

**CITY OF MARION  
GENERAL COUNCIL MEETING  
26 March 2013**

**CONFIDENTIAL**

**REPORT RELATING TO:  
An Organisation of Excellence**

**Originating Officer:** Mark Gibson, Acting Manager Governance

**Director:** Mark Searle, Chief Executive Officer

**Subject:** Draft Confidential Minutes from the 14 March 2013 Audit Committee Meeting

**Reference No:** GC260313F01

**File No:** 9.14.1.4

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If the Council so determines, this matter may be considered in confidence under Section 90(3)(b) and (k) the *Local Government Act 1999* on the grounds that the report contains information relating to a tender for the carrying out of works and contains matters that could confer a commercial advantage to a third party.



**Mark Searle**  
Chief Executive Officer

**RECOMMENDATION:**

That pursuant to Section 90(2) and 90(3)(b) and (k) of the *Local Government Act 1999*, the Council Committee orders that all persons present, with the exception of the following persons: Elected Members of Council, Mark Searle, Kathy Jarrett, Vincent Mifsud, Heather Montgomerie, Mark Gibson, Victoria Mortiz, Craig Clarke, John Valentine, Heather Michell, John Silverblade, Mathew Allen, Peter Patterson, Fay Millington, Ray Barnwell, Colin Heath, Matt Perano and Tony Brewster be excluded from the meeting as the Council Committee receives and considers information relating to financial and scope options as part of the tender process to manage the project, upon the basis that the Council Committee is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential and the disclosure of the information could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council. In addition the disclosure of this information would, on balance, be contrary to the public interest as it could prejudice Council's ability to be able to negotiate a cost effective proposal for the benefit of the Council and the community.

## **REPORT OBJECTIVE AND EXECUTIVE SUMMARY:**

The Audit Committee is a formally constituted Committee of Council pursuant to Section 41 of the Local Government Act 1999 and is responsible to Council.

The Audit Committee held a meeting Tuesday 14 March 2013 and in accordance with clauses 4.15 and 4.16 of the Audit Committee Policy (as endorsed by Council at its meeting on 27 September 2011) the minutes of that meeting are herewith forwarded to Council.

## **RECOMMENDATIONS (2):**

## **DUE DATE:**

**That:**

- 1. Council receive and adopt the confidential minutes of the Audit Committee meeting of 14 March 2013 (Attachment 1 and 2 to report reference GC260313F01). 26 March 2013**
- 2. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Audit Committee orders that the appendices to this report having been considered in confidence under Section 90(2) and (3)(b) and (3)(k) of the Act be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting and that the report (exclusive of the appendices) be released. This confidentiality order will be reviewed at the General Council Meeting in December 2013.**

**REF NO: AC140313**

**MINUTES OF**

**CONFIDENTIAL ITEMS**

9.35am the meeting went into confidence

**City Services Redevelopment  
Reference No: AC140313F01  
File No: 16.65.1.4**

The Manager Strategic Projects conducted a short presentation of the City Services Facility. The presentation comprised of an overview of the existing and proposed site plan and accommodation layout. The Manager Strategic Projects further advised there were a number of potential options available to reduce scope and generate cost savings. These included reducing the cost of internal finishes to office and amenities area, changes to the roof design to stores and workshops and reducing the extent of canopies and simplifying the design.

The Committee raised a number of queries and the following responses were provided in the meeting;

The Committee queried the overall cost of the project and whether the design of the office building was the factor behind the increased costs. It was noted that the design of the building is considered to be of an average standard that maximises operational efficiency. It was further noted that there had been a proposal to move the office building north of the site, however the building would have lost its environmental benefits and that remediation works would still be required on the southern section of the site for car parking.

The Committee suggested that the report would benefit from including previous reports and summaries, for example it was noted that the Section 48 Report as presented was an update of the original May 2011 Report which was initiated as a result of an increase in the costs of the project from the original cost estimates. It was further noted that this report would benefit from drawing on and including a summary of the project's significant history outlining the various options considered over time.

The Committee queried whether the proposal to restrict the tender to organisations who are prequalified to DPTI Category 1 or 2 would limit the level of competitive tenders. It was noted:

- It is common practice to rely upon DPTI's prequalification processes to categorise the level of an organisations capability and quality of its business systems
- the practice of limiting access to a tender to prequalified organisations is consistent with Council's Procurement Policy's objectives of balancing the achievement of value for money outcomes with efficient procurement methods that do not unduly put the market to expense
- there are currently over 34 General Building Contractors based in the Adelaide metropolitan area that are prequalified to DPTI Category 1 or 2, and that many of these were considered to be highly competitive.

The Committee queried what Administration could do to ensure future tenders provide a greater degree of confidence that tender prices are more closely aligned to cost estimates. It was noted that the next round of tendering will include further

marketing, further discussions with the existing 4 tenderers and updating the current cost estimates with actual market pricing. It was further noted that contingencies exist within the project and that management would be encouraged to undertake greater up front testing into the ground conditions to provide greater certainty that the revised budget is appropriate

The Committee suggested that Administration should be prepared to enter into parallel negotiations with the appropriate shortlisted tenderers as part of the re-tender process in an effort to reduce prices from those tendered, and the brief for the retender should reflect this possibility. It was noted Administration currently engage in negotiation on tenders as appropriate, and its standard Tender Conditions communicate this ability to the market.

