



City of Adelaide

Prudential Report:
The Purchase of 218-232 Flinders Street

22 August 2023

Final Report - Audit and Risk Committee



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EXECUTIVE SUMMARY

Purpose

The following report has been prepared to satisfy the requirements of the City of Adelaide's Prudential Management Policy and Section 48 of the Local Government Act 1999 (Act) which requires a Council to consider the prudential issues set out in Section 48 subsection 2 of the Act before engaging in a project which meets certain specified criteria. The purpose of a Prudential Report is to ensure the Elected Members have the necessary information to enable an informed decision whether or not to proceed with a project.

The Project

The Project is the proposed acquisition of 218 -232 Flinders Street, Adelaide (the Project).

Summary Conclusion

In our view, the City of Adelaide has acted with due care, diligence and foresight in progressing the Project and Council has been provided with sufficient information to satisfy the requirements of the Prudential Management Policy and Section 48 of the Act in order to make an informed decision on the Project.

Prudential Issues and Findings

The Strategic Property Action Plan provided a future roadmap of opportunities associated with Council's assets including the acquisition of strategic sites to support Council's City shaping activities to deliver on its strategic objectives which may not otherwise be achieved by the market alone. The property at 218 -232 Flinders Street, Adelaide has been placed on the market by a Mortgagee in Possession and the potential acquisition of this Land has been identified as an opportunity consistent with this Action Plan. Given the opportunistic nature of this Project Council has not set any development objectives or identified any specific City shaping opportunity, this should be a priority if the Project proceeds. However, the zoning of the Land provides sufficient flexibility to achieve a wide range of development outcomes.

The CoA has undertaken due diligence which has identified various risks including the potential contamination of the Land, as no detailed environmental testing was permitted by the Vendor the CoA has negotiated a purchase price to reflect this risk. The Land has the potential for holding income to be generated through an open lot car park (operated under the UPark brand) whilst redevelopment plans are considered. This income will not cover the interest costs of the acquisition. This will have a negative impact on the CoA's key financial ratio's until the Land is developed.

To date the CoA has progressed the Project consistent with the Acquisition and Disposal of Land and Assets Policy. In determining whether to proceed with the Project or not Council should be mindful that under the Policy when acquiring Land the CoA should seek to achieve equal or better than revenue neutrality whereby the original land purchase price and subsequent holding costs (e.g. maintenance statutory charges) are repaid by rental income over the holding period together with proceeds upon ultimate sale of the Land.

Our report follows.

Key findings

S48 (2)	Description	Comments	Finding
(a)	The relationship with strategic management plans .	The acquisition of the Land is consistent with CoA strategic plan and provides the opportunity to undertake City shaping development consistent with relevant state and national plans.	Requirements of S48 (2) (a) have been met.
(b)	The objectives of the Development Plan .	The Project does not involve the CoA in any activity which constitutes development under the PDI Act.	Requirements of S48 (2) (b) have been met.
(c)	The expected contribution to the economic development of the local area. The impact on businesses in the proximity . Impacts on fair competition in the marketplace.	The acquisition of the Land is a transfer of ownership which is not expected to materially add to the economic development of the area, nor will it impact business in the proximity or raise competition issues.	Requirements of S48 (2) (c) have been met.
(d)	Consultation with the local community and community influence on the project.	No consultation has occurred nor is any planned for the acquisition of the Land.	Requirements of S48 (2) (d) have been met.
(e)	Revenue projections and potential financial risks .	Car parking revenue forecast have been identified and financial risks are understood with mitigation treatments identified.	Requirements of S48 (2) (e) have been met.
(f)	Recurrent and whole-of-life costs, any financial arrangements	There will be non-material recurrent costs associated with operating the car park. A whole of life cost has not been prepared as a final purpose for the Land has not been determined. The Treasury Policy will apply in financing the Land.	Requirements of S48 (2) (f) have been partially met.
(g)	Financial viability of the project.	The acquisition of the Land is to support a redevelopment to facilitate Council's residential growth aspirations, it will have a negative impact on the CoA's financial indicators until the Land is disposed of.	Requirements of S48 (2) (g) have been met.
(h)	Risks associated with the project, and steps taken to manage, reduce or eliminate risks.	The CoA due diligence has identified risks that need to be managed in the condition of the building and potential contamination.	Requirements of S48 (2) (h) have been met.
(i)	Appropriate mechanisms or arrangements for carrying out the project .	The Project has been conducted consistent with the Acquisition and Disposal of Land and Assets Policy. It is not yet certain whether the requirements of the Policy will be satisfied that the acquisition of the Land should achieve equal or better than revenue neutrality.	Requirements of S48 (2) (i) have not yet been met.
(j)	If the project involves the sale of land , the valuation of the land by a qualified valuer	The CoA has obtained a valuation prepared by a qualified valuer which supports the conditional offer made.	Requirements of S48 (2) (j) have been met.
	An appropriate level of due diligence is applied to the proposed project.	An appropriate level of 'due diligence' has been applied to ensure Elected Members have been informed about the Project.	Complies with Prudential Management Policy.



1. INTRODUCTION

1.1 Background

- 1.1.1 On 14 April 2020 Council considered a confidential report titled "Strategic Property Review" which aimed to inform Council in relation to the role that Council's property portfolio plays as one of the most powerful transformational levers that can shape and accelerate City liveability, growth and investment. The aims of the Strategic Property Review were to:
- 1.1.1.1 Provide a future roadmap and a strategic approach to Council's property activities.
 - 1.1.1.2 Identify under-performing assets which no longer provide public value.
 - 1.1.1.3 Commercialise returns from under-performing assets for reinvestment into city shaping and income generating opportunities (optimising the performance of the property portfolio).
 - 1.1.1.4 Leverage existing strategic holdings aligned to city wide initiatives and city shaping projects.
 - 1.1.1.5 Support city liveability, growth and investment through city shaping projects.
 - 1.1.1.6 Enable new revenue opportunities providing funds for community benefits.
- 1.1.2 The report contained a Strategic Property Action Plan prepared by Jones Lang LaSalle (JLL) which provided a future roadmap of opportunities associated with Council's assets including City shaping projects.
- 1.1.3 The Strategic Property Action Plan noted that strategic site acquisition may support Council's City shaping activities and that Council should acquire land in strategic locations to deliver on its strategic objectives which may not otherwise be achieved by the market alone. In this regard, Council should target sites where it can add public value (strategic, community and/or financial value) and derive short term income to address holding costs.
- 1.1.4 In supporting the progression of the Strategic Property Action Plan Council endorsed the Acquisition and Disposal of Land and Assets Policy on 27 January 2022.
- 1.1.4.1 The purpose of this policy is to ensure that Council has accountable and transparent processes to consider the Disposal and Acquisition of Land and Assets.
 - 1.1.4.2 To define the consideration methods for the Disposal and Acquisition of Land and Assets, including strategic acquisition for land banking purposes.
 - 1.1.4.3 To ensure the optimum use of Council Land and Assets with all processes to be monitored and recorded.



