

**MINUTES OF THE SPECIAL FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON MONDAY 20 JUNE 2016**



PRESENT

Mr. Greg Connor (Chair), Mr. Lew Owens, Ms. Kathryn Presser, Councillor Raelene Telfer and 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
Mr. Tony Lines	General Manager Operations
Ms. Deborah Horton	Unit Manager Performance & Improvement
Mr. Ray Barnwell	Manager Finance
Mr. John Valentine	Manager Strategic Projects
Ms. Birgit Stroehrer	Registered Architect, Strategic Projects
Mr. Jared Lawrence	KPMG

1. OPEN MEETING

The meeting commenced at 4.02 pm. The Chair welcomed all those present to the meeting.

2. KAURNA ACKNOWLEDGEMENT

We begin by acknowledging the Kurna 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.

Councillor Telfer advised of a perceived conflict of interest due to her involvement with the Dover Gardens Obedience & Kennel Club. The Chair thanked Councillor Telfer and advised that a perceived conflict of interest would not require Councillor Telfer to absolve her responsibility to hear and discuss this report as a member of the Finance and Audit Committee. Councillor Telfer therefore remained in the chamber to participate in the meeting and vote.

4. CONFIRMATION OF MINUTES

**4.1 Confirmation of Minutes for the Finance and Audit Committee held 31 May 2016
Report Reference: FAC200616R4.1**

Moved Councillor Gard, Seconded Ms Presser that the minutes of the Finance and Audit Committee meeting held on 31 May 2016 are confirmed as a true and correct record of proceedings.

**Carried Unanimously
Cr Telfer voted in affirmative**

Discussion was raised from Councillor Gard regarding the fullness of content of the minutes of the Finance & Audit Committee with particular reference to report FAC310516R7.4 titled “Cost Sharing with Councils”, whilst acknowledging the accuracy of the minutes as presented.

Action:

- **A progress report be presented to the Finance and Audit Committee regarding the report FAC310516R7.4 titled ‘Cost Sharing with Councils’ at the next meeting on 16 August, in relation to cost sharing opportunities.**

5. BUSINESS ARISING

Nil

6. ELECTED MEMBER REPORT

Nil

7. REPORTS

**7.1 Section 48 Report – Mitchell Park Sports and Community Centre
Reference No: FAC200616R7.1**

The General Manager City Development gave a brief overview of the Mitchell Park Sports and Community Centre as a project that is well aligned to Council’s strategic directions. A key priority of Council has been to improve sporting infrastructure and facilities across the City. Council were also keen to look at indoor and outdoor sporting/community activation prospects whilst being cognisant of significant opportunities that the Tonsley Development will bring in conjunction with this development. The result is the four court multipurpose indoor facility and community centre precinct concept attached to this report.

The key areas of feedback requested from the Finance & Audit Committee (the Committee) relate to;

- Financial viability and sustainability of the project
- The risk register
- Governance and management models with financial forecasts.

The Manager Strategic Projects provided the Committee with a presentation which highlighted the design concepts, site layout and an overview of how the facility would operate. The project essentially rehouses three sites/services into one new facility at Mitchell Park to provide a diverse range of sports and community services activating the site during the day and evening.

Key messages during the presentation include;

- The existing basketball stadium located on Norfolk Rd, Marion built in 1965 is inadequate in size and design to meet the needs of Basketball South Australia (Basketball SA). The two indoor courts can no longer be resurfaced with a consequent remaining lifespan of three – five years.
- The existing building and sport infrastructure located at Mitchell Park Sports Club are inadequate in size and design to meet the needs of the various current and prospective tenants that will all benefit from its upgrade.

- Built approximately 1960, the Mitchell Park Neighborhood Centre requires upgrading in the relatively near future, as it is restrictive in size and design, with limited development potential.
- Community engagement has been undertaken initially with key project stakeholders with further consultation to be undertaken with the local community.
- Opportunities have been identified and are being progressed beyond the physical building of infrastructure to include strengthening relationships with a number of various groups/clubs with a regional reach or focus. Critical relationships have been identified with several key stakeholders including;
 - Junction Australia: Community services and sports monitoring and measuring.
 - Flinders University: linkages with Tonsley site with approximately 2,000 students having access to the site per week per day.
 - Basketball SA: Bringing regional competitions to the proposed facility. Initial discussions have been positive regarding leasing arrangements.

