resource needs across all the operations of the facility to address future staffing level requirements. This will be highly dependent on the final design and services that will offered from the facility (e.g. operating hours or community facilities and programs).

4.1.7 The Project is not expected to provide any further short to medium term employment opportunities within the Council.

4.1.8 As the final design of the Project has not been completed nor has expression of interests been sought from the market to lease the available commercial lettable area, an assessment of the estimated economic impact with the addition/relocation of additional commercial operators within the precinct has not been considered as part of this Prudential Report.

4.1.9 Within the design of the Project, consideration will need to be made by Council as to the extent of commercial lettable area it is expecting to provide and what the level of demand will be for this opportunity by private businesses in the precinct.

4.1.10 Advice sought from Knight Frank Australia (KFA) in November 2017 noted that the availability of 380sqm of new office space in Prospect would “be well received and that the space would be leased to quality local professional businesses”.
4.1.11 KFA also importantly noted that “further design work needs to be undertaken on the lift/ entrance foyer as the private tenants will not want to enter their office space via the library and afterhours security will need to be provided”.

4.1.12 Any commercial lease agreement should be based on commercial market rates and terms relative to the local area.

4.2 Impact that the Project may have on Business Carried on in Proximity

4.2.1 The projected operating revenue from leasing the commercial space have been included in the draft LTFP.

4.2.2 The development of the Project will result in the delivery of a modern, accessible community library and Civic centre that will offer high quality community meeting spaces, library services and Council Administration facilities.

4.2.3 The commercial space available for lease may have an impact on other privately operated commercial office property owners operating within the area.

4.2.4 The potential introduction of the commercial office space may result in either existing businesses operating within the region relocating to the CLIC or the Council competing with existing vacant sites for new tenants entering the Prospect region.

4.3 How the Project should be Established in a way that Ensures Fair Competition in the Market Place

4.3.1 Given the issue raised in 4.2.4 above, Council must consider the principles of competitive neutrality under the Government Business Enterprises (Competition) Act 1996 in deciding whether to operate a commercial office facility which may be in direct competition with private operators.

4.3.2 As stated in Section 4 of the Statement on the Application of Competition Principles to Local Government Under Competition Principles Agreement (the Agreement), 'The objective of competitive neutrality is to eliminate those competitive advantages, either by the removal of the advantage or by applying some surrogate which neutralises the advantage (e.g. a tax equivalent regime, debt guarantees fee)'.

4.3.3 A business activity under the Agreement is defined as follows (extract direct from the Agreement) :
A **business activity** includes any activity undertaken:

(a) which falls within the Australian Bureau of Statistics classification of “Public Trading Enterprise” and “Public Financial Enterprise” (refer Appendix1); or

(b) where:
   (i) the activity is primarily involved in producing goods and services for sale in the market; and
   (ii) the activity has a commercial or profit-making focus; and
   (iii) there is user charging for goods and/or services; and
   (iv) the activity is not primarily funded from rate or grant revenue; or

(c) where the local government agency submits a tender as part of a tendering process in competition with the private sector.

However, an activity will not be a business activity if:

(d) it provides goods or services to the local government agency and for reasons of policy or law there is no competition with alternative suppliers; or

(e) it is clear that the intention of the local government agency is that the activity’s predominant role is regulatory or policy-making, or where the achievement of community benefits is the main priority of the activity.

4.3.4 The Agreement also stipulates the following with respect to the categorisation of ‘significant’ business activities (extract direct from the Agreement):

Whether an activity is a **significant** business activity to which competitive neutrality principles should be applied is a matter for each local government agency to determine. This determination should be made taking into account:

- the intent of National Competition Policy;
- whether the business activity possesses sufficient market power to create a competitive impact in the market that is more than nominal or trivial;
- whether the size of the business activity relative to the size of the market as a whole is more than nominal or trivial.

**Significant business activities** are categorised as follows:

- **Category 1:** business activities with an annual revenue in excess of $2 million, or employing assets in excess of $20 million.
- **Category 2:** all other significant business activities.

4.3.5 The Project therefore may be constituted as a Category 2 ‘significant business undertaking’ and accordingly there is an obligation of Council to consider whether there are any competitive neutrality principles to be factored into the operations of the Centre.
4.3.6 The application of competitive neutrality principles is designed at ensuring significant business undertakings of publicly owned entities (e.g. Councils) compete fairly in the market with private sector operators.

4.3.7 To ensure competitive neutrality issues are addressed, Council must ensure that any commercial tenants are charged a commercial market rate and on normal commercial terms.

4.3.8 Council’s draft LTFP factors in revenue projections based on market rates provided by KFA.

4.3.9 Council must consider whether competitive neutrality principles will need to be applied and ensure it has appropriate systems to identify costs associated with the operations so as to be able to assess whether there is any benefit associated with the proposed activities as result of public ownership.
City of Prospect
Community Hub, Library & Innovation Centre Project
(CLIC)
Section 48 Prudential Report

5 The Level of Consultation with the Local Community, Including Contact with Persons who may be Affected by the Project and the Representations that have been Made by them, and the Means by which the Community can Influence or Contribute to the Project or its Outcomes

5.1 Community Consultation – 2018 ABP

5.1.1 The Project was included as part of the 2018 ABP documents and financial projections included in the LTFP attached the draft FY2018 Council Budget.

5.1.2 Council endorsed the public consultation process at its meeting held on 9 May 2017. Public consultation concluded on 6 June 2017.

5.1.3 The following community consultation strategy was endorsed by Council:


Proposed Community Consultation Strategies

5.63 It is proposed that a combination of media will be used to facilitate communication and consultation regarding the 2017-2018 budget and rates. The following consultation strategies are proposed (but not limited to):

- Newspaper advert calling for written submissions.
- Provide the public with an opportunity to inspect budget documentation (in the form of Annual Business Plan/Information sheets, etc.) via Council website, inspection at Council offices, and time to provide written submissions.
- Hold a Public Meeting on Monday 5 June 2017 to enable members of the Community to present their comments to the Council regarding the Draft Annual Business Plan and Budget.
- A Focus Group meeting (20 randomly selected residents) on 25 May 2017.
- An invitation will be sent to the Prospect Residents Association inviting them to the Public Meeting.

5.64 Closing date for public consultation submissions to be Tuesday, 6 June 2017.

5.1.4 Council’s 2018 ABP and LTFP incorporated the original estimated $14m capital (construction) expenditure projected commence in FY2018 and concluded in FY2019.