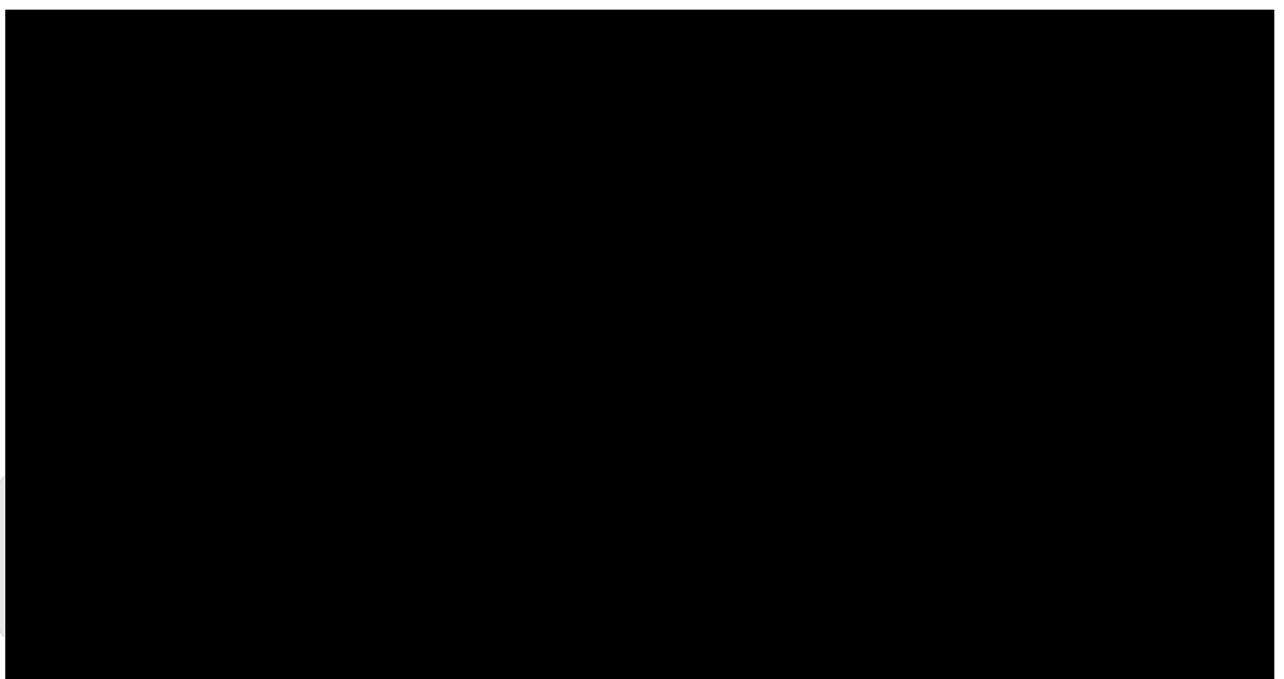
- 1.1.5 The Policy states that "Council may acquire land to achieve strategic, commercial or community outcomes that align with Council's Strategic Plan". The Policy also states that the following criteria will be used to assess the acquisition of Land and Assets:
- Alignment with Council's strategic drivers.
 - Potential to add value and support Council's city shaping objectives.
 - The ability to unlock supply.
 - Creation of new commercial and financial value.
 - Provision of community benefits and public value.
 - Potential to consolidate Land or Assets with Council's existing holdings.
- 1.1.6 The Policy also contemplates that land may be acquired for land banking purposes and further that the acquisition of land should achieve equal or better than revenue neutrality whereby the original land purchase price and subsequent holding costs (e.g. maintenance statutory charges) are repaid by rental income over the holding period together with proceeds upon ultimate sale of the Land.
- 1.1.7 The land at 218 -232 Flinders Street, Adelaide (the Land) has been offered for sale by the Mortgagee in Possession through an Expression of Interest (EOI) process conducted by Knight Frank. The Land is a regular shaped parcel of 2,093m² contained within two individual certificates of title with dual frontages to Flinders Street and Dawkins Place. The Land is positioned within the eastern portion of Flinders Street.

