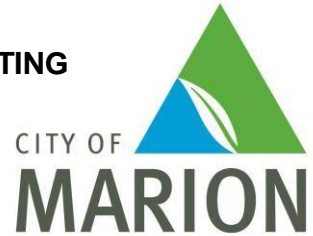


**MINUTES OF THE SPECIAL FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON MONDAY 22 FEBRUARY 2016**



PRESENT

Mr Greg Connor (Chair), Mr Lew Owens, Ms Kathryn Presser, Councillor Tim Gard.

In Attendance

Mr Adrian Skull	Chief Executive Officer
Mr Vincent Mifsud	General Manager, Corporate Services
Ms Abby Dickson	General Manager, City Development
Ms Kate McKenzie	Manager, Corporate Governance
Mr John Valentine	Manager, Strategic Projects
Mr Ray Barnwell	Manager, Finance
Mr Neil McNish	Manager, Economic Development
Ms Emma Cavaggion	KPMG
Mr Jared Lawrence	KPMG

1. OPEN MEETING

The meeting commenced at 3.02 pm.

2. KAURNA ACKNOWLEDGEMENT

We acknowledge the Kaurna people, the traditional custodians of this land and pay our respects to their elders past and present.

3. MEMBERS DECLARATION OF INTEREST

The Chair asked if any Member wished to disclose an interest in relation to any item being considered at the meeting. No interests were declared.

4. CONFIRMATION OF MINUTES

Nil

5. BUSINESS ARISING

Nil

6. ELECTED MEMBER REPORT

Nil

7. REPORTS

Matters for Discussion

**7.1 Edwardstown Soldiers Memorial Recreation Ground - Section 48 Prudential Report
Reference No: SFAC2202161R7.1**

The General Manager, City Development provided an overview of the project, highlighting that Council regards sporting infrastructure and facilities for the City of Marion as a high priority. The Committee noted the aim of the project was to develop the Edwardstown Oval site to create a new precinct that will provide a broad range of recreational, economic and social benefits to the local community.

The Edwardstown Oval redevelopment has been identified as one of Council's top four adopted priorities for sporting and community facilities. In September 2015, the Council resolved to progress the project to develop and prepare concept plans and a comprehensive submission for the National Stronger Regions Funds (NSRF).

As part of the project development, when the capital costs of a project exceeds \$4m, a report that addresses the prudential issues of the project must be developed in accordance with Section 48 of the Local Government Act 1999. The requirements of a Section 48 report are set out on page 61 of the agenda.

The key areas of feedback sought from the Finance and Audit Committee relate to:

- Financial viability and sustainability of the project
- The risk register
- Governance model and management framework.

The Manager, Strategic Projects provided the Committee with a presentation that highlighted the design concepts and an overview of how the facility would operate and be managed. It was noted the project has been developed in a tight timeframe. The Manager, Strategic Projects advised that some elements have been developed 'below the line' which means they can be added or taken off, depending on how the project progresses and the construction tender outcomes.

The Committee queried where this project was prioritised against Council's other priority sporting projects, as Council will need to examine and consider the incremental impact on the financials as these projects further evolve. The Manager Strategic Projects advised that this project was the first to progress to this stage during this term of Council, and had been driven by the timing of the funding application which is due to be lodged by 15 March 2016. It was also raised that a submission for the indoor multicourt facility proposed at Mitchell Park will also be prepared for the mid year applications to the next round of the NSRF.

The Committee cautioned that depending upon how the project will be funded (i.e. through borrowings or reserves), Council needs to consider its debt servicing ratio and the implications on other projects. The \$8m proposal includes a \$4m capital contribution from Council funds in addition to \$4m project funding being sought through the NSRF. Council will also be required to fund additional on going maintenance and renewal costs. This may present a challenge to Council if it does not want to increase rates and other major projects require similar funding. Council's increased funding requirements are highlighted on page 102 of the agenda papers. If the project progresses, consideration should be given to how it will be resourced.

Economic Development

The Committee noted that expected economic development of the local area and the impact on businesses was one of the issues to be addressed under Section 48 and suggested that this could be further developed within the report.

The Manager, Economic Development advised that the economic impact analysis had been completed at a local level, focusing on impact to businesses based on assumptions of visitations. It was noted that analysis can be difficult as it does not take into account individual businesses as such, but rather how the facility could create further economic benefit to the general location through additional visitation and spending in the area. It was agreed that further clarity can be provided to this section of the report.

Action – enhance the economic development information within the Section 48 report regarding the impact on local business.