5.1.5 Council’s Audit Committee reviewed the draft LTFP and 2018 ABP at its 13 June 2017 meeting.

5.1.6 Given the Project has increase in expected cost since the 2018 ABP and LTFP was consulted with the community, an update to the LTFP has been undertaken and presented to Council at the 14 November 2017 Council Meeting with the updated Project cost estimates and required borrowings included.
5.1.7 Council established the CLIC CRG in December 2016. The CFG comprises of members who represent a wide group of community stakeholders within the Council region.

5.1.8 On 25 October 2017, the CFG met to consider presentations on the concept design and costings associated with the Project based on a $16.19m build (excluding project management and temporary relocation costs).

5.1.9 As a result of the CRG considering the revised Project scope, design and cost, the Council’s Administration noted in their report presented at the 14 November 2017 Council Meeting that within the CRG, “There was general agreement that the projected cost is a good balance between aspiration and affordability”.

5.1.10 Council have not at this stage of the Project undertaken specific public consultation outside of the CRG regarding the revised costs estimates for the Project. Further consultation with the local community may be required by Council if it deems that insufficient consultation has been undertaken on the revised Project cost estimate.

5.1.11 Further consultation over Council’s Infrastructure and Asset Management Plan (IAMP) may also be deemed necessary given the CLIC will be the highest value single asset being managed by the Council. Given the material impact the IAMP has on the LTFP, consultation over the IAMP may also be deemed required to ensure that community service standards will/are being met.

5.1.12 Council has held multiple Workshops and Council Meetings where the public have access to attend to hear briefings on the Project as well as afforded opportunities to provide feedback on the Project since the 2018 ABP was adopted.

5.1.13 Per Council’s Community Engagement and Consultation Policy, the project would be classed as a Level 3 ‘Subject Matter” and deemed a “Major Project”. Accordingly, the Policy considers the following techniques are required with respect to consultation on a Level 3 Subject Matter:
### Techniques to Consider - City-wide Issues

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
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</table>
| - Compliance with statutory requirements (if any)  
  **Further Options**  
  Advertisement in the City North Messenger. Options are a public notice advertisement, display advertisement.  
  Council's website  
  Fact sheets  
  Displays  
  Letterbox drops  
  Surveys  
  The Prospect Magazine  
  Affected community members feedback  
  Social Media (Twitter, Facebook)  
  Blogs  
  Shopping centre  
  Mobile applications  
  Building relationships - door knocking  
  Community Panel  
  Online Forums | - Compliance with statutory requirements (if any)  
  **Further Options**  
  Advertisement in the City North Messenger  
  Council's website  
  The Prospect Magazine  
  Media release, if appropriate  
  Copies of major reports/plans available in the Library and for purchase  
  Consider submissions made in response  
  Focus Groups / Community Panel  
  Surveys  
  Fact sheets  
  Displays  
  Letterbox drops  
  Report to council summarising submissions/surveys for formal council decision  
  Affected community members feedback  
  Social Media (Twitter, Facebook)  
  Skype / Go to Meetings / Webinars  
  Blogs  
  Mobile applications | - Compliance with statutory requirements (if any)  
  **Further Options**  
  NOT A ‘TECHNIQUE’  
  Advertisement in local newspapers and/or The Advertiser  
  Council’s website  
  Duplicate see below  
  Media release and/or briefings  
  The Prospect Magazine article and/or specific publication to all residents  
  Surveys  
  Workshops  
  Focus Groups / Community Panel  
  Open days  
  Displays & noticeboards  
  Community forum  
  Shopping centre / sporting venues  
  Public submission  
  Copies of major reports/plans available in the Library and for purchase  
  Affected community members feedback  
  Social Media (Twitter, Facebook)  
  Mobile applications  
  Online forums |

5.1.14 From the above list of activities noted per the Policy, the Council has undertaken the following consultation on the Project:

5.1.14.1 Developed a standalone web site reference to advertise Project information and allow ease of access to Project documentation being considered by Council. Ability to provide feedback
directly to Council on any views, concerns or queries relating to the Project should the public wish.

5.1.14.2 Undertaken regular Workshops where the project has been discussed and provided access to the community to attend to be informed and provide feedback should they wish.

5.1.14.3 Provided on-line video recordings of Council Meetings accessible via Council’s web site that enable the public to watch and listen to Elected Members deliberate on information presented for the Project.

5.1.14.4 Established a Community Reference Group (CRG) consisting of 14 members of the local community. Meetings are open to the public and feedback from the meetings are provided to the Administration and Elected Members.

5.2 Community Consultation – CLIC Web Site

5.2.1 Council developed a standalone web site for the public to be kept informed about the Project, access key documents and allow access to submit feedback directly to Council. The web page is connected to the main web site of the Council. The web site is an ‘engagement hub’ for Council to report directly on the Project. It can be accessed via the following link: www.cityofprospect.engagementhub.com.au

5.2.2 Feedback received via the web site is provided to all key stakeholders involved in the Project including the Council Chief Executive Officer, PEG, CRG and Elected Members.

5.2.3 The interactive nature of the web site which is dedicated solely to the Project enables real time consultation with the community on all Project developments as they occur as well as provide ease of access to any interested parties to access key documents and information on the Project.

5.2.4 It was noted that as at the time of preparing this Report, the web site needs to be updated given key information had not been uploaded since approximately October 2017.

5.3 Community Consultation – LibraryPLUS Project

5.3.1 At the 24 May 2016 Council Meeting, Council’s Manager Library Services presented a report that outlined the feedback received from community consultation undertaken on the LibraryPLUS concept project.

5.3.2 The consultation was undertaken between January – March 2016. Council received 503 responses providing feedback on the communities aspirations for a new library facility.

5.3.3 The outcomes and responses received from this community consultation process was used to further refine the communities aspirations in a new facility.
5.3.4 As a result of community consultation process, Council’s Manager Library Services highlighted the following outcomes from the community consultation process in their report submitted to Council at the 24 May 2016 Council Meeting.

Reference: Item 15.2: LibraryPLUS – Consultation Feedback and Library Tour Notes: 24 May 2016 Council Meeting Agenda Papers

5.12 The questions asked ranged from the use of current services, views on future services, programs and amenities and aspirations for the look and feel for the LibraryPLUS facility with some key feedback grouped into a number of themes. Of those themes, some key responses which are considered to reflect the views broadly expressed include:

- 87% of respondents currently visit or access City of Prospect’s library services in some way with comments from those who didn’t generally noting an unawareness of the facility and its current location.

