District Council of Loxton Waikerie

Section 48 Prudential Report

DRAFT Loxton Recreation Centre

Updated July 2017

BRM Holdich

BUSINESS · RESOURCE · MANAGEMENT

BRM Holdich

Chartered Accountants

BRM HOLDICH

BUSINESS RESOURCE MANAGEMENT

Level 8, 420 King William Street, Adelaide SA 5000

Tel 08 8168 8400 Fax: 08 8168 8499

ABN: 79 392 957 230

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EXECUTIVE SUMMARY

The proposed upgrade to the Loxton Recreation Centre involves the demolition, rebuild and expansion of the existing recreation centre and outdoor courts located in the town of Loxton, at an estimated cost of $11.792 million (Project).

The following report has been prepared in accordance with the requirements of the District Council of Loxton Waikerie (DCLW) Prudential Review Report Policy and Section 48 of the Local Government Act 1999 which requires a Council to consider a report addressing the prudential issues set out in Section 48 subsection 2 of the Act before engaging in a project of a commercial nature or where the expected capital cost over the ensuing five years is likely to exceed $4.628 million.

Relationship with Strategic Management Plans

There is strong alignment between the Project and the key strategic management planning documents for DCLW.

The Project is specifically referenced in the LW Future 2015 to 2020 Strategic Plan, and in the 2017/18 Draft Annual Business Plan as the key capital Project to achieve the 'Our Community' objective. However, the $10.062 million provision relating to the expected capital cost of the Project in the 2017/18 Draft Annual Business Plan is not sufficient to meet the most recent expected Project construction cost of $11.792 million. The updated capital cost of the Project should be reflected in the first quarter budget review.

If the Project proceeds, the Long Term Financial Management Plan and Infrastructure and Asset Management Plan will need to be updated and amended to reflect the expected capital and whole of life costs of the Project.

The Project would assist to progress State objectives identified in the Office for Recreation and Sport Strategic Plan and the South Australian Strategic Plan to facilitate an active community.

Objectives of the Development Plan

A Development Application for the Project has not yet been submitted. The proposed Project is situated on land zoned as 'Recreation'. The proposed land use meets the objectives of the zone and is an envisaged land use on the site. As such, the Project is in line with Council's planning policy for the site.

Contribution to Economic Development

The contribution to economic development from the Project will primarily come from construction activity and purchases of related goods and services to deliver the Project. The economic impact will include not only direct benefits to the building construction industry but will also lead to an increase in demand for other goods and services across a number of other industries.

The combination of all direct, industrial and consumption effects is expected to result in an increase in economic output of $23.16 million in the Murraylands and Riverland economy. The Project is also estimated to create up to 62 full time jobs in the region. The overall impact of the Project on the national economy is forecast to be $33.23 million.

The Project is not expected to materially impact businesses in proximity of the Loxton Sporting Precinct or give rise to any issue of fair competition.

Community Consultation

Council has undertaken a substantial public consultation process with the community and key users of the Loxton Sporting Precinct regarding the Project and has held over 20 documented meetings since 2011 that have helped to inform the scope of the Project.

Public consultation in relation to the Project has been undertaken in accordance with DCLW's Community Engagement Policy and the key users of the Loxton Sporting Precinct have been given the opportunity to influence the scope of the Project.

Financial Assessment

The Project is expected to generate modest amounts of income from user charges generated from the Recreation Centre. However, the revenue from these user charges will not cover the projected operating costs, interest or the depreciation expense on the new Recreation Centre.

There have been no detailed revenue projections based on projected demand forecasts for the Project nor has there been any detailed analysis on the opportunities for new revenue streams that may be generated by the upgraded Recreation Centre i.e. the ability to host regional or national sporting carnivals.

In addition, DCLW has not undertaken a detailed assessment of the future costs required to run the upgraded Recreation Centre. DCLW could benefit from a more thorough analysis of expected future revenues and costs that could be generated and incurred by the upgraded Recreation Centre to better understand the likely impact of the Project on the financial position of Council going forward.

A State Government grant for $0.351 million has been secured for the Project. DCLW has yet to be informed of the success of an additional $4.528 million of Federal Government and $1.500 million of State Government grant funding that has been applied for. The success of these grant applications is critical to the financial viability of the Project.

Based on financial modelling performed, if the Project proceeds, the Operating Surplus Ratio will not achieve the average target set of 2.5% over any three year rolling period of the ten year Long Term Financial Management Plan. It will also result in the Operating Surplus Ratio falling below the target (between 0% and 10%) in multiple stand-alone years of the Long Term Financial Management Plan even if targeted grant funding is secured.

Progressing the Project will increase DCLW's financial risk exposure. Without the implementation of financial mitigation strategies, the Project will diminish the capacity of DCLW to deal with future unforeseen financial shocks.

Risk Issues

A Project Risk Assessment has been prepared for the Project, which identified 70 project risks. There are some inconsistencies between the Project Risk Assessment and the DCLW Risk Management Policy with regard to the risk ratings and the risk descriptors used. However, given the early stage of the Project, the Risk Assessment is considered to adequately identify and rate the key Project risks.

A number of the identified proposed risk mitigation actions have not yet been costed. This should be addressed to ensure Council is aware of and understands the associated costs.

The risk assessment would be of greater value if the level of residual Project risk following the application of risk controls was assessed and rated.

Project Delivery

A Project Management Plan has been prepared for the delivery of the Project. The plan details the governance structure to manage the major procurements relating to the Project.

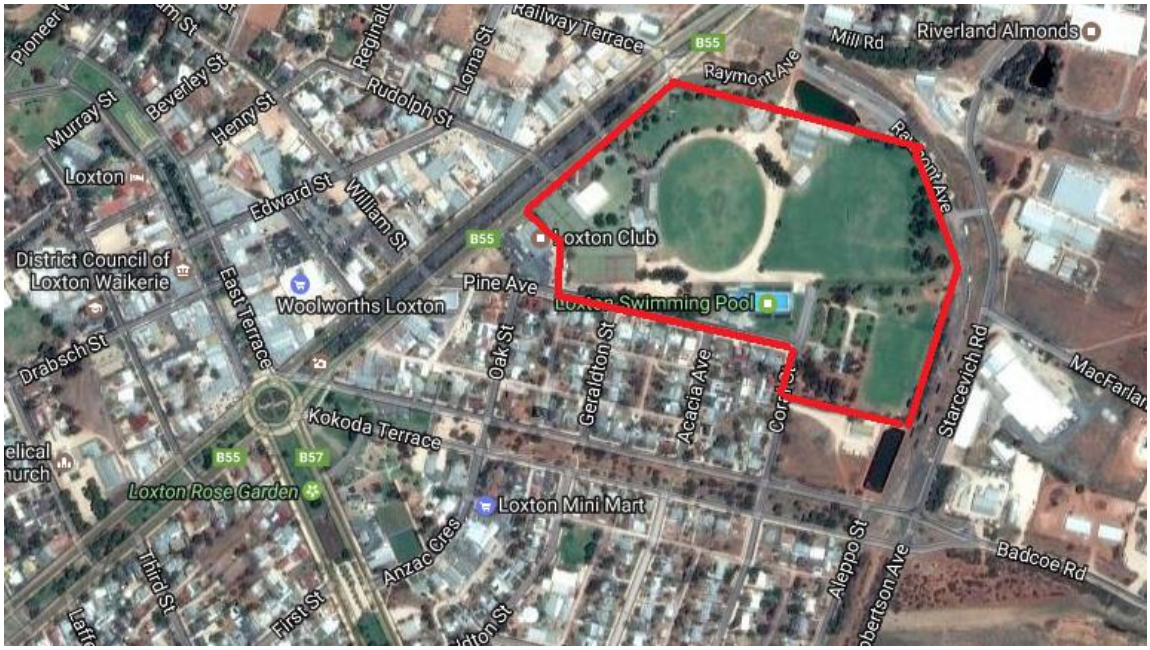
DCLW should ensure that all future procurement activities relating to the Project are performed in accordance with Council's Procurement Policy.

1. INTRODUCTION

1.1 Background

1.1.1 The Loxton Sporting Precinct (LSP) is a 15 hectare multi-disciplinary sporting area, located in the heart of Loxton, on land owned by the District Council of Loxton Waikerie (DCLW) and on Crown land that has been dedicated to Council. Figure One shows the approximate location of the LSP.

Figure One: Loxton Sporting Precinct



1.1.2 The LSP accommodates a number of Loxton's major clubs including Loxton's football, cricket, netball, basketball and soccer clubs and the Loxton Agricultural and Horticultural Show Society.

