

8.1 Coastal Walkway - Prudential Report

Report Reference SFRAC220426F8.1

Moved Ms Rantanen

Seconded Mr Papa

That pursuant to Section 90(2) and (3)(k) of the Local Government Act 1999, the Committee orders that all persons present, with the exception of the following persons: General Manager City Development, Acting General Manager City Services, General Manager Corporate Services, Manager of the Office of the CEO, Manager City Activation, Coastal Walkway Coordinator, Unit Manager Statutory Finance and Payroll, Risk Partner and Director BRM Advisory - Michael Richardson be excluded from the meeting as the Committee receives and considers information relating to the Coastal Walkway Prudential Report, upon the basis that the 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 given the information relates to yet to be finalised tender outcomes and commercial expenditure.

Carried Unanimously

3.02 pm the meeting went into confidence.

The Manager, City Activation provided a brief introduction and then opened to questions from the Committee.

The Chair determined to address the report in two parts – the Coastal Walkway Prudential Report first, followed by the Final Price Critical Evaluation Report.

Coastal Walkway Prudential Report (BRM Advisory)

Various questions were asked and answered within the meeting as follows:

Financial Implications:

The Committee raised concerns about the financial risks to the project, in particular:

- The gross escalation of the estimated project cost and the low contingencies highlighted by BRM.
- If due diligence has been completed on other trade off options such as reducing the scope or delivering in stages.
- The quantum of comparison between the two options and how we can be certain that the bridges were indeed the better financial outcome.
- If the ongoing maintenance costs of \$20k per annum was still considered sufficient given BRM's concerns regarding this amount in their report.
- What is meant by the total economic output measure of \$15m.

Management responded by indicating that the \$4.88m (original budget) was a like for like replacement. The preferred solution of the bridges was not part of the original scope and was developed in a later phase. This is one of the reasons the original budget was insufficient.

Management advised that COVID continues to impact on the construction industry across Australia with increases of 30% to 50% being reported due to availability of materials, contractors, and labor. The cost increases have impacted on the construction of the bridges but also the Field River component of the project. The Field River section (cell 10) of the project was delivered at double the budget and was undertaken over the last 8 months. The prework on the bridges progressed to a certain point which then required further technical work with footings and Geotech exploration. These investigations have also created increased costs that were not originally budgeted for.

Management informed the Committee that the contingency had been set at 5% of the construction costs.

It was noted that the whole of life (WOL) cost differential between the two replacement options is minimal now. However, the original costs were based on preliminary estimates and only the bridge option progressed to detailed design. This did not occur for the replacement of the steps option, meaning that it is difficult to now accurately compare the two. The Committee noted that it was likely that the actual construction cost of the steps/boardwalk option may be materially different to the concept design costs if the steps/boardwalk design option was progressed to a more detailed level. North Projects has estimated that the actual final cost of the steps/boardwalk option may have been 16% higher than the concept costs due to the number of contact points required for the steps vs the bridges but no detailed calculations were presented.

Administration also advised that the bridges are the best outcome from the environmental impact for the local area.

The Committee noted that BRM queried whether the \$20k annual maintenance estimate was sufficient. Management advised that these figures are set based on a percentage of the construction value and has been reviewed by the cost consultants and confirmed that this is adequate on the basis that little to no maintenance should be required on the bridges within the first 15 years of its life. It was noted that 2% per annum would be the standard based on a building construction, while noting that the bridge is not a building (i.e., no electricity, etc.). The maintenance will be based on the asset auditing to be completed on the bridges and adjustments made if required. The Committee requested that the annual maintenance cost be reconfirmed with the consultants in light of the BRMs concerns.

The Committee was advised that the Total Economic Output for the project of \$15m plus. This is an economic impact analysis using a formula. It indicates for every dollar spent, it has a multiplier effect. Construction costs have been put in and this is the formula it has created, the estimate of \$15m to demonstrate the total economic output of the project.

The Committee acknowledged management responses. It indicated that further work is required to ensure that the change in budget and cost is clearly explained within the report to Council and the financial rationale is clear. It also needs to reflect that only the bridge option has been further

developed as the costs look similar. The Committee also recommended that if the bridges are the better environmental outcome, this should be accurately reflected within the report.

Contractor Management

The Committee queried tendering and project management methodology including:

- Why was only one contractor used for the final design?
- Has this approach locked Council into using Blubuilt and is there a risk of escalated costs?
- Can Council go back to the market if it wishes?
- What are the IP issues with Blubuilt?

Management informed the Committee that the ECI process worked with two contractors until 70% detailed design was completed and then Council appointed one contractor to finalise the design as originally intended. The contractor appointed was the cheaper option at the 70% design stage.

Management advised that Council is not locked into a contract with Blubuilt and could go back to the market, however, with the current volatility of the market, this would be risky as the current price is fixed and the market is currently limited and competitive. Management advised that the current tender price is however fixed for a 3-month period during which time the market could be tested if required. The committee queried whether the IP rests with the Contractor and management advised that they would need to investigate that. Management advised that this preference at this stage, is to enter into a fixed price contract with Blubuilt.

Asset Management

The Committee queried several asset management risks including:

- What is the asset life each of the two options: the boardwalk and the bridges?
- Are there further parts of the walkway that are planned to be replaced and will this be a reoccurring issue?

The Committee was advised that the bridges will have an asset life of 50 years. The existing boardwalk is made of permapine and therefore the asset life is much lower. It was noted through the Coastal Walkway Asset Management Plan and condition audit that there is a rolling replacement recommended over the next 15 years for further sections to be replaced, however most of the walkway is at grade and hence the bridges won't be a reoccurring issue. The Committee was advised that cell 3 and cell 7 have been forecasted for replacement, however the options still need to be determined. The current bridges address the major gullies.