- Most desired services for a LibraryPlus included the book collection (including digital resources), JP services, Wi-Fi and art activities or displays with digital literacy, family history and gaming services less desired by respondents.

- A café, children’s play and events, meeting rooms, outdoor space and services for people with special needs were most requested in the new facility.

- Children’s and youth services were noted as the least likely to use but comments clarified that many of these responses were not relevant to the individual respondents at their current life stage. Technology training, co-working spaces and employment services were also covered here to support the notion that the community are keen to see the library facility for Local and Local Government services, not services available from the private sector or other tiers of government.

- Toilets, parking and various public and private reading/study areas were important to most people.

- Extended opening hours were encouraged.

- As for the ‘feel’ of LibraryPLUS; light and open, safe, flexible and inspiring were the highest responses. This is important for site consideration and for the design.

- Modern, artistic and sustainable external forms were supported with ‘iconic’ and ‘traditional’ not encouraged by respondents.

- Some summary comments promoted a larger facility than current, a home away from home for all ages and an engaging, flexible, vibrant and active space with good parking. Ability for people to bring their own device was important, some suggestions included to be careful when considering shelf heights and a desire for the LibraryPLUS to be a showpiece of the Council.

- A final open question was asked and a number of people (as expected) took the opportunity to express their view with potential location being of particular interest.
5.3.5 87% of respondents accessed or visited the Council’s library services which demonstrated the high demand for these services by respondents.

5.3.6 **Respondents also expressed a recommendation for opening hours to be extended which is a matter for the Elected Members to take into account when considering design options and ongoing running costs of the CLIC.**

5.3.7 Elected Members and Council Administration undertook site visits and tours to various locations to review other facilities to better understand what services are offered, layout and service delivery options and costs involved with the construction of various different types of facilities.

5.3.8 A library tour was also undertaken by Elected Members and Council staff to tour four metropolitan libraries on 2 February 2016. The following facilities were visited:

- **5.3.8.1 Walkerville Library (Town of Walkerville)**
- **5.3.8.2 St Peters Library (City of Norwood, Payneham & St Peters)**
- **5.3.8.3 City Library (City of Adelaide)**
- **5.3.8.4 Cove Civic Centre – Hallet Cove (City of Marion)**

5.3.9 Elected Members and staff also toured the following library facilities in Melbourne, Victoria on 29 February 2016:

- **5.3.9.1 Melton Library & Learning Hub (Melton City Council)**
- **5.3.9.2 Braybrook Community Hub (Maribyrnong City Council)**
- **5.3.9.3 Library @ the Dock (City of Melbourne)**
5.3.9.4 Melbourne City Library (City of Melbourne)

5.3.9.5 Kathleen Syme Library & Community Centre (City of Melbourne)

5.3.10 Elected Members and staff attended a tour of the following sites and Adelaide metropolitan libraries on 19 April 2016:

5.3.10.1 Civic Centre, Prospect Oval precinct and depot site (City of Prospect)

5.3.10.2 Strathalbyn Library (Alexandrina Council)

5.3.10.3 Coventry (Stirling) Library (Adelaide Hills Council)

5.3.10.4 Burnside Library (City of Burnside)

5.3.10.5 Campbelltown Library (City of Campbelltown)

5.3.11 As a result of work undertaken for the LibraryPLUS exercise, the feedback received from community consultation provided the basis for further refining the community aspirations in a new library facility. The engagement of the Elected Members and Administration in undertaking reviews of other sites to gain an appreciation of other alternate facilities already operating provided insight into the potential opportunities and challenges that Council could face in developing a new site.
6 If the Project is Intended to Produce Revenue, Revenue Projections and Potential Financial Risks

6.1 Revenue Projections from the Project

6.1.1 The development of the Project will create opportunities to generate revenues from the following activities:

- **6.1.1.1 Commercial Lease Fees**
- **6.1.1.2 Sale of 132 – 134 Prospect Road, Prospect**
- **6.1.1.3 Sale of 218 Main North Road & 82 Johns Road, Prospect**

6.1.2 Other revenues in the form of Hall Hire and booking fees for available community spaces within the CLIC and Town Hall have not been considered given the assumption that these are not ‘new’ forms of revenue to be generated.

6.1.3 Per Council’s draft LTFP, it is estimated that the commercial lease fee will be $120,000 per annum commencing from FY2021.

6.1.4 The commercial lease fee is based on an estimated $315sqm lease fee which is in line with estimated provided by KFA in November 2017 as to a market rate rent for the precinct.

6.1.5 In reviewing the draft LTFP, it was identified that revenues from the potential recovery of ‘outgoing’ expenses relating to the commercial tenancy have not been factored into the draft LTFP. As at the time of preparing this Report, the Administration have not undertaken an assessment to determine what costs would potentially be recoverable nor the financial value.

6.1.6 A review of the draft LTFP also identified that no increase in Rates income has been projected as a result of the sale of properties noted in 6.1.1.2 and 6.1.1.3. An assessment of potential Rates income to be charged has not been done by the Administration as at the time of preparing this Report.

6.1.7 Commercial lease revenue assumptions in the draft LTFP assume 100% occupancy of the facility at the commencement of FY2021.

6.1.8 Settlement of both property sales is also assumed to occur in FY2019 and accordingly, any delay in settlement may result in additional short-term funding requirements to meet any Project costs.

6.1.9 As at the time of preparing this Report, Council had not been granted permission by the Minister for Local Government to revoke the Community Land designation recorded on a title at the Main North Road site. Prior to being able to settle on this property, should Council wish to proceed with the sale, it will need to have this designation revoked.
6.1.10 Ongoing monitoring of the key assumptions and estimates included in the draft LTFP projects should be regularly undertaken through future updates to any Project financial modelling and in future updates of the Council’s LTFP and Budget process.

6.2 Potential Financial Risks

6.2.1 In December 2017, Council’s Administration finalised a review of identified financial risks for the Project. Given the early planning stages of the project, the risk assessment completed focus was primarily on the design and construction of the Project.