The Committee discussed Basketball SA's potential contributions and capacity noting that further discussions will take place regarding their future involvement. As their agreement to a significant increase in payments (from \$15,000 to \$386,000) is critical to the financial viability of the Development.
 - Tonsley: Redevelopment site will involve 850 dwellings and 1,200 residents, 6,300 on site jobs.
- The anticipated cost of the project is \$19,753,000. Council will be submitting an application to the Federal Governments National Stronger Regions Fund, for \$10,000,000 for this project.
- The cash impact of the project has been assessed with the Manager Finance advising Council that it has the funding capacity within its adopted long term financial plan (LTFP) to fund the \$9.87m capital contribution plus associated ongoing increases in operating, maintenance, renewal and borrowing costs required for the project (ie. whole of life costs).
- Basketball SA is a key and critical stakeholder in this project and it was acknowledged that if it was prepared to make an up-front capital contribution towards the project, this would increase the chance of Council being successful with its Federal grant application.
- Council is liaising with DPTI and the Minister for Planning's office to ensure that the DPA is progressed in a timeframe commensurate with the project's timelines. The rezoning is seen as complementary to the Tonsley development and is expected to be given priority as it complements this state significant project.

Mr. Jared Lawrence from KPMG presented their report entitled "Mitchell Park Sports and Community Centre Redevelopment Project" addressing three components of the Mitchell Park Sports and Community Centre redevelopment project report including governance and management recommendations along with a 10 year financial forecast. A summary of each element is provided below;

Governance Model

KPMG reviewed what the City of Marion was already doing at a local level and had recommended that a stand-alone skills based board or committee of management be implemented for the Mitchell Park Sports and Community Centre, with representation from Council. The purpose of this recommended model is to ensure that the City of Marion's interests as the asset owner are appropriately represented and managed and that

management models are consistent with other similar projects (Edwardstown Soldiers Memorial Recreation Ground).

The Chair raised the view that a regional body would be an ultimate governance model/position, as it would provide greater scale to the overall regional operations. However, it was noted that it would be difficult to establish from the onset whilst the infrastructure is being built. Such a regional board might be the second stage of the governance structure once the projects have been running for a number of years.

The Committee noted the following points regarding KPMG's proposed skills based board/committee model;

- Potential to transition to a regional body in the future, that would operate across all similar facilities in the City of Marion.
- Ensure existing clubs do not feel a loss of autonomy.
- Would need to ensure that a stand-alone skills based board would need to appropriately fit Council's culture and a suitable process should be put in place to ensure that any risks to this are mitigated.
- Opportunity to manage governance expectations/commitments via individual leasing and licensing agreements.
- Ensure opportunities for a strategic focus are incorporated in the governance model.
- Consistency in City of Marion governance/management models.
- A potential issue may arise based on the large variance in contributions from the organisations involved.

Action:

- **Greater clarity regarding the recruitment of a skills based board and its initial relationship to the City of Marion.**
- **Further clarity regarding the potential to transition to a regional City of Marion body in the future.**

Management Model

KPMG proposed a management/staffing structure to include a manager and assistant manager for every hour the centre is in operation. These roles are proposed to be employed by the management committee, based upon staffing levels consistent with current City of Marion staffing structures.

The proposal includes incorporating a Centre Manager role on site from 9am to 5pm, seven days a week with a supporting Centre Assistant role on site from 3pm – 11pm, seven days a week, with relevant bar and kitchen staff to support the facility during its times of operation.

The Committee noted the following regarding KPMG's proposed management model;

- Impost upon a newly formed skills based committee members to recruit staff and manage the facility.
- Level of risk that such a model could make it harder to recruit members for the management committee.
- That the Mitchell Park Neighborhood Community Centre is a stand-alone service and therefore is considered separate from the proposed management/staffing structure. (These staff will continue to operate as City of Marion employees.)

Action:

- **Further rigor is required regarding consideration of a management and staffing structure that has staff employed by the City of Marion as opposed to a management and staffing structure that is employed by the management committee of the facility.**

License/ sub license arrangements

KPMG has recommended that a head license agreement is arranged between the City of Marion and the proposed management committee with sub licenses between the management committee and each sport/community group as tenants of the facility.

It was acknowledged that Basketball SA will be a new user of the site and as such will be subject to a new sub-license.