1.1.3 In February 2012, DCLW commissioned One Eighty Sports and Leisure Solutions (One Eighty) to develop the LSP Master Plan and Feasibility Study (Master Plan).

1.1.4 In February 2013, One Eighty released the draft Master Plan. At the 19 July 2013 Council Meeting the following resolution was passed.

14.5 Loxton Sporting Precinct Master Plan
Cr Webber moved Cr Ward seconded

1. That council receive and note the report entitled Loxton Sporting Precinct Master Plan.
2. That council respond to the public consultation submissions accordingly.
3. That council endorse the Loxton Sporting Precinct Master plan report as a working document for future continued development.
4. That council authorise the Director Corporate and Community Services to proceed with the implementation of tender documents for detailed design plans including a stipulation to include firm costing's.
5. That council pursue grant funding opportunities to progress the development of the Loxton Sporting Precinct – Zone 1 as a staged process.

CARRIED

1.1.5 A key element of Phase One of the LSP Master Plan was the provision of an upgrade to the 40 year old Loxton Recreation Centre (Recreation Centre). At the upgraded Recreation Centre, the Master Plan envisaged two indoor courts (an increase from one), six outdoor courts (an increase from four), provision for a gymnasium or similar, an administration area for sports clubs and the Show Society.

1.1.6 In April 2014, a group including DCLW staff and representatives from the Loxton Netball Club and Loxton Amateur Basketball Association undertook a site inspection at the Loxton Recreation Centre. At that inspection it was observed that the stadium floor was experiencing noticeable slipperiness and 'hollow areas'. It was also observed that four of the outdoor courts had endured considerable movement which caused extensive cracking and lifting of concrete.

1.1.7 DCLW began a process of considering appropriate options to remedy the issues at the Recreation Centre. The options considered ranged from relatively cost effective refurbishment solutions to the opportunity to demolish and rebuild the Recreation Centre in line with the LSP Master Plan.

1.1.8 On 21 October 2016, after consultation with key users of the LSP and further investigations by DCLW staff into the feasibility of various options to remedy issues at the Recreation Centre, Council resolved the following:

> 3. Council authorise staff proceed further with option F by undertaking steps to investigate and where feasible apply for grant funding that supports completion of detailed design work;
> - Prepare and submit tender documentation seeking detailed design and associated more accurate capital funding costing;
> - Consider and estimate associated ongoing operating costs; and
> - Seek completion of a prudential review of the more accurately determined associated capital and ongoing operating costs that considers funding implications for the preferred option.

Note – Option F in the resolution refers to the demolition and rebuild of a new two indoor court Recreation Centre.

1.1.9 At the 20 January 2017 Council meeting, Council again noted progress made on scoping the proposed upgrade to the Loxton Recreation Centre and endorsed the continuation of planning investigations.

1.1.10 At the 16 June 2017 Council meeting, Council was presented with a series of costed design options which included the endorsed 'base design' plus four additional design options which included additional specifications above the base design. At the Council meeting the following resolution was passed:

That council indicate its preferred design concept for the Loxton Recreation Centre as Option 3 as contained in this meeting report being:

- Base Design
- Extension of mezzanine to the rear of the existing grandstand
- Demolition of existing grandstand roof structure
- Construction of canopy over mezzanine and grandstand
- Excluding mezzanine fit out

1.1.11 This report has been commissioned in response to the Council resolution relating to the preparation of a prudential review into the actions taken to date on the planned upgrade to the Loxton Recreation Centre.

1.2 Rationale

1.2.1 Part Seven of the Local Government Act prescribes the Functions of a Council, these include:

"(b) to provide services and facilities that benefit its area, its ratepayers and residents, and visitors to its area (including general public services or facilities (including electricity, gas and water services, and waste collection, control or disposal services or facilities, health, welfare or community services or facilities, and cultural or recreational services or facilities);"

1.2.2 The proposed upgrade to the Loxton Recreation Centre aims to replace the existing Recreation Centre with a new purpose built facility that better meets the needs of the existing sporting clubs and the Loxton community generally.

1.2.3 If upgraded, the new Loxton Recreation Centre aims to be recognised as the primary indoor sports stadium specialising in basketball and netball in the Riverland with the capacity to host State and National events.

1.3 The Project

1.3.1 The proposed upgrade of the Loxton Recreation Centre at an estimated cost of $11.792 million (Project) forms a key part of Phase One of the LSP Master Plan. The key components of the Project and indicative cost estimates, provided by Wilde and Woollard on 1 June 2016, are provided in Table One.

Table One: Project components and indicative cost estimates

Description of component	Base Cost	Allowances, Contingencies Preliminaries	Total
Site preparation	928,964	0	**928,961**
Courts Building	5,752,000	1,851,554	**7,603,554**
Supawood Acoustic Wall Linings	100,000	32,190	**132,190**
Mezzanine Base Construction	809,000	260,416	**1,069,415**
Landscaping and Site Development Works	541,000	174,147	**715,147**
Outdoor Courts Stages 1 and 2	400,000	128,759	**528,759**
New curved feature canopy	561,000	252,893	**813,893**
Base Total	**9,091,964**	**2,699,959**	**11,791,923**

1.3.2 There are other identified items which may be included in the final scope of the Project, such as provisions for a gymnasium and additional car parks. The inclusion of these items is subject to Council approval and the availability of Project funding.

1.3.3 An indicative site plan for the Project is shown at Attachment One.

1.4 Legal Framework and Prudential Issues

1.4.1 DCLW has a Prudential Review Report Policy which was last reviewed 19 June 2015.

1.4.2 The Policy notes relevant sections of the Local Government Act 1999 and makes specific reference to the following clause:

A Council must develop and maintain prudential management policies practices and procedures for the assessment of projects to ensure that the Council:

- *acts with due care diligence and foresight; and*
- *identifies and manages risks associated with a project;*
- *makes informed decisions; and*
- *is accountable for the use of Council and other public resources.*

1.4.3 This report has been prepared to ensure the requirements of the DCLW Prudential Review Report Policy have been met.

1.4.4 Furthermore, the Local Government Act 1999 (Act) Section 48 requires Council to consider a report addressing the prudential issues set out in subsection 2 when a project meets certain criteria, specified in (1) (a) and (b), namely where a council:

(a) engages in a commercial project (including through a subsidiary or participation in a joint venture, trust, partnership or other similar body) where the expected recurrent or capital expenditure of the project exceeds an amount set by the council for the purposes of this section; or

(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 expenditure 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.

1.4.5 We note that the $4.00 million threshold in Section 48 (1) (b) (ii) is indexed by CPI from a September 2009 base year. As at the date of this report, the relevant threshold is $4.628 million.

1.4.6 The Project has a forecast capital cost of $11.792 million which is higher than the threshold set in the Act.

1.4.1 The prudential issues identified in Section 48 of the Act are:

(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."

1.4.2 BRM Holdich has been engaged by DCLW to prepare a report to satisfy the requirements of Section 48 of the Act, which is reproduced in full as Attachment Two, and the Prudential Review Report Policy.

2. RELATIONSHIP WITH RELEVANT STRATEGIC MANAGEMENT PLANS

Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):

(a) the relationship between the project and relevant strategic management plans;

2.1 Relevant Strategic Management Plans

2.1.1 Section 122 of the Act requires a Council to develop and adopt strategic management plans; these are required to incorporate the extent to which a Council's objectives are related to regional, state and national objectives.

2.1.2 For the purposes of this report the relationship between the Project and the following plans are considered relevant.

2.1.2.1 DCLW Council Plans

- LW Future - 2015 – 2020 Strategic Plan;
- 2017-18 Draft Annual Business Plan;
- 2016/17 – 2025/26 draft Long Term Financial Management Plan;
- Infrastructure and Asset Management Plan; and
- Loxton Sporting Precinct Master Plan.

2.1.2.2 Regional

- Regional Development Australia – Murraylands and Riverland Regional Roadmap 2013 – 2016.

2.1.2.3 South Australian State Government

- Office for Recreation and Sport Strategic Plan 2017 to 2021;
- South Australian Strategic Plan.

2.1.2.4 National

- Murray Darling Basin Plan; and
- Sport and Active Recreation Policy Framework.

2.2 DCLW Council Plans

2.2.1 LW Future – 2015 - 2020 Strategic Plan

2.2.1.1 The LW Future Strategic Plan has five key sections, each with their own strategies and objectives:

(a) Our Community;

(b) Our Economy;

(c) Our Environment:

(d) Leadership and Engagement; and

(e) Innovation and Excellence.

2.2.1.2 Within the Our Community section of the Strategic Plan, the upgrade to the Loxton Recreation Centre is listed as one of six key initiatives in achieving the Community Enablement, Community Health and Sport and Recreation Goals during the Strategic Plan period.