6.2.2 Council’s risk assessment has recorded a risk rating of “High” regarding the potential risk that Project cost projections are not accurate and the negative impact this has on the draft LTFP. An extract from the Risk Register documents the following risk:

<table>
<thead>
<tr>
<th>No.</th>
<th>Risk Description</th>
<th>Risk Category</th>
<th>Existing Controls</th>
<th>Likelihood</th>
<th>Consequence</th>
<th>Initial Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>There is a risk that cost projections for the construction of the building are inaccurate, resulting in a negative impact on the long term financial plan</td>
<td>Financial</td>
<td>Cost projections are subject to ongoing independent review by Robyn Levet (CA) prior to consideration by Council, to ensure that concepts are tested against current cost and benefit analysis.</td>
<td>Almost Certain</td>
<td>Moderate</td>
<td>High</td>
</tr>
</tbody>
</table>

6.2.3 This demonstrates the importance of ensuring that Council has sound established practices prior to going out to tender for detailed design development, procurement and contract management practices to minimise the risk of cost variations and blow outs.

6.2.4 Risks relating to outstanding matters noted in this Prudential Report need to be considered and factored into future updates to Council’s Risk Register. In particular, risks relating to financial aspects of the Project should be further considered:

6.2.4.1 Relocation and operations of Depot operations from an alternate site.

6.2.4.2 Accuracy in costs relating to the temporary relocation of all Council staff and operations during construction phase.

6.2.4.3 Unquantified savings included in the draft LTFP relating to co-location of Civic Centre and relocation of Depot operations not being realised.

6.2.4.4 Project management costs are higher than the 9% cost of capital rate estimated. Project management costs are calculated based on a ‘rate on the total capital cost’. Should either the rate applied (9%) or the total construction cost ($16.19 million) change, this will affect the total estimated Project Management Costs charged to the Project.
6.2.5 The potential inherent High financial risks associated with the Project can be summarised as follows:

6.2.5.1 Higher capital expenditure incurred during construction phase that results in higher level of funding (e.g. either by external borrowings, utilising existing cash reserves or a combination of both). This will lead to high borrowings costs or lower rates of return on cash reserves invested as well as higher future depreciation charges to be funded through the annual budgetary process.

6.2.5.2 Interest rates are higher than projected resulting in higher borrowing costs.

6.2.5.3 Revenue projections are below forecast.

6.2.5.4 Operating costs exceed projected budget.

6.2.5.5 Design issues with the facility lead to the need make further modifications (i.e. obsolescence of facility earlier than expected).

6.2.5.6 Omission of costs not identified in cost estimates of the LTFP that require to be funded.

6.2.6 Council has effective internal controls over the management of its Budget and strategic management plans and accordingly, appropriate mitigation controls in place to monitor financial risks associated with the Project.

6.2.7 As noted in 6.1.10, ongoing monitoring and review of all estimates and assumptions applied for the Project must be regularly monitored and any adverse matters addressed in a timely manner through the ongoing Budget review and update to Council’s LTFP processes.
7 The Recurrent and Whole-of-Life Costs Associated with the Project Including and Costs Arising Out of Proposed Financial Arrangements

7.1 Financial Overview

7.1.1 Council will own and maintain all assets constructed as part of the Project.

7.1.2 To fund the Project, the Administration reported at the 14 November 2017 Council Meeting a forecasted one-off increase in Rates of 0.9% to 3.65% plus Growth (up from 2.75%). This represents a 0.9% increase in Rates above the LTFP target range of 2.75% plus Growth.

7.1.3 From FY2020 onwards, Council’s Administration reported that they have forecasted Rates income increases to return back to resume at annual 2.75% plus Growth increases.

7.1.4 The one-off forecasted increase in Rates in FY2019 will result in a ‘base line’ increase in Rates income that will flow into Year 2 -10 of the LTFP in perpetuity and become a permanent Rates increase.

7.1.5 A review of the key assumptions included in the draft LTFP model revealed the following assumptions have been applied as per Table 3 below.

Table 3: Draft LTFP Key Assumptions – Forecasted Growth and CPI Data

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Forecasted Rate of Growth (%)</th>
<th>Forecasted CPI (%)</th>
<th>Projected Rates Income ($)</th>
<th>Projected Increase in Rates Income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>3.75</td>
<td>0.9</td>
<td>19,993m</td>
<td>-</td>
</tr>
<tr>
<td>2019</td>
<td>4.65</td>
<td>1.3</td>
<td>20,923m</td>
<td>4.65</td>
</tr>
<tr>
<td>2020</td>
<td>3.75</td>
<td>1.6</td>
<td>21,708m</td>
<td>3.75</td>
</tr>
<tr>
<td>2021</td>
<td>3.75</td>
<td>1.9</td>
<td>22,522m</td>
<td>3.75</td>
</tr>
<tr>
<td>2022</td>
<td>3.75</td>
<td>2.3</td>
<td>23,367m</td>
<td>3.75</td>
</tr>
<tr>
<td>2023</td>
<td>3.75</td>
<td>2.5</td>
<td>24,243m</td>
<td>3.75</td>
</tr>
<tr>
<td>2024</td>
<td>3.75</td>
<td>2.6</td>
<td>25,152m</td>
<td>3.75</td>
</tr>
<tr>
<td>2025</td>
<td>3.75</td>
<td>2.8</td>
<td>26,095m</td>
<td>3.75</td>
</tr>
<tr>
<td>2026</td>
<td>3.75</td>
<td>2.9</td>
<td>27,074m</td>
<td>3.75</td>
</tr>
<tr>
<td>2027</td>
<td>3.75</td>
<td>3.0</td>
<td>28,089m</td>
<td>3.75</td>
</tr>
</tbody>
</table>
7.1.6 Council’s Administration have engaged Bentley Chartered Accountants to undertake a review of all the draft LTFP model to test that all key assumption sand estimates have been correctly reflected in the draft LTFP. This work is expected to be completed by February 2018 with all findings are to be reported to Council’s Audit Committee and Elected Members.

7.1.7 RLB have estimated the total construction cost of the Project to be $16.19m. That estimate does not include project management costs which are estimated to be 9% of the construction cost.

7.1.8 For the purposes of this Prudential Report, a total capital construction cost of $17.67m has been factored, which is consistent with the total estimated construction cost per the draft LTFP.

7.1.9 Given Council’s lease on the Thomas Street Library is due to expire in August 2019, the anticipated deadline to have the construction of the CLIC completed is to coincide with the lease expiring.