Consultation

The Committee noted that the primary consultation had occurred with the Edwardstown Oval Committee who represented the clubs at the site and some local residents, including representation from the RSL. It was also noted that good stakeholder consultation had occurred, but as the timeframes to develop the submission had been tight, the general public had not been involved in a broader consultation at this point. Some consultation had occurred in 2012 when the original sports hub master plan was developed. This received a positive response from the community. The difference between this proposal and the master plan proposal from 2012 is the size of the building, which was much larger in 2012. Feedback received at that time was the site was looking tired and in need of upgrading.

It was noted that if Council supports the application at the special meeting of Council scheduled for the 8 March 2016, further consultation with the community should occur. The Committee suggested there seems to be a number of key issues that may affect residents, such as increased noise, traffic management and visitation.

Action – Acknowledge within the report that consultation with the general public and particularly local residents will occur as the project progresses.

3.35 pm - Jared Lawrence and Emma Cavaggon from KPMG entered the meeting.

The Committee noted that KPMG had been engaged to develop two elements of the report being the governance model and the financial forecast.

Governance Model

KPMG reviewed what the City of Marion was already doing at a local level and reviewed other facilities such as Club Marion, Cove Sports, Marion Leisure and Fitness, the Marion Outdoor Pool and the Living Kaurua Cultural Centre to see how they were being managed. Guidance was also sought from the Office of Recreation and Sport Management Guidelines and the Local Government Association.

From this research, KPMG recommended that a skills based board be developed with focus on sport and recreation, community capacity building, asset management, financial and risk management. It was noted that representation could come from sporting clubs and residents should they have the right skills. The model also proposed a full time manager, funded by the Council for an initial two year period to drive growth, attraction and community development. The skills based board would be responsible for the revenue collection of the site, and proportionate allocations of revenue would be made to clubs after overhead and maintenance costs were covered.

The Committee queried if this model had been successful at other locations as it could be suggested that this model could create financial sustainability issues for the clubs.

It was noted the current model is not working and requires change. The proposed management model is based on a model tested and currently operating successfully in New Zealand.

The Committee noted the following points regarding the management model:

- Ensure the volunteers do not feel a level removed from the operations of the clubs. Volunteers feel valued when involved in the clubs and can see the benefits of their hard work. It is important the management model does not impact on the ability to attract volunteers, which is critical for the on-going operations.
- Strategic planning and marketing skills are required for the Management Committee.
- Further work needs to be completed regarding how and who selects the Management Committee.
- Clubs could feel a loss of autonomy.
- Careful consideration should be given regarding the constitution and the status of the Committee. Council needs to ensure the Committee is accountable to Council and the constitution does not preclude this from occurring.

The Committee commented that how skills based parties would be appointed to the new management board and who would make the appointments were not discussed in the document. Clarification is also required as to who would set up the business and resident advisory committees and how volunteers would be protected.

Action

- **Greater clarity required regarding the nature of the entity to be created (re single management structure) and its relationship to the City of Marion.**
- **Description / outline required how governance arrangements would be resourced (ie Council paid manager), process for attracting and appointing skills based board and their appointment and how status / nature of the board would provide protection for volunteers.**

Financial Management

The Committee noted the financial summary on pages 101 and 102 of the agenda and the assumption that Council will fund its \$4m contribution for the project through borrowings. The Committee requested that the report is clear regarding the total capital expenditure for the project being \$8m with \$4m provided by the City of Marion and \$4m sought from the Federal Government through the NSRF. It also suggested that further consideration be given to assessing the best method of funding from the Council; via debt, cash or a mixture of both.

The Committee requested that the LTFP analysis also include details of the key financial Ratios before and after the proposed project.

Action

- **Amend the financial summary to clarify funding and display the total capital expenditure of \$8m.**
- **Include all key financial Ratios in the LTFP analysis.**
- **Assess the best method of funding Council's contribution**

The Committee noted the following key points:

- The increase in depreciation is not substantial. It was highlighted that the depreciation has been calculated based on the total \$8m project cost
- If the grant is successful, \$4m will be reflected as capital revenue
- There will be a \$2.4m write down due to the current buildings being demolished
- It is proposed that Council fund a full time manager for the transition period of two years and then the management fee will cover this cost after the transition period when the position will also reduce to a part time manager .

- Revenue has been forecast at 10% growth for the first 3 years based on an uplift of visitor numbers and then at CPI from year 4 onwards.
- The project budget has been established at \$8m. The Section 48 report should be clear regarding what elements will be excluded should the project exceed budget. It was noted the project would be referred back to Council for further decisions should major budget implications develop during the project.

The modeling of the management fee was discussed. The Committee noted that revenue obtained above the operating costs of the Management Committee would be redistributed to the clubs on a proportionate basis. It was noted this is a different approach to what is currently operating, as each club currently pays its own operational costs such as utilities. The Committee noted an appropriate review over the clubs' financial viability should occur. The Committee also suggested that the report should provide further clarity and definition regarding what is deemed revenue.