2.2.1.3 As a key initiative specifically mentioned in the Strategic Plan, the Project is considered to be strongly aligned to DCLW's existing strategic objectives.

2.2.2 Draft Annual Business Plan 2017-18

2.2.2.1 The Annual Business Plan guides Councils activities so that it can make the best possible progress towards meeting the objectives outlined in the Strategic Plan. The Business Plan outlines how Council plans to allocate its budget and what services and projects will be undertaken in the forthcoming financial year.

2.2.2.2 Under the heading of 'Influences, Priorities and Opportunities of Significance', the upgrade to the Loxton Recreation Centre is listed as the major capital works project currently in the planning phase within the Annual Business Plan.

2.2.2.3 An amount of $10.061 million is included in the FY2018 budget to construct the Loxton Recreation Centre.

2.2.2.4 The financial provisions in the Draft Annual Business Plan are $1.731 million short of the most recent cost estimate based on the design approach endorsed by Council at the 16 June 2017 Council meeting.

2.2.2.5 We recommend this budget shortfall be addressed during the first quarter budget review process.

2.2.3 2016/17 – 2025/26 Long Term Financial Management Plan

2.2.3.1 DCLW has prepared a Long Term Financial Management Plan (LTFMP) as part of Council's ongoing financial planning to assist Council to plan within a longer strategic framework.

2.2.3.2 The LTFMP identifies $15.900 million of funding over the next ten years for new capital works of which $6.500 million specifically relates to the Project. This is the largest new capital project included in the LTFMP period representing over 40% of new capital works over the plan period.

2.2.3.3 Based on the most recent construction cost estimates inclusive of contingencies, Project costs are expected to be $11.792 million.

2.2.3.4 Should the Project proceed, based on current cost estimates, the draft LTFMP will need to be amended to reflect the increased expected capital cost of the Project (additional $5.292 million) and the additional whole of life operating costs of operating the upgraded Recreation Centre.

2.2.4 Infrastructure and Asset Management Plan

2.2.4.1 The most recent revision of the DCLW Infrastructure and Asset Management Plan (IAMP) references $6.500 million of planned capital expenditure on the Loxton Recreation Centre.

2.2.4.2 Based on current cost estimates, if the Project proceeds, the cost will be significantly higher than has been included which will increase the future depreciation and maintenance provisions required to maintain the asset going forward.

2.2.4.3 Future iterations of the IAMP will therefore need to be updated to reflect the increased capital cost of the Project and the higher provisions for maintenance and depreciation.

2.2.5 Loxton Sporting Precinct Master Plan

2.2.5.1 A key feature of the LSP Master Plan is the upgrade to the Loxton Recreation Centre.

2.2.5.2 The inclusion of the expanded two court Recreation Centre as envisaged in the Project designs is directly aligned to the LSP Master Plan.

2.3 Regional Objectives

2.3.1 Regional Development Australia – Murraylands and Riverland Regional Roadmap 2013 – 2016

2.3.1.1 Regional Development Australia Murraylands and Riverland (RDA M&R) has the role of providing leadership and facilitation to achieve the regional vision of "a vibrant resilient region that capitalises on change, embraces sustainability and provides an inspirational living, investment and working environment'.

2.3.1.2 This vision is to be progressed through the RDA M&R Regional Roadmap (Roadmap), which has three regional priorities that form the basis of the RDA M&R activities over the Roadmap period. These are; Regional Diversification, Innovation and Building Community Capacity.

2.3.1.3 Under the Building Community Capacity priority, the Roadmap identifies the need for a skilled and sustainable workforce which includes:

(a) the removal of inhibitors to industry growth;

(b) bringing new people into the region;

(c) contributing to social and economic security and connectivity;

(d) providing labour and skills; and

(e) supporting the vitality of small towns.

2.3.1.4 The Roadmap also identified the importance of sport and recreation to the regions social connectivity, health and wellbeing and the important role that sporting infrastructure plays in enabling these benefits.

2.3.1.5 A redeveloped Loxton Recreation Centre will increase the liveability of the area by making Loxton a more attractive place to live for potential workers and enabling a fitter and healthier workforce and community. On this basis the Project is aligned to the RDA M&R Regional Roadmap.

2.4 South Australian State Plans

2.4.1 Office for Recreation and Sport Strategic Plan 2017 to 2021

2.4.1.1 The State Government Office for Recreation and Sport Strategic Plan 2017 to 2021, articulates a vision of “an active State”. To support the vision, the plan identifies six priorities.

2.4.1.2 The redeveloped Loxton Recreation Centre will provide increased and enhanced opportunities to progress the plan’s vision and the ‘Places and Spaces’, ‘Capacity and Capability’ and ‘Access and Opportunity’ priorities within the plan.

2.4.2 The South Australian Strategic Plan

2.4.2.1 The South Australia Strategic Plan is built on six pillars and identifies a number of targets.

2.4.2.2 Table Three identifies the relationship between the Project and the goals and targets in the State Strategic Plan which are supported or would be advanced through completion of the Project.

Table Three: Project Alignment with the South Australian Strategic Plan

Relevant State Pillar	State Goals and Targets Advanced
Our Community	**Overall Goal**: We are committed to our towns and cities being well designed, generating great experiences and a sense of belonging Target 1 Urban Spaces Goal: Increase the use of public spaces by the community (baseline: 2011) How the Project is aligned: The Project will revitalise aging infrastructure at the LSP. **Overall Goal**: We are known world-wide as a great place to live and visit Target 4 Tourism Industry Increase visitor expenditure in South Australia's total tourism industry to $8 billion and on Kangaroo Island to $180 million by 2020. How the Project is aligned: Upgraded indoor and outdoor court facilities will provide Loxton with the capacity to host State and National events at the Recreation Centre.
Prosperity	**Overall Goal:** All South Australians have job opportunities. Target 47: Jobs Increase employment by 2% each year from 2010 to 2016 How the Project is aligned: Helping to make the township of Loxton fit for a long term permanent workforce with jobs in the horticulture industry.
Health	**Overall Goal**: We are physically active Target 83: Sport and Recreation Goal: Increase the proportion of South Australians participating in sport or physical recreation at least once per week to 50% by 2020. How the Project is aligned: New courts and improved facilities encouraging people to get active and utilise infrastructure.

2.4.2.3 The Project will assist to advance or progress a number of goals and objectives of the South Australian State Strategic Plan.

2.5 National Objectives

2.5.1 Murray Darling Basin Plan

2.5.1.1 The objectives of the Murray Darling Basin Plan include optimising social, economic and environmental outcomes arising from the use of Basin water resources in the national interest.

2.5.1.2 Council has identified the need to ensure that residents in the township of Loxton and surrounding areas are fit to perform permanent jobs in the horticulture industry thus enabling the region to make the best use of limited water resources.

2.5.1.3 The upgraded recreation facilities which would result from progressing the Project aim to enable the horticulture industries in and around Loxton to gain access to a fitter and more suitable permanent workforce and thereby enabling the outcomes of the Murray Darling Basin Plan.

2.5.2 Sport and Active Recreation Policy Framework

2.5.2.1 The Australian Government, through the Department of Health, which administers the Australian Sports Commission Act 1989 is committed to, amongst other things, encouraging increased participation by Australians in sport and providing resources, and facilities to enable Australians to pursue sport whilst also furthering their educational and vocational skills and other aspects of their personal development.

2.5.2.2 In June 2011, Commonwealth, state and territory Sport Ministers agreed to establish the First National Sport and Active Recreation Policy Framework (the Framework) to help guide the development of sports policy across Australia. The Framework provides a mechanism for the achievement of national goals for sport and active recreation and sets out the agreed roles and responsibilities of governments and their expectations of sport and active recreation partners.

2.5.2.3 The Framework outlines Commonwealth, State and Territory Government Expectations of Other Stakeholders including Regional and Local Government, these are as follows.

- Facilitating a strategic approach to the provision of sporting and active recreation infrastructure including open space, and other needs.
- Establishing local management and access policies to sport and recreation facilities.
- Supporting and coordinating local and regional service providers (venues and programs).
- Liaising and partnering with state and territory governments on targeted program delivery.
- Supporting and partnering with non-government organisations that enable sport and active recreation participation.
- Incorporating sport and recreation development and participation opportunities in Council plans.
- Collaborating, engaging and partnering across government departments on shared Policy agendas.

- Investment in sport and active recreation infrastructure.

2.5.2.4 The Project could be considered to support the objectives, through improved and increased sports and recreation facilities and is consistent with the Framework agreed by the Commonwealth and State Governments.