7.1.10 Council’s Administration will need to ensure that the final design of the CLIC and any ancillary capital works required to construct the facility fits within the allocated Project budget of $17.67m.

7.1.11 RLB have included a $395,000 (or 2.5%) allowance in the construction cost for potential future movement in construction costs assuming completion in “Mid 2019”.

7.1.12 RLB have included a $900,000 allowance for “Loose Furniture and Fittings” and for “Active ICT / AV / Telephony” costs within the construction cost.

7.1.13 The Administration has yet to undertake an assessment of what works are required for fit-out the CLIC and equipment required to house the Administration, library and other services. These costs will need to be identified before the detailed design has been completed to enable a cost estimate to be prepared and included in the LTFP. The draft LTFP currently does not allow for any additional CLIC fit-out costs.

7.1.14 Cost estimates provided by RLB have been as of 9 November 2017 and presented to Council in Attachment 20 within the 14 November 2017 Council Agenda papers.

7.1.15 In noting the cost estimates and assumptions provided by RLB, Council’s Administration will need to consider the method of procurement for the different elements of the Project (e.g. one contract awarded for the entire construction or separate contracts for different elements).

7.1.16 Depending on the method of procurement, this could also have impacts on the financial risks and outcomes of the Project compared to the assumptions applied by RLB in their construction cost estimate.

7.1.17 Council has engaged JAA to “lead the design and documentation of building (in consultation with Council), and subsequently manage the building’s construction
7.1.18 In discussions with Council’s Manager Financial Services, JAA’s costs are factored in the Project Management costs estimated for the Project.

7.1.19 Costs associated with the engagement of JAA and JPE have not been factored into the RLB estimates and accordingly, Council’s Administration must ensure that sufficient budget allocation has been included in relevant financial years for JPE’s ongoing services.

7.1.20 Council also has not made any financial provisions for potential site contamination issues that may arise. Should any contaminations be identified on the site, this may result in further costs to the Project to be funded.

7.2 Funding Capital Construction Costs

7.2.1 Per the draft LTFP, the funding for the capital cost of the Project is expected primarily to be met through the utilisation of external borrowings and sale of existing Council properties.

7.2.2 A summary of the capital construction cost funding included in the draft LTFP is summarised in Table 4.

**Table 4: Summary Sources Funding – Capital Construction Costs**

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>Estimated Financial Contribution ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Council Properties</td>
<td>$6.60m</td>
</tr>
<tr>
<td>External Loan Borrowings</td>
<td>10.907m</td>
</tr>
<tr>
<td>Existing Cash Reserves</td>
<td>$0.163m</td>
</tr>
<tr>
<td>Total Capital Construction Cost</td>
<td>$17.67m</td>
</tr>
</tbody>
</table>

7.2.3 Council’s draft LTFP includes additional borrowings of $10.907m to be drawn down to fund the capital construction cost.

7.2.4 Council will also need to successfully dispose the Main North Road and Prospect Road properties for a minimum net $6.6m (combined).

7.2.5 Any increase in the Project’s costs could see increased requirement for future borrowings or potential rate increases and accordingly, potentially adversely impacting future funding requirements of Council.
7.3 Cost of Financial Arrangements – External Borrowings

7.3.1 The following key estimates and assumptions regarding external borrowings have been included in the draft LTFP:

7.3.1.1 Funds to be sourced from the Local Government Finance Authority of South Australia (LGFA).

7.3.1.2 Fixed interest rate of 4.4%.

7.3.1.3 Repayment of loan over a 15 year period.

7.3.1.4 Loan instalments paid on six monthly repayment frequency.

7.3.2 Over a 15 year fixed loan period, the total interest payable on the required borrowings amounts to approximately $3.378m.

7.3.3 There is a risk that future Council Rate increases may be required to be greater than the forecasted amount per Council’s LTFP, should interest rates on borrowings be greater than the projected 4.4% as at the time of drawing down on the required funds.

7.3.4 Council’s draft LTFP also forecasts additional $1.9m in external borrowings in FY2021 (Year 4) which is not tied to any specific Project. Borrowings appear to be required to partly fund capital renewal costs for that year. An assumption in the draft LTFP is that interest rates will remain at 4.4% in FY2021.

7.3.5 Should interest rates increase (which there is a real chance they will not remain at the rate estimated), this may result in additional interest costs that will need to be funded.

7.3.6 A risk has been identified in 7.1 where should the construction cost of the Project exceed the estimated costs or additional costs incurred for variations to the Project scope, there may be a requirement to increase the level of borrowings required, which would potentially require higher than expected rate increases.

7.3.7 To mitigate and monitor risks identified, regular updates (recommended to be undertaken annually) of Council’s LTFP should be undertaken by Council’s finance staff, to factor any movements in market conditions or changes in the timing of the expected scope of works.

7.3.8 Regular updates to Council’s LTFP will ensure that Council is made aware of any changes in the key assumptions and estimates relating to the funding requirements for the Project.

7.4 Whole-of-Life Costs Associated with the Project

7.4.1 The recurrent operating cost (including depreciation of the new facility, plant and equipment) have been included in Council’s LTFP for the 10 year period – not being the required ‘whole of life period’ for the Project.
7.4.2 Updated whole-of-life costs based on the revised capital cost for the entire Project have not been prepared by the Administration as at the time of preparing this Prudential Report. Key building materials, plant, equipment and IT infrastructure will need to be replaced or upgraded in a future period outside the 10 year period of the current LTFP.

7.4.3 The future funding and replacement of the equipment and structures is a matter that should be noted by Council for this Project and factored into future updates of the Council’s IAMP.

7.4.4 Given the projected long life span of the assets being constructed, the required services and amenities at the site in potentially 30 years’ time may well be significantly different than that of today.

7.4.5 Appropriate planning in the concept design phase of the Project (currently being undertaken by the Administration) to factor in design options that allow for potential modifications and/or expansion of the services is recommended to maximise the utility of the site and Council’s investment in the Project (e.g. design that compliments the ability to reconfigure the internal space used, make modifications to the internal fitout of the facility, modify traffic flow in and around the CLIC, etc.).

7.4.6 The Project’s capital costs and on-going operating costs for the first ten years of the Project have been included in Council’s LTFP.

7.4.7 Council’s Administration have estimated that an annual operating savings of $160,000 per annum will be made as a result of the CLIC development. As previously noted within this Report, specific cost savings have not been identified in the draft LTFP and therefore remain unquantified and as such unrealised.