Action: Provide further clarity and definition regarding what is deemed revenue within the report.

Asset Management

The Committee noted the following regarding asset management:

- That the velodrome is the only velodrome in South Australia to the standards used by professional cyclists. It requires resurfacing and new barriers will be installed as part of the project. The Committee queried the life span of the velodrome and it was confirmed that the surface would last between 20 – 25 years.
- Lights are currently being installed and would not require further upgrade as part of the project.
- The site contains no known asbestos and no known contamination. Preliminary testing has occurred and any fill on the site is local to the area.
- It is proposed that the cricket nets located on Towers Terrace and Raglan Avenue will be relocated to the main site. This creates a potential to dispose of the land where the cricket nets currently are, if its use is no longer required. It was noted that a water bore is located at this site.
- Renewable energy is not included within the design due to the budget limitation but the building has been designed to facilitate the installation of solar panels at a later stage.
- The play equipment is out of scope as the playspace has recently been completed in the south western corner of the site.

Project Management

The Committee noted the project management plan as outlined on page 147 of the agenda. The Manager, Strategic Projects raised that this structure has been used on the past two major projects at the City of Marion. The Project Control Group that has executive representation and officers involved in managing the project will meet monthly to focus on timing, quality, financial analysis and risk management.

It was noted that management is currently exploring using an internal resource that has appropriate skills, experience and qualifications to manage/superintend the project which will save approximately \$300k. It will also reduce double handling and establish a more thorough understanding of the project issues.

The Committee queried the lessons learned from other projects, noting that management stated that early intervention regarding risks and issues management was critical.

4.19 pm Ms Presser left the meeting

4.21 pm Ms Presser returned to the meeting

Risk Register

The risk register was noted by the Committee as a sound risk management approach and the Committee made the following observations:

- Risk E02 relating to the success of the NSRF application remained a high risk after controls, due to the unknown likelihood of successfully securing the grant funding.
- Risk E017 relating to tender prices not exceeding cost estimates had the same inherent and residual risk rating. It is proposed that further work may need to occur on the controls to reduce the residual risk.
- The risk treatment plans should be managed and regularly monitored to ensure treatments are implemented.

It was noted that a number of inherent risks were assessed as medium risks and after controls, the residual risk was low.

The Manager, Strategic Projects highlighted that projects are always inherently risky due to the costs and complexities. The high risk relating to this project relates to the ability to secure the grant funding through the NSRF.

The Committee queried the likelihood of the grant application succeeding. It was noted that two rounds of funding had occurred so far with 1 in 5 applications being funded. The vast majority of successful applications occurred outside of capital cities. Council should be notified of the success by June or July 2016.

Summary

In summary, the Committee noted it is important for Council to consider the overall impact when discussing projects. It was requested that when projects are considered, the Long Term Financial Plan is presented in 2 formats, with the project included and with the project excluded. This is to provide good comparative data for sound financial decision making. As multiple projects develop, it is critical for Council to understand the financial position to ensure that the projects are delivered within the Council financial ratios and parameters.

It was noted that page 53 of the agenda provided the Long Term Financial Plan but the above comments can be included within the report.

To address the points highlighted within the recommendations the Committee noted:

1. The project supports strategic objectives and this is well documented.
2. The project complies with the Development Plan as it is a redevelopment of an existing site. The buildings will require development approval prior to progressing. The Committee requested that further clarity is provided in the summary on page 3 of the Section 48 Report in regards to this.
3. The economic impacts are addressed.
4. Greater community consultation is required and could be achieved through further meetings with the residents and local businesses.

5. The project risks are well documented and have been assessed. It is critical that the treatment plans are regularly monitored.
6. The financial viability of the project hinges on the grant funding. If the grant funding is unsuccessful Council will need to determine if and how the project will be funded. This may challenge Council's current position of low rates rises if the project progresses. Further work is also required around the management fee structure to ensure the passion of the clubs is not lost.
7. The financial sustainability targets can be met for this project but Council needs to consider the impact of other projects on these targets and ensure that decision making is not made in isolation of other priorities.

8. CONFIDENTIAL ITEMS

Nil

9. ANY OTHER BUSINESS

The Committee agreed to further investigate the opportunity of producing electronic agendas for the Finance and Audit Committee.

10. MEETING CLOSURE

The meeting was declared closed at 4.42pm.

11. NEXT MEETING

The next meeting of the Finance and Audit Committee is scheduled to be held on:

Time: 8 March 2016

Date: 2.00pm – 5.00pm

Venue: Chamber, Administration Building, 245 Sturt Road, Sturt

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CHAIRPERSON

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