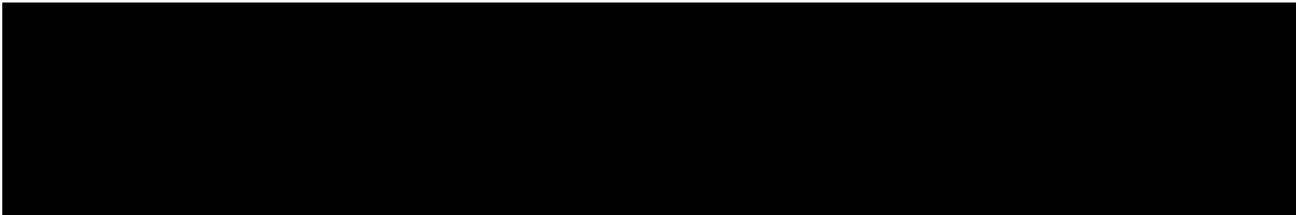
Figure One: The Land



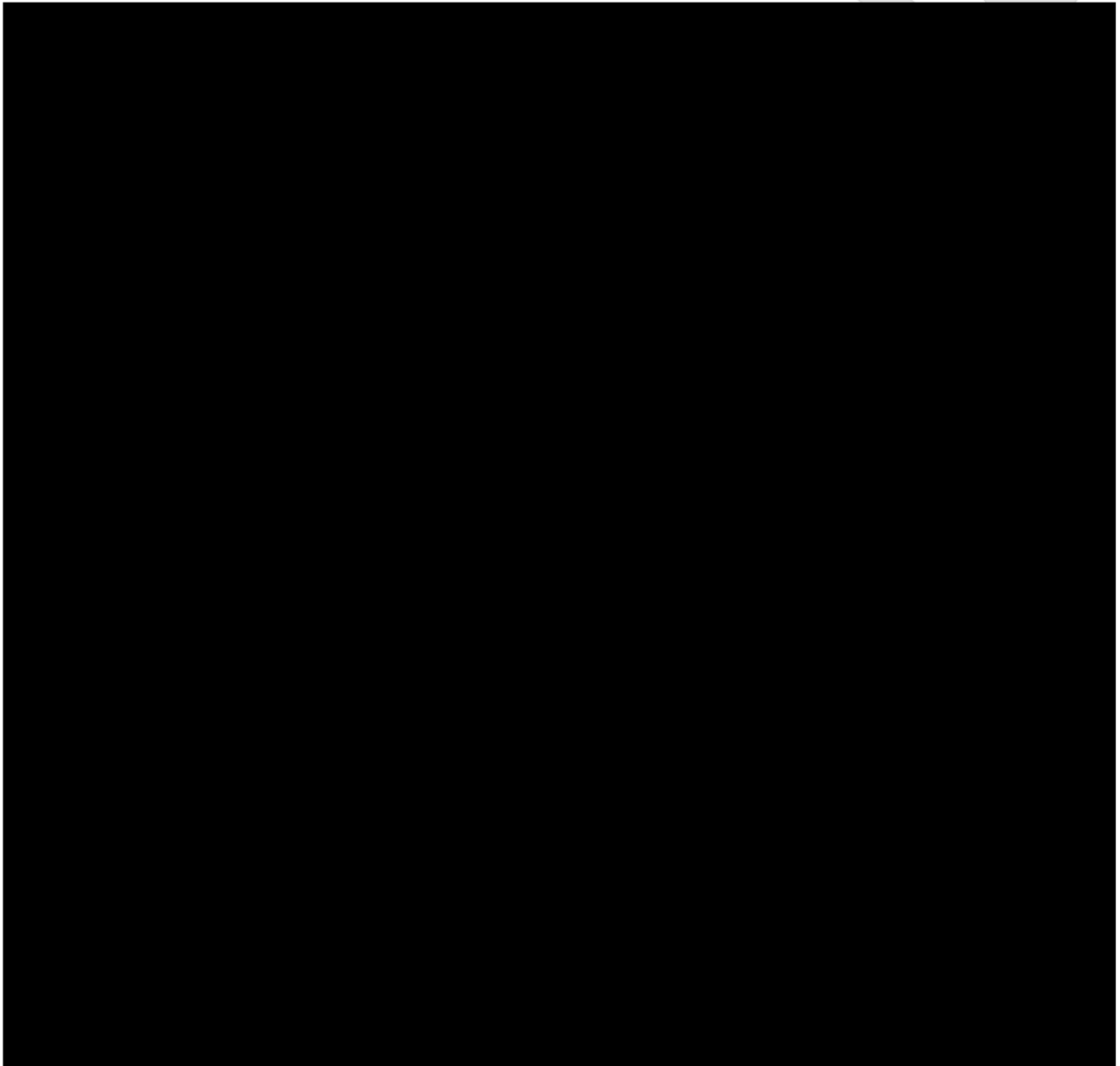


- 1.1.8 The Land has an original warehouse built form which is utilised as a long standing metered commercial car parking enterprise which, according to the EOI Information Memorandum, comprises approximately 113 public car park spaces. The estimated revenue from the car park for FY2022 has been reported in the EOI Information Memorandum as \$0.334 million (exc. GST).
- 1.1.9 The CoA became aware of the EOI process in mid-March and submitted a conditional response on 30 March 2023 which was subject to due diligence, obtaining a market valuation and obtaining a Council resolution. This response did not provide an indicative purchase price.
- 1.1.10 Following lodgement of the initial conditional response the CoA was advised it had been invited to participate in a second and final round of the EOI process which closed on 5 April 2023. The CoA was also provided with a Sale Contract and Form 1 for the Land.
- 1.1.11 On 5 April 2023, following receipt of an indicative independent valuation provided by Jones Lang LaSalle (JLL) the CoA conditional response was amended to include an indicative purchase price consistent with the valuation provided by JLL.
- 1.1.12 On 14 April 2023 CoA was advised that the Mortgagee in Possession had instructed Knight Frank to accept the CoA offer.
- 1.1.13 On 6 June 2023 the City Planning, Development and Business Affairs Committee considered a report on the proposed acquisition of the Land which noted the Administration had identified the site as a potential strategic property purchase and had submitted a conditional offer of \$9.45 million, based on the market valuation and being subject to due diligence and Council approval. The due diligence process identified environmental risks that were unable to be quantified.
- 1.1.14 On the 13 June, Council considered the recommendations of the Committee and resolved as follows.





- 1.1.15 The CoA was unable to obtain approval to undertake the environmental testing or to secure further exclusivity over the Land. This was communicated to the Council meeting on 11 July 2023 where Council resolved:



- 1.1.16 The CoA submitted a number of offers before negotiating a purchase price which is acceptable to the Vendor of \$8.150 million (exclusive of GST).



1.2 The Project

The Project is the proposed acquisition of 218-232 Flinders Street, Adelaide for a total cost of [REDACTED] which includes the cost of the Land, associated transaction costs, demolition, fencing, and lighting, and environmental remediation.

1.3 Project Rationale

1.3.1 The CoA considers that the Land:

- 1.3.1.1 is located in a strategic location;
- 1.3.1.2 is in alignment with Council's strategic drivers (residential growth);
- 1.3.1.3 has the potential to add public value (strategic, community and/or financial value) and support Council's city shaping objectives;
- 1.3.1.4 has the ability to unlock supply (residential);
- 1.3.1.5 could create new commercial and financial value and derive short term income to address holding costs.

1.4 Legal Framework and Prudential Issues

1.4.1 The Local Government Act 1999 (Act) Section 48 states that a council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council—

- (a) acts with due care, diligence and foresight; and
- (b) identifies and manages risks associated with a project; and
- (c) makes informed decisions; and
- (d) is accountable for the use of council and other public resources.

1.4.2 The CoA adopted a Prudential Management Policy on 14 December 2021 (Decision ID#18298) which satisfies the requirements of the Act. The Prudential Management Policy and the Act 1999 require Council to consider a report addressing the prudential issues set out in subsection 2 of Section 48 when a project meets certain criteria, specified in (1) (b), namely where a council:

- (b) *engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—*
 - (i) *where the expected operating expenses calculated on an accrual basis 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 the council's financial statements); or*



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(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.*

1.4.3 The CoA Prudential Management Policy defines a project as:

"a new and discrete undertaking or activity that would involve the expenditure of money, deployment of resources, incurring or assuming a liability, or accepting an asset."