7.4.8 Council’s Administration have estimated that an annual operating savings of $25,000 per annum will be made as a result of relocating depot operations. As previously noted within this Report, specific cost savings have not been identified in the draft LTFP and therefore remain unquantified and as such unrealised.

7.4.9 Building running costs for power, water, maintenance, security, etc. have all assumed to remain the same as currently being incurred at the current Prospect Civic Centre. The Administration have not undertaken an assessment as to what potential additional running costs would be for the facility given the concept design has only been presented in November 2017.

7.4.10 As noted in 5.6.3, community consultation undertaken on the LibraryPLUS concept identified a desire by respondents for the opening hours to be extended and accordingly, should opening hours be extended beyond what is currently be offered, this may result in additional running costs for the CLIC in the form of labour costs and building running/maintenance costs. These costs have not been factored into the draft LTFP.
7.4.11 Further work is required to investigate and estimate ongoing daily running costs of the CLIC which will be highly dependent on factors such as the final design and expected operating hours which remain unknown as at the time of preparing this Report.

7.4.12 Annual depreciation charges equal to 3.1% on cost of construction have been factored into the draft LTFP.

7.4.13 No additional allowance for annual maintenance costs has been factored into the annual operating costs.

7.4.14 Council must consider that in undertaking the Project, there may be an expectation that one day the facilities will need to be replaced at the end of life and Council will need to fund the replacement of the facilities should it wish to remain in the same location.

7.4.15 Key assumption in the above estimated whole-of-life costs is that depreciation charged at a rate of 3.1% or approximate 32 year life basis for all assets. Practically, some components of the Project will have a life less than 30 years (e.g. AV equipment, some internal fitout materials, etc.) and therefore this will need to be replaced and will add to the above estimated ‘whole-of-life cost’.

7.4.16 I have assumed for the purposes of this Prudential Report that all assets are recognised on a Depreciated Replacement Cost (DRC) basis for Australian Accounting Standard treatment purposes and depreciated on a straight-line method basis.

7.4.17 As advised by Council’s Finance Department, Building assets are to be recognised as ‘Level 3’ assets for valuation purposes under Australian Accounting Standard (AASB) 13 Fair Value Measurement.

7.4.18 Given the Project is not intended to make a profit and Council will annually be required to fund the operating costs associated with running the CLIC, ongoing monitoring over the CLIC’s running costs is required to mitigate the risk of Council incurring greater costs than projected that are currently not funded in the draft LTFP.
8 The Financial Viability of the Project, and the Short and Long Term Estimated Net Effect of the Project on the Financial Position of Council

8.1 Financial Viability of the Project

8.1.1 Given that the Project is a ‘not-for-profit’ undertaking, this requirement is not applicable for the Project.

8.1.2 As highlighted in Section 7 above, given the whole-of-life consideration of the Project, the life of the majority of assets is estimated to be at least 30 years. There will be ongoing costs to Council that will eventually need to be funded beyond the 10 year (prescribed) life of the LTFP.

8.1.3 Future updates to the LTFP should reflect the ongoing costs of the Project, so future funding requirements (both capital and operating) are known and addressed by the Council.

8.1.4 Section 7 above details the annual costs that the Council is estimated it will be required to fund given projected revenues from the Centre’s operations will not be sufficient to meet all annual operating costs (including for depreciation).

8.2 Short and Long Term Estimated Net Effect of the Project on the Financial Positions of the Council

8.2.1 Council has established a range of financial indicator targets that measure its financial performance. In the draft LTFP, the range of targets have been summarised in Table 5 below.

Table 5: Summary LTFP Financial Indicator Targets

<table>
<thead>
<tr>
<th>Proposed Financial Indicators (Draft LTFP)</th>
<th>Council Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Surplus Ratio</td>
<td>(1)% - 15%</td>
</tr>
<tr>
<td>Net Financial Liabilities Ratio</td>
<td>10% - 90%</td>
</tr>
<tr>
<td>Asset Sustainability Ratio</td>
<td>100% – 120%</td>
</tr>
</tbody>
</table>

8.2.2 With the inclusion of the Project in the draft LTFP, Council is projected to record the following result for each LTFP Key Financial Indicator as shown in Table 6.
### Table 6: Draft LTFP Forecasted Key Financial Indicators

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Operating Surplus Ratio (%)</th>
<th>Net Financial Liabilities Ratio (%)</th>
<th>Asset Sustainability Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.2</td>
<td>56</td>
<td>232</td>
</tr>
<tr>
<td>2019</td>
<td>0.4</td>
<td>84</td>
<td>369</td>
</tr>
<tr>
<td>2020</td>
<td>(2.4)</td>
<td>82</td>
<td>91</td>
</tr>
<tr>
<td>2021</td>
<td>(0.4)</td>
<td>81</td>
<td>89</td>
</tr>
<tr>
<td>2022</td>
<td>0.0</td>
<td>75</td>
<td>94</td>
</tr>
<tr>
<td>2023</td>
<td>2.0</td>
<td>66</td>
<td>89</td>
</tr>
<tr>
<td>2024</td>
<td>3.3</td>
<td>56</td>
<td>83</td>
</tr>
<tr>
<td>2025</td>
<td>5.0</td>
<td>46</td>
<td>100</td>
</tr>
<tr>
<td>2026</td>
<td>5.2</td>
<td>35</td>
<td>111</td>
</tr>
<tr>
<td>2027</td>
<td>5.5</td>
<td>24</td>
<td>112</td>
</tr>
</tbody>
</table>

#### 8.2.3
With the inclusion of the Project in the draft LTFP, the Net Financial Liabilities Ratio is estimated to peak at 84% in Year 5 (FY2019) which is still below the ceiling threshold level of 90%.

#### 8.2.4
Given Council are very close to the Net Financial Liabilities ceiling range in FY2019 – FY2021, this leaves limited capacity for Council to undertake any other projects (operating or capital) that are not already factored in the LTFP projections.

#### 8.2.5
After construction of the CLIC is completed in FY2019, the draft LTFP forecasts insufficient level of spending to meet Asset Sustainability Ratio targets. Sustained periods of under spend on asset renewals may result in a back-log of capital works projects in the future that will need to be addressed in order to maintain existing service standards.

#### 8.2.6
Cells highlighted in red per Table 6 indicate years where the Council is not expected to meet its targeted Key Financial Indicator targets.