The Committee queried whether it would be more prudent to continue to own the site or leaseback a portion of the site for the use as a depot. It was noted that in general, Council's tend to own their own Depot. The Committee also suggested that selling the surplus land upfront precludes project creep and that there would be considerable merit for Council to enter into a short-term leaseback arrangement of this area. It was noted that from a policy and financing perspective, there would be considerable merit in Council reconsidering its position on the sale of surplus land. The sale of surplus land prior to the redevelopment rather than after the redevelopment will ensure that;

- a. Funds are raised upfront to address the increased costs of the project, and reduce the need for additional borrowings.
- b. The design is tight and only necessary land is reserved.

The Committee noted that there is currently \$6m contained in the Long Term Financial Plan for essential works to the administration building however recent confirmation of the cost of the essential works of \$3m represented an opportunity to fund the increased costs within the Long Term Financial Plan as per Option 1. The Committee further noted that Option 2 which would require the essential works in the administration building be reduced by \$4.5m as not a legitimate option.

The Committee noted that the operation costs of the building had increased due to the increase in size of the building with 24 staff moving from the administration building to accommodate future growth. The Committee noted that international standards had been used to estimate the operational and maintenance costs and that we are required to comply with the building code around the number of staff per square metre. Whilst the basis is understood, it was suggested that management adopt a strategy to minimise any increased costs and that this is monitored.

The committee queried the table headings on page 45 of the report and recommended that they be amended to "Increase in average principal repayment per year"

The Committee queried whether the options presented in the report fully considered the City Services project or merely the Long Term Financial Plan as it focussed on how much could be removed from the Administration building as opposed to options specifically for the City Services redevelopment such as consolidation, relocation and co-location.

The committee queried the need for a Nursery within the new site. It was noted that this consideration would not impact on the City Services Redevelopment project in terms of costs, unless a decision was taken to exclude the nursery from the site and hence free up further land for sale. A separate report regarding the nursery will be presented to Council regarding the benefits of the nursery including, staff training,

rehabilitation, and propagation of local species.

The Committee noted that the section relating to community consultation within the Report be updated to reflect the nature of the building (i.e. it is not a community facility, but rather an operational building necessary to council's services) and any recent outcomes of community engagement that might be relevant to the project.

The Committee suggested that management ensure that a learning review is undertaken at the conclusion of the project to assist continuous improvement. In this regard, it was further noted that BDO were currently undertaking a project reviewing Council's project management approaches, the outcomes of which would be reported to the May Audit Committee meeting.

**In conclusion, the Chairman summarised the outcomes of the committee's discussion on the matter of the City Services Redevelopment as follows;**

1. Note that the Section 48 Report as presented was an update of the original May 2011 Report which was initiated as a result of an increase in the costs of the project from the original cost estimates.
2. Observes that the Section 48 Report would benefit from drawing on and including a summary of the project's significant history outlining the various options considered over time.
3. Note that from a policy and financing perspective, there would be considerable merit in Council reconsidering its position on the sale of surplus land. The sale of surplus land prior to the redevelopment rather than after the redevelopment will ensure that;
  - a. Funds are raised upfront to address the increased costs of the project, and reduce the need for additional borrowings.
  - b. The design is tight and only necessary land is reserved.
4. Note and understands the explanation/assurance provided by management to mitigate risk and provide a higher level of confidence in the next tender process.
5. Note that a separate report regarding the nursery will be presented to Council at the same time as the Section 48 report. It was further noted that this consideration would not impact on the City Services Redevelopment project in terms of costs, unless a decision was taken to exclude the nursery from the site and hence free up further land for sale.
6. Note that the recent confirmation of approximately \$3m required for essential works at the Administration Building represented an opportunity to fund the increased costs within the Long Term Financial Plan as per Option 1. The Committee further noted that Option 2 as presented within the Section 48 Report is not a legitimate option.
7. Note the estimated increased maintenance / operational costs of the redeveloped building and whilst the basis for the estimate is understood, it was suggested that management adopt a strategy to minimise any increased costs and that this is monitored.
8. Note that minor changes be made to the table headings on page 45 of the report to include "Increase in average principal repayment per year"

9. Note that the section relating to community consultation within the Report be updated to reflect the nature of the building (i.e. it is not a community facility, but rather an operational building necessary to council's services) and any recent outcomes of community engagement that might be relevant to the project.
10. Note that contingencies exist within the project and that management would be encouraged to undertake greater up front testing into the ground conditions to provide greater certainty that the revised budget is appropriate.
11. Note that Administration is prepared to enter into parallel negotiations with the appropriate shortlisted tenderers as part of the re-tender process in an effort to reduce prices from those tendered, and that the conditions of tender permit this.
12. Notes that Management will ensure that a learning review is undertaken at the conclusion of the project to assist continuous improvement. In this regard, it was noted that BDO were currently undertaking a project reviewing Council's project management approaches, the outcomes of which would be reported to the May Audit Committee meeting.
13. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Audit Committee orders that the appendices to this report having been considered in confidence under Section 90(2) and (3)(b) and (3)(k) of the Act be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting and that the report (exclusive of the appendices) be released. This confidentiality order will be reviewed at the General Council Meeting in December 2013.

11.40am the meeting came out of confidence