1.4.4 The Project meets the criteria specified in Section 48 (1) (b) (ii) of the Act and the Prudential Management Policy. The prudential issues set out in Section 48 of the Act are reproduced in full as Attachment One.

1.4.5 Under the provision of the Act and the Policy the Prudential Report must be prepared by a person whom the Council reasonably believes to be qualified to address the prudential issues section 48(4) and must not be a person who has an interest in the relevant project as defined in section 48(6a) - (6c).

1.4.6 BRM Advisory was engaged to prepare a report to satisfy the requirements of 'Section 48 and the Prudential Management Policy. We confirm we do not have an interest in the Project, as defined in section 48(6a) - (6c) of the Act.

1.5 **Presentation of Report**

1.5.1 A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).

1.5.2 It would be appropriate for this report to be made publicly available following settlement of the Land.



2. RELATIONSHIP WITH STRATEGIC MANAGEMENT PLANS

Section 48 (2) (a) the relationship between the project and relevant strategic management plans;"

Elements	Relevant Documents	Prudential Review Comments																						
Council Plans	<p>Strategic Plan 2020 – 2024</p> <p>2023-24 Annual Business Plan and Budget (ABPB)</p> <p>2022-32 Long Term Financial Plan (LTFP)</p> <p>Strategic Asset Management Plan (SAMP)</p> <p>Strategic Property Review and Strategic Property Action Plan (2020) Future Fund</p>	<p>To deliver on Council’s vision to be the world’s most liveable city over the four year period of the Strategic Plan, four outcomes were identified which are supported by enabling priorities. The four outcomes were:</p> <ul style="list-style-type: none">• Thriving Communities• Strong Economies• Dynamic City Culture• Environmental Leadership <p>One of the enabling priorities identified in the Strategic Plan is to “implement the Strategic Property Review”.</p> <p>The acquisition of strategic sites to support Council’s City shaping activities is contemplated in the Strategic Property Action Plan which forms part of the Strategic Property Review. The Project will enable the CoA to secure a site located in a strategic location to enable further planning to be undertaken for potential City shaping development to occur on the Land.</p> <p>The ABPB contains specific provisions for the Strategic Property Action Plan implementation.</p> <p>The LTFP contains following provisions to be derived from the implementation of the Strategic Property Review, however it does not include provisions for land acquisition.</p> <table><tr><th>\$’000s</th><th>2022 – 23 Budget</th><th>2023 – 24 Plan</th><th>2024 – 25 Plan</th><th>2025 – 26 Plan</th><th>2026 – 27 Plan</th><th>2027 – 28 Plan</th><th>2028 – 29 Plan</th><th>2029 – 30 Plan</th><th>2030 – 31 Plan</th><th>2031 – 32 Plan</th></tr><tr><td>Cash Proceeds from Surplus Assets</td><td>6,793</td><td>1,000</td><td>23,500</td><td>9,700</td><td>10,000</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr></table> <p>The LTFP should be updated to reflect the cash impact of the acquisition of the Land and the net impact of the holding cost of the Land (interest expense less revenue generated from car parking).</p>	\$’000s	2022 – 23 Budget	2023 – 24 Plan	2024 – 25 Plan	2025 – 26 Plan	2026 – 27 Plan	2027 – 28 Plan	2028 – 29 Plan	2029 – 30 Plan	2030 – 31 Plan	2031 – 32 Plan	Cash Proceeds from Surplus Assets	6,793	1,000	23,500	9,700	10,000	-	-	-	-	-
\$’000s	2022 – 23 Budget	2023 – 24 Plan	2024 – 25 Plan	2025 – 26 Plan	2026 – 27 Plan	2027 – 28 Plan	2028 – 29 Plan	2029 – 30 Plan	2030 – 31 Plan	2031 – 32 Plan														
Cash Proceeds from Surplus Assets	6,793	1,000	23,500	9,700	10,000	-	-	-	-	-														



Elements	Relevant Documents	Prudential Review Comments
		<p>Council has resolved to endorse a budget allocation for FY2024 of [REDACTED] from the Future Fund, which has been established to fund the purchase of future income generating assets and to invest in strategic capital projects from the sale proceeds of assets identified through the Strategic Property Review.</p> <p>The Future Fund had a balance as at 30 June 2023 of \$28.170 million.</p> <p>The CoA has forecast that ~\$46.500 million will be added to the Future Fund from the sale of assets over the next two financial years, with ~\$32.900 million to be utilised from the Fund for the redevelopment of the Central Market during this period.</p> <p>The acquisition of the Land and any subsequent use as a car park may increase CoA maintenance costs, however these are not expected to be material in the context of the CoA's ABPB.</p> <p>The asset will need to be included on the CoA asset register and noted in the relevant IAMP's.</p>
Regional Plans		None identified.
State Plans	30 Year Plan for Greater Adelaide	<p>The current 30 Year Plan, prepared in 2017, contains 14 policy themes that are high-level strategic directions to guide land use across the Greater Adelaide region until 2045, with each theme supported by actions to facilitate the implementation of the Plan. Policy Theme 2 specifically relates to Adelaide City Centre. And aims to reinforce and enhance Adelaide's reputation as a liveable and vibrant place.</p> <p>The CoA is seeking to acquire the Land with the potential for a City Shaping development to occur in future. The CoA has prepared a high-level Business Case for a range of housing outcomes which reflect the minimum and maximum development potential for the Land. Any future development of the Land should seek to address the policies within this Policy Theme.</p>
National Plans	Smart Cities Plan Improving Housing Supply and Affordability	The Australian Government Smart Cities Plan (2016) sets out the Government's vision for productive and liveable cities that encourage innovation, support growth and create jobs. The Plan has three pillars: Smart Investment, Smart Policy and Smart Technology. The Smart Policy pillar includes regulatory reform in part to address the



Elements	Relevant Documents	Prudential Review Comments
		<p>shortfall in social and affordable housing through innovative ways to leverage investment.</p> <p>In October 2022 the Australian Government announced a new Housing Accord which aims to unlock quality, affordable housing supply over the medium term. The Accord has secured endorsement from institutional investors, including superannuation funds to facilitate institutional investment in affordable housing. The Accord also seeks a commitment from councils to support the delivery of social and affordable housing.</p> <p>Ensuring affordable housing was an important component in any future development would be tangible evidence of the CoA's support for the Accord.</p>
<p>Findings:</p> <p>Requirements of Section 48 (2) (a) have been met.</p> <p>The acquisition of the Land is consistent with CoA strategic plan and provides the opportunity to undertake City shaping development consistent with relevant state and national plans.</p>		