#### 8.2.7
It should be noted that the Council has included 100% of the Project cost as a ‘renewal/replacement’ project however given a significant portion of capital works is expected to be recorded as ‘new/upgrade’, this will result in the Asset Sustainability Ratio significantly changing from the forecasted amounts. This is a
key reason why the Asset Sustainability Ratio is reported as being 232% (FY2018) and 369% (FY2019).

8.2.8 Per 7.4 above, the draft LTFP has factored ongoing operating costs associated with the Project in the 10 year forecast based on internal estimates calculated by the Council’s Administration.

8.2.9 No review into the completeness or accuracy of these cost estimates have been undertaken as part of this Prudential Review as it has been assumed Council has undertaken the necessary investigations into the ongoing operating costs of running given running community facilities and Civic Centres are an existing core activity of the Council.

8.2.10 The ongoing annual operating and maintenance cost of the new facility have been based on the existing Civic Centre’s costs and not the CLIC specifically.

8.2.11 In my view, there is a real risk that the running costs of the CLIC may in fact be higher than the existing Civic Centre, given it will be a larger facility that will house more staff and services into the one site.

8.2.12 Given Council has forecasted savings of $160,000 annually that have not been quantified to date, this may result in an adverse impact on the operating result of Council should running costs be higher and anticipated savings not realised.

8.2.13 Should funding for any additional costs or variations to the estimated capital construction cost be required, Council has limited financial capacity if it intends to maintain existing targeted key financial performance indicator ranges.

8.2.14 Should Council resolve that additional borrowings are required, it is recommend that appropriate updates to the LTFP and Council Budget be first put in place - prior to a decision being made, to ensure that the impact on the long-term financial performance and position of Council is known and any changes to key assumptions and estimates are made to factor any adverse impacts on existing projections.
9 Any Risks Associated with the Project, and the Steps that can be Taken to Manage, Reduce or Eliminate those Risks

9.1 Risk Management

9.1.1 Council’s CLIC Project Lead officer completed a risk assessment on the Project in November 2017.

9.1.2 Table 7 and Table 8 below summarises the completed risk assessment for the Project.

Table 7: Summary of ‘Likelihood’ of Project Risks being Realised

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost Certain</td>
<td>1</td>
</tr>
<tr>
<td>Possible</td>
<td>14</td>
</tr>
<tr>
<td>Rare</td>
<td>1</td>
</tr>
<tr>
<td>Unlikely</td>
<td>20</td>
</tr>
<tr>
<td>Not Rated</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 8: Summary of ‘Consequence’ of each Risk if Realised

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catastrophic</td>
<td>1</td>
</tr>
<tr>
<td>Major</td>
<td>4</td>
</tr>
<tr>
<td>Moderate</td>
<td>12</td>
</tr>
<tr>
<td>Minor</td>
<td>17</td>
</tr>
<tr>
<td>Not Rated</td>
<td>4</td>
</tr>
</tbody>
</table>

9.1.3 Table 8 above highlights that there remain at least 5 risks that the Administration rate as being of Major or worse consequence should they be realised.

9.1.4 From previous experience being involved with other similar projects, recommend consideration be given to reviewing and including in the Project Risk Register the additional listed specific risks recorded in Table 9.
<table>
<thead>
<tr>
<th>Risk Category/Area</th>
<th>Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>Interest rates on borrowings are projected to be lower than actual rates included in LTFP.</td>
</tr>
<tr>
<td></td>
<td>Cost of materials significantly increases due to changes in market conditions or other outside factors.</td>
</tr>
<tr>
<td></td>
<td>The daily running costs and ongoing maintenance costs of the CLIC are understated.</td>
</tr>
<tr>
<td><strong>Financial / Procurement / Legal</strong></td>
<td>Large variance in tender responses.</td>
</tr>
<tr>
<td><strong>Procurement / Legal</strong></td>
<td>Tender specifications are inaccurate and not fit for purpose.</td>
</tr>
<tr>
<td><strong>Procurement / Legal</strong></td>
<td>Council procurement framework is not adhered to.</td>
</tr>
<tr>
<td><strong>Procurement / Legal</strong></td>
<td>Contractor becomes insolvent during project delivery phase.</td>
</tr>
<tr>
<td><strong>Procurement / Legal</strong></td>
<td>Contractor involved in industrial relations disputes during construction phase.</td>
</tr>
<tr>
<td><strong>Procurement / Legal</strong></td>
<td>WHS requirements and standards not met by contractor</td>
</tr>
<tr>
<td><strong>Contract / Legal</strong></td>
<td>Disputes with contractors not correctly identified or appropriately managed.</td>
</tr>
<tr>
<td><strong>Contract / Legal</strong></td>
<td>Quality of work undertaken by contractor does not meet contract requirements.</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td>Noise, air and visual pollution during construction and impact on local businesses.</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td>Adverse weather – risk that council temporary accommodation will not be available or default on commercial tenants available date to move into facility. Impact on the project?</td>
</tr>
<tr>
<td><strong>Project Management</strong></td>
<td>Defects not identified by project management team at agreed stages/milestones.</td>
</tr>
<tr>
<td><strong>Project Management</strong></td>
<td>Delays not appropriately managed and/or communicated.</td>
</tr>
<tr>
<td><strong>Design</strong></td>
<td>Design variations not appropriately reviewed and approved.</td>
</tr>
</tbody>
</table>
9.2 Risk Mitigation Measures

9.2.1 Before proceeding with the Project, matters raised in 9.1 should be further investigated and addressed by Council.

9.2.2 As at the time of preparing this report, a review of the Risk Register has been not been undertaken by the Elected Members. Recommend that a review of the Project Risk Register be an ongoing standing item when reports are presented on the Project to Elected members so that ongoing review of project risks and mitigating controls are undertaken.
10 The Most Appropriate Mechanism or Arrangements for Carrying Out the Project

10.1 Project Phases

10.1.1 The Project will be delivered by the Council over three different phases:

10.1.1.1 Design Development & Documentation Phase

10.1.1.2 Construction Phase.

10.1.1.3 On-going operations and maintenance Phase.

10.2 Construction Phase

10.2.1 Council’s Administration will be responsible for the supervision and delivery of the Project.

10.2.2 It is expected that multiple contractors will be engaged to undertake the different construction, fitout and upgrade stages of the Project.