The Committee was again advised that little maintenance is expected over the coming years and the only real cost issue may be vandalism.

The Committee recommended that the long-term management and maintenance for the bridges is accurately reflected within the Asset Management Plan and Councils long term financial management plan to ensure that Council does not occur the same issue in 30 years' time. The

Committee also suggested that Council should seek further contribution from state and federal government for the project and consider trying to enter an ongoing agreement for co-funding with the state for such a major asset that has interest across the state, not just City of Marion residents.

Community Consultation

The Committee noted the community consultation feedback and that 63% of the responses were dissatisfied with the proposed bridges. The Committee also queried what the status of what the community input was on this project.

Management noted that the Council did receive concerns from the community about the size/height of the bridges, aesthetics, noise of the wind, corrosion, impact on view and environmental issues. The concerns raised were of similar intent and from the community directly adjacent to the bridges. There were concerns raised about the engineering of the bridge. The Committee was informed that the engineering concerns have all been addressed. The aesthetics issue may not have been resolved to 100% satisfaction of the community but controlled as much as possible.

The Committee noted that 63% of the responses expressed dissatisfaction and that the Council may need to consider further engagement with the broader community regarding the final design proposal.

Councillor Gard entered the meeting at 3.50pm

Risk Management

The Committee noted that BRM had indicated that section 48(2)(e) has only been partially met and the risks of the project would require further work to fully understand the risks of the project and address this requirement.

The Committee recommended that the following risks are further addressed:

- The financial risks need further consideration in line with BRM recommendations.
- Be clear of what risks are being transferred to the contractor and how this is being achieved.
- The reputational risks to the Council are clearly outlined.
- Ensure that matters relating to environmental and conservation zones are addressed as there is no comment provided.
- Ensure that Kauria and Aboriginal Heritage issues have been addressed and mitigated.
- Access, disability and inclusion should also be addressed through the risk work.

The Committee recommended the risks should be further workshopped and refined to a better standard. This should then be resubmitted to BRM for review and sign off that section 48(8)(2) of the *Local Government Act 1999* has been satisfied.

It was noted that the risks will be monitored and reviewed monthly through the project control meetings. Additional workshops will be established to ensure this is covered properly.

Final Cost Critical Evaluation Report (North Report)

Administration confirmed that the project had progressed with a good due diligence process and they felt confident in the detail presented within the North report as it was an independent process. This process progressed to satisfy the need for additional funding in excess of the current \$4.88m allocated to the project.

The Committee noted some of the previous comments already discussed but indicated that the North report focused on the redesign work from 70% to 100% design, and the construction cost submitted by BluBuilt detailing an increase in cost of \$1.01m. However, the Committee has also discussed at length why the costs have increased significantly from the original budget to 70% design.

Matters raised by the Committee to ensure they are covered going forward included:

- Be clear on how the project escalated from \$4.88m to \$9.35m. Further and better particulars are required to satisfy this significant increase.
- Considering discussions already incurred, ensure that the report is clear regarding why the cost difference is minimal from the original concept of the boardwalk and the final bridge design.
- Clearly explain the price escalation of cell 10 from \$500k to \$1.126m
- The conclusion refers to a \$2.28M benefit in adopting the bridge option over the boardwalk option that is not detailed anywhere in the rest of the report.
Be clear about what this is referring to and why it is in the conclusion.
- Be clear of the required contingencies and provide an indication if this will be sufficient.
- Clarity on the ongoing maintenance and whole of life costs.

Moved Ms Rantanen

Seconded Mr Papa

That the Finance, Risk and Audit Committee:

- 1. Notes the Section 48 Prudential Report presented to the Finance, Risk and Audit Committee has been developed with the requirements of section 48 of the *Local Government Act 1999*.**
- 2. Recommends that Administration addresses the concerns raised by the Finance, Risk and Audit Committee at the meeting of 26th April 2022 and the report prepared for Council addresses the concerns raised which includes:**
 - i. Explanation of the cost escalation from \$4.88m to \$9.35m**

- ii. **An updated risk register that is submitted to BRM Advisory for their consideration and review.**
 - iii. **Clarity on the maintenance cost of \$20k per annum and if this is sufficient.**
 - iv. **Further community consultation is required with the new designs of the bridges.**
 - v. **Progressing opportunities for further funding from both State and Federal government for both the project delivery and ongoing asset maintenance.**
 - vi. **An adequate contingency of at least 5% is included the final project budget,**
3. **That the section 48 report is circulated out of session to the Committee for review by 5pm Friday, 6 May 2022.**
4. **If the Committee is satisfied all concerns have been addressed, the Finance, Risk and Audit Committee recommends to the Council the adoption of the Section 48 Prudential Report for the Coastal Walkway Bridges project noting:**
 - a. **The Project's support of Council's strategic objectives.**
 - b. **The project's alignment with the objectives of the Council's Development Plan.**
 - c. **The assessment of the potential economic impacts of the Project.**
 - d. **The level of consultation identified for the Project.**
 - e. **The assessment of the Project's risks and the appropriateness of the mitigation strategies developed.**
 - f. **The Project's financial viability in the short and long term.**
 - g. **Council's capacity to deliver the project within its financial sustainability targets.**
5. **In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Committee orders that this report, Coastal Walkway – Prudential Report, any appendices and the minutes arising from this report having been considered in confidence under Section 90(2) and (3)(k) of the Act, except when required to effect or comply with Committee's resolution(s) regarding this matter, be kept confidential and not available for public inspection until a construction contract has been executed. At this time the information will be released in its entirety. If not released prior, this confidentiality order will be reviewed at the General Council Meeting in December 2022.**

Carried unanimously

5.04 pm the meeting came out of confidence.