3. OBJECTIVES OF THE DEVELOPMENT PLAN

Section 48 (2) (b) the objectives of the Development Plan in the area where the project is to occur;

Elements	Relevant Documents	Prudential Review Comments
Development Plan	Planning, Development and Infrastructure Act 2016 (PDI Act) Planning and Design Code (Code)	<p>The Project is the acquisition of Land which does not constitute development under the PDI Act and therefore the objectives of the Development Plan are not relevant.</p> <p>The Land contains three main structures (sheds) which are currently used as an undercover car park, the CoA Administration has undertaken a visual inspection of the sheds and is likely to recommend the demolition of the structures due to the estimated cost of remediation and the safety and reputational risks of not remediating the structures.</p> <p>However, it should be noted that through the acquisition the CoA is seeking to influence the form of development to be undertaken on the site (now or in future).</p> <p>While there is no development concept to consider an indicative yield analysis undertaken as part of the due diligence process has identified the Land has development potential for the construction of up to 200 apartments for a scenario which is in line with the Planning Code requirements. Future development will require approval under the Planning and Design Code and it is relevant to consider the current zoning of the Land.</p>
Development Zone	Planning, Development and Infrastructure Act 2016 (PDI Act) Planning and Design Code (Code)	<p>The Land is located within the Capital City Zone which provides the economic and cultural focus of the state incorporating a range of residential, employment, community, educational, innovation, recreation, tourism and entertainment facilities generating opportunities for population and employment growth. Non-residential land uses are required at ground floor level to provide visual interest and to maximise safety walkability and vibrancy.</p> <p>The Capital City Zone supports a variety of development uses and provides flexibility with regard to use and height restrictions.</p> <p>The Capital City Zone supports "high intensity and large-scale development with high street walls reinforcing the distinctive grid pattern layout within the City with active non-residential ground level uses to positively contribute to public safety, inclusivity and vibrancy". Design quality of buildings and public spaces is a priority in this zone.</p>



Elements	Relevant Documents	Prudential Review Comments
Approving Authority	Planning, Development and Infrastructure Act 2016 (PDI Act)	Future development is expected to be approved by the State Commission Assessment Panel.
Findings: Requirements of Section 48 (2) (b) have been met. The Project does not involve the CoA in any activity which constitutes development under the PDI Act. Given the purpose of the acquisition may include future development the Capital City Zone provides considerable flexibility to achieve a wide range of development outcomes.		

Confidential



4. CONTRIBUTION TO ECONOMIC DEVELOPMENT

Section 48 (2) (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;”

Elements	Relevant Documents	Prudential Review Comments
Contribution economic development to	CoA EOI response	<p>Economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.</p> <p>The acquisition of the Land is a change in ownership and not a change in use, it will therefore have minimal (if any) impact on economic development in the area.</p> <p>It is noted that the acquisition may result in future development which is highly likely to provide positive economic benefits for the CoA from any construction activity and from the development itself (potential increase in population, commercial and retail activity etc.).</p>
Impact on businesses in the proximity	None	The acquisition of the Land is not expected to impact businesses in the proximity, however any future activation of the Land should have a positive impact on business in the vicinity.
Fair competition	Annual Report 2021-22	The sale of the Land has been conducted through an open EOI process. Should the CoA continue to operate the car park that service will be provided through UPark which already applies the principles of competitive neutrality to their operation, therefore no additional competition issues arise.
<p>Findings:</p> <p>Requirements of Section 48 (2) (c) have been met.</p> <p>The acquisition of the Land is not expected to have a material impact on economic development in the area.</p> <p>Any future development of the Land will provide the CoA with a City shaping opportunity that is highly likely to positively impact economic development in the City.</p>		



5. COMMUNITY CONSULTATION

Section 48 (2) (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;"

Elements	Relevant Documents	Prudential Review Comments
Level of consultation	<p>Community Consultation Policy (Adopted 16 July 2019)</p> <p>Community Engagement Strategy Acquisition and Disposal of Land and Assets Policy (Adopted 27 January 2022 / decision ID 21513)</p> <p>City of Adelaide Act 1998 (CoA Act) Local Government Act 1999 (SA) (Act)</p>	<p>The CoA Community Consultation Policy, prepared pursuant to Section 50 of the Act, sets out the steps that Council intends to take to deliver effective community consultation, whilst fulfilling Council's requirements under the Act. The Policy should be read in conjunction with the Community Engagement Strategy and only applies to matters that require public consultation as per the Act.</p> <p>The acquisition of Land is not an activity that has specific consultation requirements under the Act.</p> <p>The Acquisition and Disposal of Land and Assets Policy states that 'commercial confidentiality will apply to negotiations for the Disposal or Acquisition of Land and Assets unless Council decides otherwise'.</p> <p>The response to the EOI process and subsequent commercial negotiations have been undertaken on a confidential basis and no specific community consultation process is planned.</p> <p>The implementation of the Strategic Property Review was identified in the Strategic Plan and financial provisions are contained in the Annual Business Plan and Budget to progress the implementation. Both documents were the subject of a public consultation process.</p>
Community influence or contribution to the Project	None	The community has (properly) not been consulted on the acquisition of the Land.
<p>Findings: Requirements of Section 48 (2) (d) have been met.</p> <p>There is no requirement under the Act to undertake community consultation on the acquisition of the Land. The Acquisition and Disposal of Land and Assets Policy contemplates commercial confidentiality will apply to negotiations for the disposal or acquisition of Land unless Council decides otherwise.</p>		



6. FINANCIAL ASSESSMENT

6.1 Revenue, Revenue Projections and Potential Financial Risks

Section 48 (2) (e) if the project is intended to produce revenue, revenue projections and potential financial risks"