10.2.3 Council’s Administration will be bound by Council’s adopted Tendering and Procurement Policies and Procedures which will determine the most suitable mechanism for engaging contractors to undertake works on behalf of Council.

10.3 On-Going Maintenance Phase

10.3.1 Council’s Administration will be responsible for the on-going operating and maintenance phase of the Project. Provisions in Council’s budget and draft LTFP have been made however these costs are based on existing service standards and facilities operated by Council. Given the CLIC facility will be different in design and operation to any other current facility operated by Council, ongoing maintenance costs may need to be revised in future updates to the Council Budget and LTFP.

10.3.2 As noted in 7.4, given that the estimated economic working life of the assets under both project options is at least 30 years, whole-of-life costing have not been undertaken for the Project – this should be noted by Council in its decision making for the Project and future LTFP’s should be updated accordingly.

10.4 Procurement Implications

10.4.1 Direction and guidance relevant to the engagement of contractors for the Project are outlined in Council’s Procurement Policy (CR17/24046). This policy contains the specific criteria relating to competitive tendering, measures to ensure cost-effective delivery of goods and services, appropriate contract engagement mechanism and use of local goods and services.

10.4.2 The procurement governance principles outlined in the policy, guide Council in engaging contractors for goods and services that state the following:
4 Procurement and Governance Principles

4.1 Council Officers who are required to procure on behalf of council will receive suitable training prior to undertaking any procurement activity. If the procurement is beyond the normal procurement activities of council, by value or complexity, then specialised external assistance must be sought.

4.1.1 Value for money

Identifies the best outcome for the most appropriate price. Undertaking a comparative analysis of all costs and benefits, including potential for disposal opportunities of each procurement throughout the whole of its lifecycle, to align with Council's strategic directions.

4.1.2 Open and effective competition

Council will create effective competition by maximising the opportunities for firms to conduct business with Council through the selection of procurement methods suited to market conditions.

4.1.3 Ethical behaviour and fair treatment

Council officers involved in procurement will act in the highest ethical professional standard and will not use or disclose information that confers unfair advantage, financial benefit or detriment on a supplier. Ethical behaviour encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency in all discussions and negotiations.

4.1.4 Probity, Accountability and Transparency

Council has the responsibility of ensuring that any procurement process is transparent and that its decisions are justified.

4.1.5 Risk Management

Ensures the appropriate risk management practices are applied for identification of risk, assessment and implementation of risk mitigation controls, in line with Council’s Risk Management framework.

4.1.6 Work Health and Safety

All suppliers will, as a minimum, be capable of and agree to comply with the standards prescribed by the Work Health and Safety Act 2012 and its Regulations.
4.1.7  Local Focus

Where the assessment against the evaluation criteria is comparable, and a sufficient local market exists, consideration may be given to the development of local business and/or industry, measurable economic growth, local employment and/or the opportunity for capital investment.

4.1.8  Environmental Procurement

Council supports the goal of environmental sustainability and is committed to identifying opportunities in procurement for reduced impacts on the environment where options achieve the same function and value for money outcomes. Environmental procurement involves the inclusion of relevant environmental factors in a decision to purchase goods, services and/or tenders with a view to maintain the health and quality of the environment, conserve resources, minimise waste and protect human health.

10.4.3  Council will need to give consideration to the requirements and principles of the Procurement Policy at all times.
11 If the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994

11.1 Disposal of Council Properties

11.1.1 The Project involves the disposal of the following Council owned properties:

11.1.1.1 132 – 134 Prospect Road, Prospect

11.1.1.2 218 Main North Road and 82 Johns St Prospect

11.1.2 Council has engaged CBRE (external property consultants) to assist with the marketing and sales services required to undertake the sale of both properties.

11.1.3 As part of the services provided to Council, CBRE are providing market advice and valuation information to Elected Members and the Administration to assist with their decision making.

11.1.4 Council is relying on the independent advice and services of CBRE to ensure that Council obtains the best possible financial outcome from the sale of both properties.
12 Conclusion

12.1 This Prudential Report has been prepared for Council to comply with the requirements of Section 48 of the Local Government Act 1999.

12.2 This Prudential Report should be read in conjunction with Council’s Director Community & Planning’s report (Administration’s Report) which is being prepared as at the time of preparing this Prudential Report.

12.3 The Administration’s report is expected to be presented to Council that outlines findings relating to the recent community consultation process completed on the Project, as well as key concept design options and costings from investigations undertaken.

12.4 The information contained in this report has been based on the information presented by Council’s Administration, during the course of preparing this report. A copy of this Prudential Report has been reviewed by the Administration to verify the accuracy of all facts and assumptions, as well as to ensure no information has been omitted for Council’s consideration.

12.5 As at the time of preparing this Prudential Report, the draft LTFP has been updated and presented to Elected Members at their 14 November 2017 Council Meeting which includes the most up-to-date cost estimates for the Project based on concept designs considered by Council.

12.6 The Prudential Report has highlighted a number of areas where it is considered further information is required or further clarified before the Project can progress. In particular, the Executive Summary provides a list of outstanding matters that the Reviewer wishes to highlight to Elected Members for their consideration.

12.7 A Development Application for the construction of the facility is yet to be prepared and approved by Council’s DAP. Further community consultation and notification will need to be undertaken as part of any development application process undertaken by Council.

12.8 The most recent capital costs and estimates of on-going operating costs for the first ten years have been included in an update to Council’s Long Term Financial Plan (LTFP) prepared by Council’s Finance Department.

12.9 Whole-of-life costs have not been prepared by the Administration for the entire life of the Project, given the majority of assets constructed will have an economic life beyond the life of the LTFP.

12.10 Future updates of Council’s LTFP and IAMP are recommended to be undertaken to ensure that changes to key cost estimates and variables are always reflected and any changes in funding requirements for capital construction or ongoing management of the CLIC are known by Council.

12.11 Council’s Administration has undertaken a risk assessment for the Project. A list of recommended risks to be specifically considered for inclusion in the Project Risk Register have been provided.
12.12 Control activities identified in the risk assessment should be implemented to ensure appropriate mitigation and monitoring of all identified risks as well as further consideration given to risks noted in Section 9.

12.13 The Risk Register should become a standing item in all future reports presented to Elected Members for the purpose of monitoring existing risks and potentially identifying any yet to be recorded risks so they can be appropriately monitored and mitigated.

12.14 In conclusion, Council should now consider the outstanding information to be provided by the Administration prior to making a decision on the Project.