3. OBJECTIVES OF THE DEVELOPMENT PLAN

Local Government Act, Section 48 (2) the following are prudential issues for the purposes of subsection (1):

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

3.1 Development Approval

3.1.1 Development in DCLW is governed by the Development Plan – Loxton Waikerie Council, pursuant to Section 33 of the Development Act 1993. The Development Plan is a tool which assists to guide and facilitate appropriate development. The latest consolidated version of the DCLW Development Plan is dated 25 July 2013.

3.1.2 The Development Plan covers matters including zoning issues, building and land appearance and neighbourhood character, land division, building siting and setbacks and State heritage places.

3.1.3 The land where the proposed Loxton Recreation Centre will be built is situated on land zoned as 'Recreation'.

3.1.4 The proposed land use meets the objectives of the zone and is an envisaged land use on the site. As such, the Project is in line with Council's planning policy for the site.

3.1.5 The Development Application for the Project has not yet been prepared.

3.2 Approving Authority

3.2.1 Pursuant to the Development Act 1993, a Council can make decisions on certain kinds of applications where the Council is the applicant as outlined in Schedule 10 (2) of the Development Regulations 2008. As recreation facilities and the like are not listed under this section, DCLW may act as the relevant authority in assessing the application.

3.2.2 There is a second test where a Council has a clear financial interest, that is, the outcome of a project would provide a revenue stream, then a Council is to write to the Planning Minister and request that he appoint the Development Assessment Commission as the relevant authority. However, this is only necessary where the Council (or staff) are unclear or suspect that the Council may have a pecuniary interest.

3.2.3 The DCLW financial interest in the Project is considered to be minor and in our view DCLW is therefore likely to be the relevant authority for the development assessment (planning consent) for the Project.

4. ECONOMIC DEVELOPMENT

Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):

(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;

4.1 Contribution to Economic Development

4.1.1 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.

4.1.2 The contribution to economic development from the Project will primarily come from construction activity in the area and purchases of goods and services to deliver the Project.

4.1.3 There are economic and employment multiplier benefits to the broader economy from the economic activity that will be generated by the Project.

4.1.3.1 The economic impact assessment undertaken to identify the potential jobs and incomes that may be associated with the Project is based on a measure of the value added and employment associated with the investment. This is consistent with the predominant measure of national economic activity, Gross Domestic Product.

4.1.3.2 The expenditures associated with this Project will have direct economic effects, indirect effects of related purchases in the broader economy and induced effects of spending on goods and services by the employees of the companies providing goods and services to the Project.

4.1.4 To quantify the benefits from these multiplier effects, RDA M&R prepared a report for DCLW which utilised the 'economy.id' economic impact model, a tool for measuring secondary and tertiary economic effects of a capital investment. The output from the 'economy.id' model forecasts the expected impact the Project will have on the Murraylands and Riverland region and on the national economy more broadly.

4.1.5 For modelling purposes, the Project budget was assumed to be $11.8 million, (which is the $11.792 million Project value rounded to one decimal place) and the expenditure was characterised as Building Construction.

4.2 Economic Impact of capital works

4.2.1 Overall economic impact

4.2.1.1 The direct addition of $11.80 million of output in the Building Construction sector on the Murraylands and Riverland Area would lead to an increase in indirect demand for intermediate goods and services across related industry sectors.

4.2.1.2 These indirect industrial impacts (Type 1) are estimated to be an additional $9.95 million in Output, representing a Type 1 Output multiplier of 1.84.

4.2.1.3 There would be an additional contribution to the Murraylands and Riverland economy through consumption effects as correspondingly more wages and salaries are spent in the local economy. It is estimated that this would result in a further increase in Output of $1.41 million.

4.2.1.4 The combination of all direct, industrial and consumption effects would result in total estimated rise in Output of $23.16 million in the Murraylands and Riverland economy, representing a Type 2 Output multiplier of 1.96.

4.2.1.5 These impacts would not be limited to the local economy. Industrial and consumption effects would flow outside the local area to the wider Australian economy to the tune of $10.07 million in Output.

4.2.1.6 The combined effect of economic multipliers on the Murraylands and Riverland area and the wider Australian economy is estimated to be $33.23 million.

4.2.2 Impact on employment

4.2.2.1 The Project is also estimated to lead to a corresponding direct addition of 19 jobs in the Construction Services sector. From this direct expansion in the economy it is anticipated that there would be flow on effects into other related intermediate industries, creating an additional 35 jobs. This represents a Type 1 Employment multiplier of 2.80.

4.2.2.2 This addition of jobs in the local economy would lead to a corresponding increase in wages and salaries, a proportion of which would be spent on local goods and services, this impact is expected to create an additional 8 full time equivalent positions.

4.2.2.3 The combination of all direct, industrial and consumption effects would result in a total estimated increase of 62 jobs in the Murraylands and Riverland economy. This represents a Type 2 Employment multiplier of 3.19.

4.2.2.4 Employment impacts would not be limited to the local economy. Industrial and consumption effects would flow outside the local area to the wider Australian economy creating a further 34 jobs.

4.2.2.5 The combined effect of economic multipliers on the Murraylands and Riverland and the wider Australian economy is estimated to result in an additional 96 jobs.

4.2.3 Impact on value-added

4.2.3.1 The Project in the Murraylands and Riverland economy would lead to a corresponding direct increase in Value-added of $2.42 million. A further $3.78 million in Value-added would be generated from related intermediate industries. These indirect industrial impacts represent a Type 1 Value-added multiplier of 2.56.

4.2.3.2 There would be an additional contribution to the Murraylands and Riverland economy through consumption effects as correspondingly more wages and salaries are spent in the local economy. It is estimated that this would result in a further increase in Value-added of $0.64 million.

4.2.3.3 The combination of all direct, industrial and consumption effects would result in an estimated addition in Value-added of $6.84 million in the Murraylands and Riverland economy, representing a Type 2 Value-added multiplier of 2.83.

4.2.3.4 These impacts would not be limited to the local economy. Industrial and consumption effects would flow outside the region to the wider Australian economy to the tune of $4.27 million in Value-added.

4.2.3.5 The combined effect of economic multipliers in the Murraylands and Riverland and the wider Australian economy is estimated to be $11.10 million added to Australia's Value-added.

4.2.4 **Summary**

4.2.4.1 The total estimated impact of the Project on economic activity is summarised in Table Four.

Table Four: Estimated Economic Activity Generated by the Capital Works

Summary	Output ($m)	Value added ($m)	Local jobs
Direct Impact	11.80	2.42	19
Total impact on the Murraylands and Riverland economy	**23.16**	**6.84**	**62**
Total impact outside of Murraylands and Riverland economy	10.07	4.27	34
Total impact on economy	**33.23**	**11.10**	**96**

4.3 Impact on Business in the Proximity

Any increase in patronage at the Recreation Centre following the upgrade is likely to provide additional custom and trade for businesses in the vicinity of the LSP and is therefore considered likely to have a positive impact on business in the proximity.

4.4 Fair Competition

4.4.1 The Project involves DCLW upgrading an existing community asset. The operations of a recreation centre impact on competition in the local market place to the extent that it provides services which are also provided by the private sector or not-for-profit sector.

4.4.2 Consideration must be given as to whether the activities of DCLW in operating the Recreation Centre would constitute a "significant business activity" in accordance with the Clause 7 Statement of the Competition Principles Agreement and the Government Business Enterprises (Competition) Act 1996 which provides the framework for implementing National Competition Policy by local government entities in South Australia.

4.4.3 If the proposed activities at the Loxton Recreation Centre were considered to constitute a significant business activity, deemed to be significant within the definitions of Clause 7, then DCLW would need to give consideration to whether competitive neutrality principles will need to be applied to their activities. Competitive neutrality is about ensuring that the significant business activities of publicly owned entities compete fairly in a market.

4.4.4 Given the nature of activities proposed for the Loxton Recreation Centre we do not consider that they constitute a 'significant business activity' and do not consider that there are any material competition issues arising from the proposed Project due to the absence of alternative private operators in the marketplace.

4.4.5 If a gymnasium is constructed in the future, and if DCLW choses to operate the facility, it must assess whether the operations of a gymnasium constitutes a significant business activity and if so whether the competitive neutrality principles should be applied.

5. COMMUNITY CONSULTATION

Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):

(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;

5.1 Level of Consultation

5.1.1 DCLW is committed to open, transparent and accountable decision making, which is informed by effective communication and consultation between Council and the community.

5.1.2 The Community Engagement Policy (last reviewed July 2015) sets out the steps Council will take to establish partnerships and encourage community involvement in planning and decision making regarding the services Council provides.