Discussion regarding initial conversations with Basketball SA and their commitment and capacity (financially and generally). Basketball SA have been positive and are encouraging of other clubs utilizing the facilities, however it was acknowledged that further in-depth conversations to elucidate details will be required, especially regarding lease payments before the project progresses.

The Committee noted that Basketball SA are a significant and critical stakeholder (the majority of incoming funds are projected as being generated from basketball) and as such Council should be cognisant of balancing Basketball SA's involvement with that of other minor clubs whilst further discussions are progressing. In this regard, it is imperative that the stand-alone board does not forget about the desired broader community outcomes.

Action:

- **Further discussions with Basketball SA progress to determine;**
 - **Potential for capital contribution,**
 - **Current /future financial capacity,**
 - **Licensing fees.**

Financial Modelling

KPMG gave a brief overview and rationale regarding the City of Marion's contribution to the Mitchell Park Sports and Community Centre as being either debt funded or a combination of debt and equity – depending upon the success or otherwise of funds raised via successful grant applications and contributions by partners.

KPMG are confident of the figures provided in the report based upon a conservative philosophy (for example the Repairs and Maintenance budget line is based off 1.5% of the project net capital expenditure, which is a conservative approach to take in the first years of the new facility).

The current LTFP includes appropriate allowances for current capital and operating costs relating to the existing sites. The transitioning of these centres/activities to the proposed new Mitchell Park Sports and Community Centre, those planned costs will no longer be incurred. In addition, there will be some increase revenue coming to the new facility via license fees to offset the increased operating costs for the new facility.

The Committee noted the following regarding the KPMG financial modeling;

- Council has strong control measures in place to manage fees and expenditure.
- Council's existing treasury policy will assist to guide and manage any rate risks that may present, by establishing the average and maximum terms for debt.

- Page 388 (of the agenda), it is projected that Council will be paying for a \$423k operating loss in year one and a \$1.529m funding (Cash) loss, after capital renewal and loan principal funding requirements are taken into consideration.
- Page 388 (of the agenda), when taking into consideration the projected funding requirement of \$936k for the recently considered Edwardstown major project and the \$1.529m funding requirement for this project, this equates to a total funding (Cash) requirement from Council of \$2.465m in the first year if these two projects proceed (it was noted however that the projected funding requirement for the Edwardstown project is already included in the currently approved LTFP).
- The financial modelling presents a worst case scenario and includes a reasonable margin in relation to the interest rate that has been used for borrowings.
- It was highlighted that Council is currently holding large cash reserves and therefore if the project proceeds appropriate consideration would need to be given to what would be the best combination/mix of cash and borrowings appropriate for Council to fund the project (the modelling assumes that Council will fully loan fund its contribution, which is worst case scenario and unlikely). Regarding the amount to be borrowed or contributed from the Asset Sustainability Reserve (ASR) fund it would be useful to have a formal policy addressing how much of the ASR funds could be applied to one project, having regard to Council's plan or vision for other major projects in the longer term.
- From a financial perspective the modelling indicates that this project is achievable and makes sense, however there are risks and challenges that need to be taken into consideration, including;
 - the potential that rate capping may be introduced, noting that the Adelaide CPI is currently only 0.7% and the LTFP is currently based on a consistent annual rate rises of 2.75% and 0.5% reduction in the average rate rise would equate to approximately \$20m over the 10 year term of the LTFP.
 - The 2% wage increase assumption currently in the LTFP may present a challenge.
 - Council's capacity to fund its other two major aspirational project objectives (although a contribution of \$750,000 to the BMX track upgrade is now included in the proposed 2016/17 budget and LTFP).
 - The accumulated effect on the organisations existing resources of potentially implementing 2 to 4 major projects at the same time.
 - Basketball SA is a key and essential stakeholder to the success of this project progressing.
 - Risk that Federal Government funding does not come to fruition for this project and the significant impact that this would have on the current financial modelling.

Action:

- **Further rigor added to the report regarding cumulative effects on the organisation from a financial and resourcing perspective. Undertaking two of potentially four major projects at one time has a need to put in place plans, a suitable policy and appropriate resources to mitigate risk and impact so the projects can proceed on time and on budget.**
- **Define likelihoods and challenges of future funding opportunities to prioritise any additional future projects for Council, in order to make critical decisions regarding the debt levels it wants to carry.**

- **Partnership funding for the project to be sought via Basketball SA with further discussions regarding the modelled annual lease payments from Basketball SA, on the basis of an open book arrangement moving forward.**

Risk register

The risk register was noted by the Committee on page 421 as being a thorough and sound risk assessment. The Committee requested that the cumulative effect on the organisations existing resources of potentially two to four major projects being progressed at the same time by Council, be included in the risk register.