Elements	Relevant Documents	Prudential Review Comments									
Revenue projections	2023-24 Annual Business Plan and Budget (ABPB) 2022-32 Long Term Financial Plan (LTFP)	<p>According to the EOI documentation, the Land has generated ~\$0.334 million per annum (excluding GST) from car parking charges.</p> <p>Until the Land is disposed of, or developed, the CoA expects to continue to operate the car park (under the UPark brand) and should be able to generate similar levels of revenue. The CoA Commercial Team has estimated net annual revenue of \$0.318 million using conservative assumptions on the number of car parks.</p> <p>As the Land is developed the Project will produce an increase in revenue from:</p> <ul style="list-style-type: none"> • Development Application fees for any future development; and • Council Rates from the future development. <p>The CoA should include the financial impact of the acquisition of the Land in future updates of the LTFP.</p>									
Potential financial risks		<p>The Project is the acquisition of Land. A Project Risk Register has been prepared. The key financial risks and risk rating are identified below.</p> <table> <tr> <th>Risk</th><th>Rating</th><th>Comment</th></tr> <tr> <td>CoA pays too much for the Land</td><td>Moderate</td><td>The CoA has negotiated a purchase price materially below the amount of the independent valuation to provide mitigation for environmental risk.</td></tr> <tr> <td>The financial implications associated with the environmental issues are unknown</td><td>Moderate</td><td>The unknown environmental remediation costs provided a rationale for a commercial offer materially below the amount of the independent valuation.</td></tr> </table>	Risk	Rating	Comment	CoA pays too much for the Land	Moderate	The CoA has negotiated a purchase price materially below the amount of the independent valuation to provide mitigation for environmental risk.	The financial implications associated with the environmental issues are unknown	Moderate	The unknown environmental remediation costs provided a rationale for a commercial offer materially below the amount of the independent valuation.
Risk	Rating	Comment									
CoA pays too much for the Land	Moderate	The CoA has negotiated a purchase price materially below the amount of the independent valuation to provide mitigation for environmental risk.									
The financial implications associated with the environmental issues are unknown	Moderate	The unknown environmental remediation costs provided a rationale for a commercial offer materially below the amount of the independent valuation.									



Elements	Relevant Documents	Prudential Review Comments		
		Risk	Rating	Comment
		An appropriate development margin cannot be achieved	Moderate	High density development is supported by the zoning, however no development objectives have yet been set, nor is there a detailed feasibility study to consider. There is a risk that any future development does not recoup the CoA's initial investment, or associated project and holding costs.
		Holding income is impacted by the conditions of the building	Low	From a risk management perspective the demolition of the existing buildings is an appropriate course of action. This cost has been factored into the cost of the Project.
		There is also a risk that the car park generates less income than expected, which increases CoA holding costs and the return required from any future development. However, we note that the revenue assumptions are based on the lowest average revenue per bay achieved by any UPark over the 9 months to March 2023. The number of bays used in the financial analysis is 92 which is lower than the 113 bays which were stated in the EOI IM.		
Findings: Requirements of Section 48 (2) (e) have been met. The CoA has identified forecast revenue from car park operations. The financial risks are understood, and mitigation treatments have been identified.				



6.2 Recurrent and Whole of Life Costs

Section 48 (2) (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;

Elements	Relevant Documents	Prudential Review Comments
Recurrent costs	None	<p>The recurrent costs associated with the acquisition of the Land are:</p> <ul style="list-style-type: none"> Financing costs relating to the purchase ~ \$0.470 million per annum (based on a Project cost of [REDACTED] and an interest rate of 5%; and Council rates foregone under previous ownership of \$22,598 per annum. <p>The CoA will also incur recurrent costs in operating the open lot car park until the Land is developed or sold. The following annual costs have been estimated:</p> <ul style="list-style-type: none"> Equipment maintenance - \$6,000 PEMS Licences - \$1,500 Bank Fees - \$5,700 Insurance - \$1,000 Electricity - \$4,000 <p>The costs estimates exclude building insurance (likely to be a small increase in the CoA's building insurance cover) and SA Water charges.</p> <p>The Project is not expected to result in an increase in staffing or administrative costs.</p>
Whole of life costs	None	<p>As the Project involves the acquisition of an asset (Land) for an as yet to be determined final purpose, the CoA is not able to prepare a whole of life cost for the Project.</p>
Financial arrangements	<p>2022-32 Long Term Financial Plan (LTFP)</p> <p>Treasury Policy</p> <p>(Adopted 27 January 2022 / decision ID 21513)</p>	<p>The Treasury Policy will apply to finance the acquisition of the Land, along with the associated transaction and holding costs.</p> <p>The CoA manages its finances holistically in accordance with the adopted Treasury Policy, this seeks to manage financial risks centrally to ensure alignment with Council's Strategic objectives and it enables Council to optimise access to debt capital and ensure that Treasury operates within a controlled environment.</p>



Elements	Relevant Documents	Prudential Review Comments
		<p>Proceeds from the Strategic Property Review have been credited to the account of the Future Fund to enable CoA to fund the purchase of future income generating assets, such as the Land, and to invest in strategic capital projects. Assuming a Project cost of [REDACTED] there is an opportunity cost of ~\$0.470 million per annum from the use of these funds.</p> <p>In assessing and addressing financial risk the Policy requires that the following must be considered: Council's 'risk appetite'; 'User pays' and inter-generational equity principles; the ability to service debt and it prohibits speculative transactions.</p> <p>Based on the LTFP, there is inter-generational equity in the application of the Treasury Policy to the opportunity cost of using the funds as future generations are likely to benefit from the development of the Land. The CoA will need to borrow to purchase of the Land. The maximum level of debt is prescribed by Council by way of prudential limits. The Policy prescribes that Council will not borrow funds when such borrowing would result in any of the following financial ratios being exceeded:</p> <ul style="list-style-type: none"> • Interest Expense Ratio: Maximum: 10% of general rates revenue • Leverage Test Ratio: Maximum: 1.5 years of general rates revenue • Asset Test Ratio: Maximum: 50% of saleable assets <p>Borrowings at 30 June 2023 were \$7.500 million and the CoA is not forecast to exceed any of these financial ratios in funding the [REDACTED] contribution to the Project, it may however limit the CoA's capacity to undertake other projects.</p> <p>In our view the purchase of the Land is not considered to speculative under the definition in the Policy.</p>
<p>Findings: Requirements of Section 48 (2) (f) have been partially met.</p> <p>Until the Land is developed or sold, there will be recurrent costs associated with the operation of the car park but these are not material.</p> <p>As the final purpose of the Land has not yet been determined a whole of life cost estimate is not able to be prepared.</p> <p>The acquisition of the Land will be financed in accordance with the provisions of the Treasury Policy.</p>		



6.3 Financial Viability

Section 48 (2) (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;