5.1.3 The Community Engagement Policy aims to ensure that Council meets its obligations in relation to public consultation by:

5.1.3.1 using appropriate and cost effective methods which are relevant to the specific circumstances of each consultation topic;

5.1.3.2 informing and involving the local community, key stakeholders and interested parties; and

5.1.3.3 using feedback to enhance decision making.

5.1.4 The Community Engagement Policy specifies the actions where consultation is required under the Local Government Act but also acknowledges that the Act sets out minimum standards and that Council is committed to consultation in more instances than those specified in the Act.

5.1.5 Although consultation on the Project is not prescribed by the Act, or specifically referenced in the Policy, DCLW has undertaken a comprehensive consultation process on the Project.

5.1.6 Consultation on the Project began on 17 March 2011, where a group of clubs and other interested parties in the LSP gathered in a group forum to discuss current and future issues relating to the use of the LSP. Representatives from all major clubs of the LSP were in attendance.

5.1.7 In a follow up meeting on 28 April 2011, the Loxton Sport and Recreational Facilities User Group recommended that Council develop a Master Plan for the LSP.

5.1.8 Between 2011 and 2016, DCLW held in excess of 20 documented meetings with the Loxton Sport and Recreational Facilities User Group and other interested stakeholders to further refine the scope of works required in the LSP and to drive the creation of the LSP Master Plan.

5.1.9 In addition to consultation with the key users of the LSP, DCLW opened the LSP Master Plan to public consultation between 29 May 2013 to 21 June 2013.

5.1.10 In response to the public consultation process, nine submissions were received. All supported the Master Plan design / concept and provided constructive feedback.

5.1.11 The consultation process resulted in a set of 'non-negotiable' and 'negotiable' design characteristics for the Loxton Recreation Centre. These characteristics were provided to Project designers to influence the concept designs for the Project.

5.2 Community Influence and Contribution

5.2.1 Key stakeholders, through the Loxton Sport and Recreation Facilities User Group and through the Loxton Recreation Centre Steering Committee (established in August 2016) and the community more broadly have been afforded with the opportunity to influence and contribute to the Project through the consultation process undertaken by DCLW.

6. FINANCIAL ASSESSMENT

Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):

(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;

6.1 Revenue Production, Revenue Projections and Potential Financial Risks

6.1.1 Revenue Production and Projections

6.1.1.1 The Project will result in the production of revenue from user charges generated from the hiring of the Recreation Centre to sporting clubs and the community. Forecast annual revenue is shown in Table Five.

Table Five: Projected annual revenue

Income by Club	Annual forecast ($)
Netball	28,000
LABA	28,000
Casual Hire	400
Loxton A & H Society	1,310
Total annual income	**57,710**

6.1.1.2 These revenue projections have been informed by the current revenue generated from the existing Recreation Centre and have been increased by DCLW to factor in the additional indoor and outdoor courts and the likelihood of increased usage (top down approach).

6.1.1.3 DCLW has not prepared detailed revenue projections based on projected demand forecasts (bottom up approach) for the new Recreation Centre nor has there been any detailed analysis on the opportunities for new revenue streams that may be generated by the upgraded Recreation Centre i.e. the ability to host regional or national sporting carnivals, or additional revenue that may be generated by running other competitions and events.

6.1.1.4 While it is acknowledged that revenue generation is not the key driver of the Project, DCLW could benefit from more informed revenue projections to fully understand the true net operating 'cost' of running the upgraded Recreation Centre into the future.

6.1.2 Financial Risk

6.1.2.1 Given the scale of the Project relative to DCLW's capital works budget, the Project comes with a relatively high level of financial risk.

6.1.2.2 The Project Risk Assessment has identified a total of nine financial risks relevant to the Project. These are shown in Table Six.

Table Six: Financial risk assessment

Financial Risks	Inherent Risk Rating	Mitigation Strategies
Cost of maintenance becomes excessive - not sustainable	High	Completion of Financial and economic analysis and review of council operational budgets. Value engineering workshops required to ensure that the maintenance cost is appropriate for a council regional facility. Pragmatic approach to design required
Project budget is in excess of previous allowances	Medium	Prepare and update project cost estimates at pre-determined gateways
Scheme does not represent value for money	Medium	Value engineering sessions to be conducted in parallel with design reviews
Cost exceeds available funding	High	If this occurs value management workshops to be held to realign project scope with funding / feasibility
Cost escalation and fluctuating market conditions	Medium	Include appropriate escalation provision in the project budget.
Contingency for the project is inadequate	Medium	Apply values to risk management plan risks which ensures appropriate project contingency. Monitor and potentially reallocate contingency allowances as risks materialise or are mitigated / avoided / transferred
Competitive procurement not achieved	Medium	Appropriate Council process in place
Cost of consultants greater than anticipated	Medium	Appropriate budgets are in place and scope of work are clear with tender and contracts agreed
Cost change and contingency control not managed adequately	Medium	Quantity Surveyor to ensure appropriate cost change management controls

6.1.2.3 Many of the financial risks identified in the Project Plan relate to risks associated with Project funding and affordability. Given the size of the Project with reference to the current DCLW capital works budget, the risks identified with regard to affordability need to be managed and the true

impact on Council's finances needs to be properly understood through the long term financial planning process.

6.1.2.4 While the key financial risks have been identified, assessed and mitigation strategies have been considered, the level of residual financial Project risk (i.e. the financial risk after the application of mitigation strategies) has not been assessed. The residual level of financial risk should be assessed and documented in future iterations of the Project Risk Assessment.

6.2 Recurrent and Whole of Life Costs, Financial Arrangements

6.2.1 Recurrent Costs

The Project will result in recurrent costs associated with maintenance of Project assets, depreciation, interest and other identified expenses. The following estimates have been provided by DCLW staff.

6.2.1.1 Maintenance

(a) The additional maintenance expense required to service the upgraded Recreation Centre has been estimated at $28,608 per annum ($28,025 for the additional indoor court and $583 for the additional outdoor court). The total estimated annual maintenance cost equates to approximately 0.50% of estimated Project costs.

(b) Usually an asset of this type will have limited maintenance in the early years of operation, due to warranty provisions and the newness of the asset however maintenance will likely increase in the later years.

(c) While the maintenance provision may be sufficient in the early years of operation, we expect that the maintenance provision will need to increase in future versions of the LTFMP.

6.2.1.2 Depreciation

(a) There are a number of classes of assets expected to be created by progressing the Project.

(b) In forecasting depreciation, DCLW has assessed the expected useful life of the major components of the Project assets and calculated an expected annual deprecating charge with reference to the expected useful life of each asset class. The asset classes identified are Superstructure (22%), Structure (18%), Roofing (10%), Fitout (15%) and Services (35%).

(c) The calculation forecasts an annual depreciation charge of $293,800 per annum.

6.2.1.3 Financing

(a) Based on a funding mix of current LTFP allocations ($3.050 million), Grant funding ($4.879 million) and a total Project cost of $11.792

million, debt funding required to fund the Project amounts to $3.863 million.

(b) $1.405 million of funding has been assumed to attract a discounted interest rate of 3.95% with the remaining $2.460 million of funding assumed to attract the current LGFA finance rate of 4.45%. The assumed loan period is 10 years.

(c) We note this loan period is significantly less than the expected useful life of the Recreation Centre. DCLW should consider aligning the term of any debt instrument used to fund the Project with the expected useful life of the Recreation Centre.

(d) The notional financing cost is approximately $0.162 million in year one (based on annual repayments of $0.479 million). The applicable financing charge will reduce over the life of the loan.

6.2.1.4 Other Expenses

(a) The only other assumed additional cost is a provision for facility management of $75,000 per annum.

(b) While the current recreation centre operates without any additional resourcing, it is acknowledged that the new Recreation Centre may require additional monitoring and management given the improved nature and usage of the facility.

(c) No provision has been made for an increase in the cost of utilities as a result of the upgrade. The new Recreation Centre will be much larger requiring more lighting and will be air-conditioned. A provision for additional utilities costs should be estimated and factored into the LTFMP.

6.2.1.5 Total

(a) Total additional recurrent costs over and above the amount currently spent on the existing recreation centre amounts to $0.336 million per annum (plus interest charges of $0.162 million reducing over the life of the loan facility).

6.2.2 Whole of Life Costs

6.2.2.1 The whole of life costs for the Project includes the consideration of the recurrent costs over the useful life of the Project assets plus other once off costs relating to Project. In calculating whole of life Project costs, the following assumptions have been made:

(a) while it is noted that the various asset classes created by the Project have different useful lives we have assumed the approximate useful life of the upgraded Recreation Centre is 40 years;

(b) all recurrent costs continue over the life of the asset at the levels disclosed in Section 6.2.1;

(c) the existing carrying value of the current Recreation Centre and outdoor courts is written off; and

(d) no allowances have been made for inflation or discounting of future cash flows.