Action:

- **The cumulative effect on the organisations existing resources of potentially two to four major projects being progressed at the same time by Council, be included in the risk register.**

Stormwater management

The Committee noted that Warraparinga Creek used to feed into site however, technical advice and analysis has shown there is minimal benefit to capturing creek water via aquifers on site. Council has a regional ASR scheme where water collection occurs across the city.

It was discussed that it would be important to include an appropriate comment in the report in relation to the stormwater run-off into the Sturt River as a result of the proposed new facility.

Action:

- **Ensure an appropriate comment is included in the S48 report in relation to stormwater run-off into the Sturt River as a result of the proposed new facility.**

Economic Development

The Committee commented on the economic analysis in the Section 48 report, which considered the net present value (NPV) of the project from an economy-wide perspective, and noted that a normal approach to an NPV would be to examine the benefits received by the investor. In this (and other projects of this nature), the Council is investing in facilities for the benefit of rate-payers and residents, and there is not a financial return to Council. It was suggested that a more relevant consideration for inclusion in the report was whether this proposed project (consolidating three facilities into one) was the preferred solution, as opposed to the cost of upgrading all three facilities separately, but the report did not provide this information, nor did it indicate the cost of revenue of disposing the surplus two facilities. The Committee noted that the same model used to calculate economic development opportunities and values were utilised for the Edwardstown Soldiers Memorial for consistency.

Councillor Byram, from the gallery, raised the question regarding the existing Mitchell Park Neighbourhood Centre (MPNHC) which makes an operating loss and whether it is predicted that this position would improve in the proposed new facility and if the same operations and staff be re-located into the new facility? The Manager Finance advised that the financial modelling in relation to the MPNHC took a prudent approach and assumed status quo, with the same operations and staff to be relocated.

The Committee noted the following regarding economic development;

Action:

- **Further consultation with the local community regarding the impact of the project, including streetscape, car parking and larger volumes of cars coming/going.**
- **Further exploration of non-economic strategic objectives be included focusing on the existing MPNHC and basketball facility in Norfolk Road and what**

opportunities may be explored when they are vacated, including whether they could be unusable for other purposes. In addition, further discussion is required in regard to the proposed impact for existing user groups and funding impacts for these groups upon moving into the new facility.

Summary

In summary, the Committee noted it was important for Council to consider the overall impact when progressing significant infrastructure projects. As multiple projects develop, it is critical for Council to understand and plan its financial position to ensure the project can continue on time and within budget.

To address the points highlighted within the recommendations, the Committee agreed:

1. The project supports Council's Strategic objectives.
2. The project aligns with the objectives of Council's development plan.
3. The assessment of the potential economic impacts is in line with previous project assessments.
4. Greater community consultation is required and could be achieved through further meetings with residents, businesses and key stakeholders, to address issues such as increased traffic, noise and hours of operation.
5. The assessment of the projects risks and mitigation strategies are appropriate and well documented.
6. The financial viability of the project in both the short and long term has been adequately addressed. It is however important to note that Basketball SA is a key and essential stakeholder to the success of this project progressing.
7. Council needs to understand its capacity to deliver these projects at a high standard. There are challenges and risks associated with delivering this project however, the project does make financial sense. It is a timely reminder to further develop and review Council's Treasury Management and Reserve Funds policies to guide such major projects.

Action:

- **The Treasury Management and Reserve Funds policies to be brought for discussion to the next Finance & Audit Committee meeting.**

5:47pm Moved Councillor Gard, Seconded Mr Owens that the Finance and Audit Committee meeting extend to 6pm.

Carried Unanimously

Clr Telfer voted in the affirmative

The General Manager City Development, echoed by the Committee, acknowledged the comprehensive report and technical work that had been undertaken in short time frames congratulating and thanking all report contributors.

8. CONFIDENTIAL ITEMS

Nil

9. ANY OTHER BUSINESS

Nil

10. MEETING CLOSURE

The meeting was declared closed at 5:50 pm

11. NEXT MEETING

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

Meeting of the Finance and Audit Committee

Time: 4.00pm – 6:00pm

Date: Tuesday – 16 August 2016

Venue: Chamber, Administration Building

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CHAIRPERSON / /