Elements	Relevant Documents	Prudential Review Comments
Financial viability	2022-32 Long Term Financial Plan (LTFP)	<p>The LTFP does not contain provisions for the acquisition of the Land. Until the Land is disposed of, the acquisition of the Land will have a negative impact on the following financial indicators:</p> <ul style="list-style-type: none"> Operating Surplus Ratio (interest costs are expected to be higher than revenue from car park operations and the loss of Council rates); and Net Financial Liabilities Ratio (borrowings increase to finance the acquisition). <p>There will also be a negative impact on the Prudential Borrowing Limits due to a decrease in the:</p> <ul style="list-style-type: none"> Interest Expense Ratio (due to the increase in annual interest expense); Cashflow from Operations Ratio (expenditure is expected to be higher than revenue); and Leverage Test Ratio (through an increase in total borrowings). <p>The impact on the Asset Renewal Funding Ratio will not be known until the CoA has incorporated the asset into the relevant Asset Management Plan.</p> <p>The CoA is in the process of reviewing and updating the LTFP, the draft LTFP is based on a number of conservative assumptions that have yet to be adopted by Council including provisions for a \$20.000 million financial contribution to the new Adelaide Aquatic Centre and some significant asset renewals. If these assumptions are adopted and assuming no other changes then the Prudential Borrowing Limit will be 101% at year 10 of the LTFP and outside the approved target range.</p>
<p>Findings: Requirements of Section 48 (2) (g) have been met.</p> <p>The acquisition of the Land is to support a redevelopment in line with Council's residential growth aspirations and will have a negative impact on the CoA's financial indicators until the site is developed.</p>		

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7. RISK MANAGEMENT

Section 48 (2) (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);"

Elements	Relevant Documents	Prudential Review Comments
Risk assessment	<p>Risk Management Operating Guideline (Approved 12 April 2023)</p> <p>Contract for the Sale and Purchase of Land 218 -222 Flinders Street</p> <p>Contract for the Sale and Purchase of Land 230 Flinders Street</p>	<p>The CoA has a Risk Management Operating Guideline which sets the foundation for people who create and protect value in Council by managing risks, making decisions, setting and achieving objectives and improving performance. Under the Guideline the CoA has a low risk appetite for financial decisions that could have a negative impact on the organisation's financial sustainability.</p> <p>The Land has two certificates of title. The Vendors have rights to dispose of the Land pursuant to two different registered mortgages over each of these certificates of title and have exercised this power through a Contract for the Sale and Purchase of Land for each certificate of title. The Contracts contain identical provisions and the CoA is managing risk through each of these contracts.</p> <p>In addition, the CoA has prepared a Project Risk Register for the acquisition of Land. This identifies eight risks, which after the application of identified controls results in the following residual risk profile:</p> <ul style="list-style-type: none"> • Extreme - Nil • High - 1 • Moderate - 4 • Low - 3 <p>The risk rated as 'High' is shown below.</p> <ul style="list-style-type: none"> • Environmental and servicing issues are discovered. <p>The Land is located on a major city street and has access to services, however the CoA obtained a preliminary site investigation which indicated a number of potentially contaminating activities had occurred on the site. In order to provide some mitigation for this risk the CoA has negotiated a purchase price materially below the independent valuation for the Land.</p>



Elements	Relevant Documents	Prudential Review Comments
Risk mitigation	Contract for the Sale and Purchase of Land	<p>The CoA undertook due diligence on the following aspects of the Land.</p> <ul style="list-style-type: none"> • Land Use and Planning (CoA Property Development Team). • Condition of Existing Buildings (CoA Asset Management Team). • Environmental (Tierra Environment). • Commercial (CoA Commercial Team). • Valuation (Jones Lang Lasalle). • Legal and Risk (legal advice - Cowell Clarke and risk - CoA Property Development Team). <p>The due diligence identified that:</p> <ul style="list-style-type: none"> • Land Use and Planning - the zoning for the Land offers maximum flexibility which will allow Council to consider a range of development outcomes. • The existing buildings are in a poor state and do not meet the current fire safety standards. While three options were identified for Council to consider, it has resolved to allocate sufficient funds to demolish the existing structure and install landscaping and lighting. This was identified as a prudent way to mitigate financial and operational risk. The estimated costs of [REDACTED] were informed by an external advisor. • The Preliminary Site Investigation report revealed that the Land has accommodated potentially contaminating activities. This risk is unable to be quantified without further environmental investigations, including site testing, to determine the extent of soil and groundwater contamination. The Vendor was unwilling to allow further testing to occur. The CoA has negotiated a purchase price materially below the independent valuation for the Land to mitigate this risk. • Net revenue of ~\$0.317 million is (conservatively) forecast from the use of the Land as a car park, however this will be insufficient to cover the holding costs of funding the acquisition. • The Valuation is for an amount which is materially higher than the negotiated purchase price.



Elements	Relevant Documents	Prudential Review Comments
		<ul style="list-style-type: none"> The CoA has obtained external legal advice on the terms and conditions of the Contracts for the Sale and Purchase of Land. <p>The Chief Executive Officer should be kept apprised of Project progression and any areas of risks through monthly meetings with the Director – City Services. The Chief Executive Officer should update Council and the Audit and Risk Committee on Project progression and any change in the risk profile of the Project as required.</p>
<p>Findings: Requirements of Section 48 (2) (h) have been met.</p> <p>The CoA has endeavoured to understand and mitigate risk through the due diligence undertaken on the Land. The due diligence revealed that:</p> <ul style="list-style-type: none"> the existing buildings do not meet current fire safety standards and would most likely require demolition; and further site testing will be required to quantify the extent of soil and groundwater contamination. <p>The Contracts for the Sale and Purchase of the Land have been negotiated with the assistance of the CoA legal advisor.</p>		



8. PROJECT DELIVERY

Section 48 (2) (i) the most appropriate mechanisms or arrangements for carrying out the project;”

Elements	Relevant Documents	Prudential Review Comments
Project Delivery	<p>Acquisition and Disposal of Land and Assets Policy (Adopted 27 January 2022 / decision ID 21513)</p> <p>Local Government Act 1999 (SA)</p>	<p>The purpose of the CoA Acquisition and Disposal of Land and Assets Policy is to ensure that the CoA has accountable and transparent processes to consider the Disposal and Acquisition of Land and Assets; to define the consideration methods for the Disposal and Acquisition of Land and Assets, including strategic acquisition for land banking purposes; and to ensure the optimum use of Council Land and Assets with all processes to be monitored and recorded.</p> <p>The Policy states that Council may acquire Land to achieve strategic, commercial or community outcomes that align with Council’s Strategic Plan or for land banking purposes. Specific criteria are identified when assessing the acquisition of Land.</p> <p>Under the Policy acquisition of Land should achieve equal or better than revenue neutrality whereby the original land purchase price and subsequent holding costs (e.g., maintenance, statutory charges etc.) are repaid by rental income over the holding period together with proceeds upon ultimate sale of the Land.</p> <p>To date the acquisition of the Land has been undertaken consistent with the Policy.</p> <p>However, until the Land is developed or sold it will not be known whether the acquisition will achieve equal or better than revenue neutrality as stated under the Policy.</p>
Procurement	<p>Procurement Policy (Adopted 14 December 2021 / decision ID 21480)</p> <p>Local Government Act 1999 (SA)</p>	<p>The CoA Procurement Policy covers CoA’s requirements in relation to the procurement of goods, works and services. In addition to meeting legislative requirements the Policy seeks to deliver best value outcomes; ensure ethical conduct, accountability and transparency; manage risk management factors and ensure continuity of supply and deliver its strategic objectives.</p> <p>In progressing the Project the CoA has engaged the following advisors:</p> <ul style="list-style-type: none"> • Jones Lang Lasalle - Valuation • Tierra Environment - Environmental