6.2.2.2 Whole of life Project costs have been calculated under a scenario where $4.879 million of grant funding is secured.

Table Seven: Project Whole of Life Costs

Expense	With Grant Funding ($million)
Grant income	(4.879)
Net operating cost (ex depreciation and interest)	5.242
Depreciation	11.752
Interest	0.923
Asset write downs	2.692
Total	**15.730**

6.2.2.3 Based on our assumptions, whole of life Project costs over a 40 year useful life are expected to be $15.730 million assuming $4.879m of grant funding is secured.

6.2.3 Financial Arrangements

6.2.3.1 The expected financial arrangements for the capital cost of the Project are summarised in Table Eight.

Table Eight: Financial arrangements

Source	Amount ($million)
Building Better Regions Grant Funding	$4.528
Stage Local Government Infrastructure Fund	$0.351
Current LTFMP funding	$3.050
Debt funding	$3.863
Total Project Cost	**$11.792**

6.2.3.2 41.4% of funding is assumed to be sourced from State and Federal government grants. As at the date of this report, the SLGIF grant has been

secured while DCLW have yet to be notified of the status of the BBRGF grant. Cleary, the ability to secure this grant funding is critical to the ability for Council to fund the Project as currently scoped.

6.2.3.3 In addition to the grant funding mentioned above, DCLW have also applied for grant funding to the value of $1.500 million from the Office for Recreation and Sport under the Community Recreation and Sports Facility Program and the Female Facilities Program. The status of these grant applications is also unknown.

6.2.3.4 Significant value management initiatives or the increased use of debt funding will need to occur if the proposed grants are unable to be secured.

6.3 Financial Viability

6.3.1 Financial viability can be defined as the ability to generate sufficient income to meet operating expenses, financial obligations and to provide the potential for future growth.

6.3.2 The revenue from the Project will not cover operating costs, interest or depreciation expenses associated with the Project. Accordingly, the Project in its own right is not considered to be financially viable. The Project does however provide for the replacement of infrastructure deemed by Council to be a key component of achieving the Our Community objective of the Strategic Plan.

6.3.3 The DCLW Long Term Financial Management Plan 2016/17 – 2025/26 (LTFMP) discloses the targets for Council's Key Financial Indicators that guide revenue and expenditure decisions, overall budget strategies and future decision making. The LTFMP was adopted on 17 March 2017.

6.3.4 The LTFMP discloses the relevant Key Financial Indicators Council uses to assess and manage financial performance and sustainability. The DCLW Audit Committee made the following recommendation at the 25 January 2017 meeting in relation to the relevant Key Financial Indicators:

Cr Trevor Norton moved Mayor Leon Stasinowsky seconded

1. **The Audit Committee recommend Council's adoption of the following key financial indicator targets / target ranges:**

   Operating surplus ratio:
   To achieve, on average over time, an operating surplus ratio of between 0% and 10% and averaging 2.5% over a rolling 3 year period.

   Net financial liabilities ratio:
   To be greater than zero and less than 100% of total operating revenue

   Asset Sustainability ratio:
   Capital outlays on renewal / replacement of assets net of proceeds from sale of replaced assets are greater than 90% but less than 110% of the level proposed in the Infrastructure and Asset Management Plan.

2. **The Audit Committee recommend Council's current draft long term financial plan (currently out for public consultation) be amended to incorporate the above key financial indicators.**

6.3.5 DCLW staff have modelled the expected impact the Project will have on DCLW's key financial indicators over the ten year period of the LTFMP using the 2016/17 to 2025/26 LTFMP as a starting point. The analysis is based on the following assumptions:

6.3.5.1 depreciation and maintenance provisions relating to the initial assumed project cost of the Recreation Centre upgrade have been updated with provisions based the latest Project cost of $11.792 million;

6.3.5.2 all other recurrent costs are consistent with the amounts disclosed in section 6.2.1 of this report.

6.3.6 A scenario analysis has been included in the assessment based on the ability of DCLW to secure grant funding. The following two scenarios were considered.

6.3.6.1 Scenario 1 – Where both the Building Better Regions (BBR) and State Local Government Infrastructure Fund (SLGIF) grants are secured.

6.3.6.2 Scenario 2 – Where only the SLGIF grant is secured.

6.3.7 The outcome of these two scenarios on DCLW Key Financial Indicators over the LTFMP plan period has been calculated and is summarised in Table Nine.

Table Nine: LTFMP impacts of Project

KPI	Target	LTFMP	Scenario 1	Scenario 2
Operating Surplus Ratio	Between 0% and 10% averaging 2.5% over three year rolling period	Min: 0.98% Max: 4.39% Ave: 1.99%	Min: (0.96%) Max: 1.87% Ave: 0.31%	Min: (1.83%) Max: 0.97% Ave: (0.50%)
Net Financial Liabilities	Greater than zero but less than 100%	Min: 31.34% Max: 42.48%	Min: 35.08% Max: 54.53%	Min: 36.78% Max: 68.71%

KPI	Target	LTFMP	Scenario 1	Scenario 2
		Ave: 36.60%	Ave: 45.04%	Ave: 54.93%
Asset Sustainability Ratio[1]	Greater than 90% and less than 110% of level proposed in IAMP	100%	100%	100%

Note 1 – As a replacement asset, the Project is not expected to influence the Asset Sustainability Ratio of Council. The LTFMP is based on an assumption of constant asset renewal consistent with depreciation in the IAMP.
Note 2 – LTFP Min, Max and Averages are calculated from the year commencing FY2017/18 to the end of the LTFP period.

6.3.8 Operating Surplus Ratio

6.3.8.1 Other than the three years between FY2018 and FY2020, the current version of the LTFMP does not achieve the stated target of an average Operating Surplus Ratio of 2.5% over any rolling three years of the plan period however the ratio does remain within the target range of between 0% and 10% in each individual year.

6.3.8.2 Due to the additional operating costs, depreciation and interest charges arising from the Project, the Operating Surplus Ratio is worsened under both scenarios considered.

6.3.8.3 Under Scenario 1 there are three individual years where the Operating Surplus Ratio falls below the target range.

6.3.8.4 Under Scenario 2 there are seven individual years where the Operating Surplus Ratio falls below the target range.

6.3.8.5 The negative impact on the Operating Surplus Ratio is amplified in the absence of grant funding under Scenarios 2 due to an increase in financing costs.

6.3.8.6 Under the base case LTFMP, the average Operating Surplus Ratio over the plan period is 1.99%. Under Scenario 1 this decreases to 0.31% and under Scenario 4, with no grant funding, the average Operating Surplus Ratio over the LTFMP period is (0.50%).

6.3.9 Net Financial Liabilities

6.3.9.1 Given the element of debt funding proposed under both scenarios, the net financial liabilities ratio increases. However, progressing the Project does not result in the net financial liabilities ratio increasing above the target for the ratio of 100%.

6.3.9.2 Under Scenario 2, the average net financial liabilities ratio during the LTFMP plan period increases above 50% to 54.93%, approximately at the centre of the target range for the ratio.

6.3.10 Asset Sustainability Ratio

6.3.10.1 As the LTFMP is based on an assumption of constant asset renewal consistent with depreciation, the Project is not expected to impact the Asset Sustainability Ratio.

6.3.11 As the projected Project income does not cover the projected operating and finance costs, if the Project is progressed it will have a negative impact on DCLW's financial operating position.

6.3.12 Consequently, the Project will diminish the ability of DCLW to deal with unforeseen financial shocks, such as the potential for rate capping, asset failures which require unplanned capital renewal expenditure and diminished government grants such as Road to Recovery without implementing appropriate financial mitigation strategies.

7. PROJECT RISK AND MITIGATION STRATEGIES

Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):

(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);

7.1 Risk Management

7.1.1 This report assesses the risk management actions taken or being considered by DCLW for the Project. It is not the purpose of the report to prepare a comprehensive risk management plan, however a level of assessment has been undertaken on the identified risks and the mitigations that have been developed by DCLW.

7.1.2 DCLW has adopted a Risk Management Policy for the consistent identification and management of risk. It is the Policy of the DCLW that it will adopt as its Risk Management Standard, AS/NZS/ISO 3/000:2009 Risk Management - Principals and Guidelines. The aim of this Policy is to provide management with a formalised process for identifying and managing risk in a consistent manner.

7.1.3 Consistent with the Risk Management Policy, a Project Risk Assessment for the Project has been prepared dated January 2017.

7.1.4 The objective of the Project Risk Assessment is to improve project planning, performance and effectiveness through the exploitation of opportunities and control of adverse events thereby minimising negative outcomes.

7.1.5 The risk objectives of the Project include:

7.1.5.1 maximising the scope of works for the fixed budget;

7.1.5.2 minimising the need for ongoing maintenance of the site following practical completion of the works;

7.1.5.3 optimising the potential for future funding in ongoing management;

7.1.5.4 enhancing the regional value of the site;

7.1.5.5 achieving value for money;

7.1.5.6 displaying quality of workmanship; and

7.1.5.7 delivering the works in a timely manner.

7.1.6 DCLW has identified 70 risks relating to the Project. Table Ten shows how these risks have been classified and rated.

Table Ten: Inherent Risk Assessment

Inherent Risk Level	Extreme	High	Moderate	Low	Total
Demand, Need, Objectives and Scope			3		**3**
Commercial and Legal			1		**1**
Economic and Financial		1			**1**
Procurement and Delivery		3	1	1	**5**
Authority, Compliance and Approvals		1	1		**2**
Design and Documentation		4	15	1	**20**
Construction		7	4		**11**
Programme			4		**4**
Cost		1	7		**8**
Technology			1		**1**
Operational Environment			1		**1**
Environmental		2	1		**3**
OH&S			1		**1**
Governance and Probity				3	**3**
Political		1	1		**2**
Stakeholder and Community			3		**3**
Sustainability			1		**1**
Total	**0**	**20**	**45**	**5**	**70**

7.1.7 Based on the inherent risk assessment, zero extreme risks have been identified and 20 risks have been rated as 'High'. A majority of these High risks relate to Project execution (design and construction) which is reasonable given the nature of the Project.

7.1.8 In reviewing the Project Risk Assessment the following issues were noted:

7.1.8.1 A number of risks had a 'likelihood' rating of 'moderate'. 'Moderate' is not a defined 'likelihood' rating under the DCLW risk management framework. We expect the term moderate has been used instead of 'possible'. The Project Risk Assessment should be updated to reflect the defined terms used in the Risk Management Policy and risk matrix.

7.1.8.2 Based on the assessed consequence and likelihood ratings, a number of risks have been given a risk rating that is not consistent with the risk matrix provided.

7.1.8.3 The level of residual risk for each identified risk (i.e. the level of risk remaining after the application of risk controls) has not been assessed.

7.2 Risk Mitigation

7.2.1 The ultimate purpose of risk identification and analysis is to prepare for risk mitigation. Mitigation includes reduction of the likelihood that a risk event will occur and/or reduction of the effect of a risk event if it does occur. For risk analysis to be effective, risk mitigation strategies and specific action plans should be incorporated in the project management plan.

7.2.2 For each identified risk in the Project Risk Assessment, a 'mitigation action' has been identified, a responsible person has been assigned to the mitigation action and a status has been set. We note that the identified mitigation actions have not been costed and while there is a provision for some mitigation actions in the Project budget, there is likely to be an additional financial impact of implementing all identified mitigations strategies.

7.2.3 The risk owner for 48 of the 70 risks is set as 'Council'. For the mitigation action to be effective, we recommend that an individual from the Project Team be assigned responsibility for each risk mitigation action.

7.2.4 While mitigation actions have been identified for each risk, the level of residual risk (after the application of risk controls) has not been assessed in the Project Risk Assessment and therefore the residual risk of the Project as a whole has not been assessed.

7.2.5 Understanding residual risk levels is important to identify risks that pose a threat to the success of the Project after identified mitigation actions have been taken. All risks should be re-rated following the application of the identified mitigation controls.

7.2.6 We acknowledge that quality risk assessment and mitigation is an iterative process. Good risk management involves constantly monitoring and assessing risk and regularly updating the risk assessment to reflect changes in risk as the Project progresses. Under the Project Plan, the Project Manager is responsible for ensuring this occurs.

7.2.7 As the Project is undertaken, the Chief Executive Officer should be kept apprised of progression and any areas of risks through monthly meetings with the Project Manager.

7.2.8 The Chief Executive Officer should be responsible for updating Council on Project progression and risk as required.

8. PROJECT DELIVERY

Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):

(i) the most appropriate mechanisms or arrangements for carrying out the project.

8.1 Delivery Mechanism

8.1.1 A Project Management Plan (PMP) dated January 2017 has been prepared for the delivery of the Project.

8.1.2 The PMP is the document that provides the 'road map' enabling the effective day-to-day (operational) management of the Project. The PMP contains all relevant information about the foundations of the Project, how construction of the Project is to be managed and post construction activities.

8.1.3 The PMP details the Project governance structure to manage the Project. That structure includes the establishment of a Project Team consisting of:

8.1.3.1 Project Sponsor – responsible for ensuring that overall outcomes are delivered and that the organisation collaborates to align effort;

8.1.3.2 Business Manager – champions the projects and develops and implements the Business Case;

8.1.3.3 Delivery Manager – accountable for Project development and delivery and ensures that the business benefits are delivered; and

8.1.3.4 Project Manager – manages the Project processes and the team.

8.1.4 The Project Team will form part of a Project Working Group which will also include relevant external stakeholders and other subject matter experts (either internal or external) who bring unique skills to the team throughout the Project. The composition of the Project Working Group will vary throughout project delivery.

8.1.5 DCLW made the decision to outsource both the design and the construction elements of the Project and are proposing to perform the project and contract management using internal resources (either existing staff or sourcing new contract staff for the sole purpose of delivering the Project).

8.1.6 The PMP appears to set an appropriate framework for the management of the Project.

8.2 Procurement Implications

8.2.1 The DCLW Procurement Policy, last reviewed March 2016, seeks to:

8.2.1.1 define the methods by which Council can acquire goods and services;

8.2.1.2 demonstrate accountability and responsibility of Council to ratepayers;

8.2.1.3 be fair and equitable to all parties involved;

8.2.1.4 enable all processes to be monitored and recorded; and

8.2.1.5 ensure that the best possible outcome is achieved for the Council.

8.2.2 The procurement process for the Project as detailed in the PMP includes five major steps:

8.2.2.1 Specification - This step involves the purchasing area communicating with the project manager to develop and approve a list of procurement items necessary for project implementation. The council must specify the approved items to external vendors.

8.2.2.2 Selection - This step of the project procurement process requires finding potential suppliers which can undertake the project, according to the specifications. For this purpose the DCLW tender process is followed including our selection criteria, which includes such measures as delivery, service quality, cost, and past performance.

8.2.2.3 Contract - The project manager must communicate with the suppliers on delivery dates and payment conditions in order to ensure 'on-time' delivery of the project items within the stated project budget. All the conditions should be listed in a procurement contract. Also, a detailed delivery schedule should be negotiated with the suppliers.

8.2.2.4 Delivery - Through arranging regular meetings, tracking delivery progress, reviewing progress against the approved specifications and making necessary changes to the procurement contract, the project manager can control the process and ensure successful delivery.

8.2.2.5 Measurement - The final step of the project procurement management process refers to using a system of performance indicators and measures for assessing the effectiveness and success of the entire process. The project manager will set up such a system and the purchasing department needs to use it in measuring the process. Special meetings and workshops can be conducted to view KPIs, intermediate results of staged delivery, performance of procurers, adherence to product specifications, communications with suppliers, and the like.

8.2.3 For this Project, the Project team will need to ensure that the major procurements (being the design and construction contracts) are procured in accordance with the Project Management Plan and the procurement policy applicable at the time. We note that when the value of purchases exceeds $100,001, as will be the case with the construction contract, a request for tender (open) is likely to be the most appropriate procurement methodology for this Project.

8.2.4 Where there are smaller consultancies relating to the Project, the Project Manager should ensure that procurement is undertaken consistent with the provisions of the Procurement Policy applicable at the time.

9. CONCLUSION

9.1 The proposed upgrade to the Loxton Recreation Centre is an $11.792 million Project to replace the existing Recreation Centre with a new purpose built and larger facility.

9.2 The Local Government Act 1999 (Act) Section 48 requires Council to consider a report addressing the prudential issues when a project meets certain criteria. The Project triggers the expenditure threshold specified in the Act as a Project with a capital value of greater than $4.628 million.

9.3 This report has been prepared to meet the requirements of the DCLW Prudential Review Report Policy and Section 48 of the Local Government Act in order to provide DCLW with a comprehensive understanding of the prudential issues relating to the Project.