Elements	Relevant Documents	Prudential Review Comments
		<ul style="list-style-type: none"> Cowell Clarke - Legal. BRM Advisory - Prudential report. <p>Expenditure related to real property acquisitions is not covered by the Policy.</p> <p>Notwithstanding this, the procurement of professional services to progress the Project have been undertaken consistent with the Procurement Policy.</p>
<p>Findings:</p> <p>Requirements of Section 48 (2) (i) have not yet been met.</p> <p>To date the acquisition of the Land has been undertaken consistent with the Acquisition and Disposal of Land and Assets Policy. However, it is not yet certain whether the requirements of the Policy will be satisfied that the acquisition of the Land should achieve equal or better than revenue neutrality.</p>		



9. SALE OR DISPOSITION OF LAND

Section 48 (2) (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;”

Elements	Relevant Documents	Prudential Review Comments
Valuation of land	Valuation Advisory 218-232 Flinders Street Adelaide, prepared by JLL dated 4 April 2023	<p>The CoA commissioned JLL to prepare a valuation report (dated 4 April 2023) for the Land on an “as is” basis for pre-purchase advice. The valuation was prepared by Certified Practising Valuers who are qualified to provide such valuations.</p> <p>The site area used by JLL was 2,093m² consistent with the area of the Land specified in the EOI.</p> <p>JLL assessed the rate per square metre to be in the range of \$4,200m² to \$4,700m² for the Land and settled on a rate of \$4,500m² which equated to a valuation of \$9.420 million (rounded up), the valuation was prepared based on a Direct Comparison Approach.</p> <p>The valuation was based on the assumption that that there was no environmental, asbestos or contamination issues, no encroachments and no geotechnical impediments.</p> <p>The valuation of the Land obtained by the CoA supported the indicative bid submitted as part of the response to the EOI process.</p> <p>Due to the environmental issues identified in the due diligence process the CoA has negotiated a purchase price representing \$3,875m² which is materially below the independently assessed value to reflect this risk.</p>
<p>Findings:</p> <p>Requirements of Section 48 (2) (j) have been met.</p> <p>The CoA obtained a valuation prepared by a qualified valuer.</p>		



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ATTACHMENT ONE: LOCAL GOVERNMENT ACT, 1999 SECTION 48

Section 48 – Prudential requirements for certain activities

- (aa1) A council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council—
 - (a) acts with due care, diligence and foresight; and
 - (b) identifies and manages risks associated with a project; and
 - (c) makes informed decisions; and
 - (d) is accountable for the use of council and other public resources.
- (a1) The prudential management policies, practices and procedures developed by the council for the purposes of subsection (aa1) must be consistent with any regulations made for the purposes of this section.
- (1) Without limiting subsection (aa1), a council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council—
 - (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—
 - (i) where the expected operating expenses calculated on an accrual basis 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 the 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.
- (2) The following are prudential issues for the purposes of subsection (1):
 - (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.
- (2a) The fact that a project is to be undertaken in stages does not limit the operation of subsection (1)(b) in relation to the project as a whole.
- (3) A report is not required under subsection (1) in relation to—
 - (a) road construction or maintenance; or
 - (b) drainage works.



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- (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2).
- (4a) A report under subsection (1) must not be prepared by a person who has an interest in the relevant project (but may be prepared by a person who is an employee of the council).
- (4b) A council must give reasonable consideration to a report under subsection (1) (and must not delegate the requirement to do so under this subsection).
- (5) A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).
- (6) However, a council may take steps to prevent the disclosure of specific information in order to protect its commercial value or to avoid disclosing the financial affairs of a person (other than the council).
- (6a) For the purposes of subsection (4a), a person has an interest in a project if the person, or a person with whom the person is closely associated, would receive or have a reasonable expectation of receiving a direct or indirect pecuniary benefit or a non-pecuniary benefit or suffer or have a reasonable expectation of suffering a direct or indirect detriment or a non-pecuniary detriment if the project were to proceed.
- (6b) A person is closely associated with another person (the relevant person)—
 - (a) if that person is a body corporate of which the relevant person is a director or a member of the governing body; or
 - (b) if that person is a proprietary company in which the relevant person is a shareholder; or
 - (c) if that person is a beneficiary under a trust or an object of a discretionary trust of which the relevant person is a trustee; or
 - (d) if that person is a partner of the relevant person; or
 - (e) if that person is the employer or an employee of the relevant person; or
 - (f) if that person is a person from whom the relevant person has received or might reasonably be expected to receive a fee, commission or other reward for providing professional or other services; or
 - (g) if that person is a relative of the relevant person.
- (6c) However, a person, or a person closely associated with another person, will not be regarded as having an interest in a matter—
 - (a) by virtue only of the fact that the person—
 - (i) is a ratepayer, elector or resident in the area of the council; or
 - (ii) is a member of a non-profit association, other than where the person is a member of the governing body of the association or organisation; or
 - (b) in a prescribed circumstance.
- (6d) In this section, \$4 000 000 (indexed) means that that amount is to be adjusted for the purposes of this section on 1 January of each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter, 2009.
- (6e) In this section—

employee of a council includes a person working for the council on a temporary basis;

non-profit association means a body (whether corporate or unincorporate)—

 - (a) that does not have as its principal object or 1 of its principal objects the carrying on of a trade or the making of a profit; and
 - (b) that is so constituted that its profits (if any) must be applied towards the purposes for which it is established and may not be distributed to its members.
- (7) The provisions of this section extend to subsidiaries as if a subsidiary were a council subject to any modifications, exclusions or additions prescribed by the regulations.