9.4 The Project is considered to be strongly aligned to DCLW's key strategic management planning documents and is a key project identified to progress the 'Our Community' objective. A provision for $10.062 million is included in the Draft 2017/18 Annual Business Plan and Budget as the expected capital cost of the Project. This provision is not consistent with the most recent Project cost estimates of $11.792 million. The 2017/18 budget should be updated accordingly as part of the quarterly budget review process.

9.5 If the Project proceeds as planned, the Long Term Financial Management Plan and Asset Management Plans will need to be updated to reflect the increase in total expected capital and whole of life costs relating to the Project.

9.6 It is expected that the Project will assist to progress the objectives in the South Australian Strategic Plan relating to the health and wellbeing of the community.

9.7 A Development Application for the Project has yet to be submitted. However, the land where the upgraded Loxton Recreation Centre will be built is situated on land zoned as 'Recreation' and the proposed land use meets the objectives of the zone and is an envisaged land use on the site.

9.8 The Project is expected to have a positive impact on the local economy through direct impact on the construction industry and indirect increases in demand for intermediate goods and services across related industries.

9.9 The Project is forecast to create up to $23.16 million of additional economic output in the Murraylands and Riverland economy and create up to 62 new jobs. The overall impact of the Project on the national economy is forecast to be $33.23 million.

9.10 Given the nature of activities proposed for the Loxton Recreation Centre we do not consider that they constitute a 'significant business activity' and that there are any material competition issues arising from the proposed Project due to the absence of alternative private operators in the marketplace. The Project is not expected to have a material impact on existing businesses in the proximity to the development.

9.11 Public consultation in relation to the Project was undertaken in accordance with DCLW's Community Engagement Policy.

9.12 DCLW undertook a substantial engagement process with key users of the LSP and held over 20 documented meetings since 2011 that informed the final scope of the Project. DCLW also

provided the LSP Master Plan for public consultation in 2013, with nine responses all broadly supportive of the concept design.

9.13 Accordingly, it can be said that the community had an appropriate opportunity to influence and contribute to the Project as a result of DCLW's engagement processes.

9.14 Revenue generated by user charges from the new Recreation Centre will not meet operating costs, nor will it cover interest or depreciation charges expected to be incurred.

9.15 The current capital cost estimate of the Project is approximately $5.292 million more than the existing financial provision in the LTFMP. If the Project proceeds as currently scoped, additional funding will need to be sourced, either from grants or from increasing borrowings.

9.16 Due to an increase in forecast costs to run the upgraded Recreation Centre relative to the existing assumptions in the current version of the LTFMP, the Project will have a negative impact on Council's forecast Operating Surplus Ratio.

9.17 The current version of the LTFMP, which includes some but not all provisions relating to the upgraded Recreation Centre, only achieves the stated target of an average Operating Surplus Ratio of over 2.5% over any rolling three years of the plan period in the first three years of the LTFMP. Every subsequent rolling three year period is below the 2.5% target. The ratio does however remain within the identified range of 0% to 10% in each year of the plan. The average Operating Surplus Ratio over the LTFMP plan period is 1.99% under the current LTFMP. This reduces to negative 0.50% under a scenario where the Project is progressed but no additional Federal or State Governement grant funding is secured.

9.18 The impact of the Project on the Operating Surplus Ratio was considered under two grant funding scenarios. Under both Scenarios, the Operating Surplus Ratio falls below the identified target Operating Surplus Ratio (0% and 10%) in at least three of the years of the LTFMP period with the impact being amplified if less grant funding is secured.

9.19 The Project will have a negative impact on DCLW's financial operating position. This will diminish the capacity of DCLW to deal with unforeseen financial shocks without implementing financial mitigation strategies.

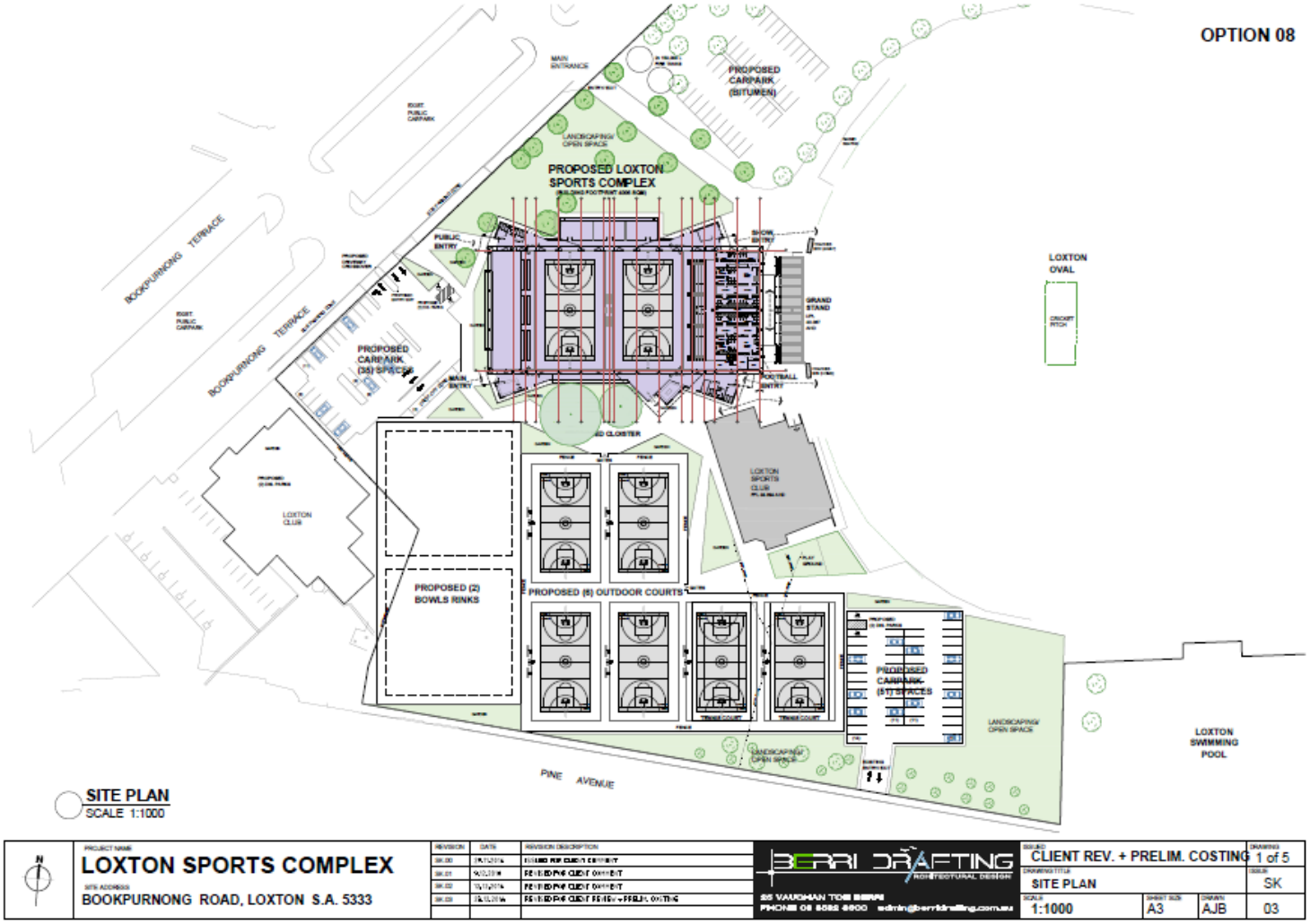
9.20 A risk assessment was prepared for the Project which identified a total of 70 Project risks, 20 of which have an inherent risk rating of 'High'. The Project Risk Assessment should be updated to assess the level of residual risk relating to the project; that is the risk rating after the application of mitigation controls.

9.21 A number of the proposed mitigation strategies and actions will involve costs which have yet to be quantified, this should be addressed to ensure Council is fully informed of the financial impact of the Project.

9.22 A detailed Project Management Plan has been prepared for the delivery of the Project. The plan establishes the procurement and governance processes for the Project.

9.23 The procurement methods employed to date on the Project have been consistent with the requirements of DCLW's Procurement Policy.

ATTACHMENT ONE: SITE PLAN



ATTACHMENT TWO: LOCAL GOVERNMENT ACT, 1999 – SECTION 48

Section 48 – Prudential requirements for certain activities

(1) A council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council—

(a) engages in a commercial project (including through a subsidiary or participation in a joint venture, trust, partnership or other similar body) where the expected recurrent or capital expenditure of the project exceeds an amount set by the council for the purposes of this section; or

(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 expenditure 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.

(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.

(3) A report is not required under subsection (1) in relation to—

(a) road construction or maintenance; or

(b) drainage works.

(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