



District Council of Yankalilla

Section 48 Short Form Prudential Report:
Normanville Surf Life Saving Club and
Café/Kiosk Redevelopment

January 2022

Final Draft



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EXECUTIVE SUMMARY

The following prudential report has been prepared for the District Council of Yankalilla (DCY) to review its prudential activities in relation to progressing the proposed redevelopment of the Normanville Surf Life Saving Club and Jetty Kiosk/Cafe (Project). This Project is one of three key elements of the Normanville Foreshore Masterplan.

The Project budget is \$5.40 million with proposed funding of \$1.960 million from the South Australia Fire and Emergency Services Commission (SAFECOM) and \$0.385 million from the Normanville Surf Life Saving Club and \$3.055 million from DCY. Surf Life Saving South Australia (SLSSA) will be ultimately responsible for project management and undertaking the construction, with the proposal being for the completed building to be transferred to DCY at the end of construction.

The Project is currently in the detailed design phase with DCY Council having considered and endorsed the concept designs, the future design brief and minimum space requirements for each element of the new building.

Summary Conclusion:

Significant due diligence work has been undertaken by the Administration, with the Council Report dated 21 September 2021 providing a detailed history and status update relating to the Project. We recommend the Administration progress some additional key actions to satisfy the requirements of DCY's Prudential Management Policy and Section 48 of the Act before proceeding with the Project.

Project due diligence recommendations:

To complete DCY's due diligence processes, we make the following key observations and recommendations:

- There are high levels of community interest in this Project given its location and significance to the local community. We recommend a standalone Project Risk Register is developed for this Project which considers the specific risks relating to this Project only (as opposed to broader risks relating to the Normanville Foreshore Redevelopment). This Project Risk Register should be regularly updated as the Project progresses and both the CEO and Council should be regularly appraised of updates to key Project risks.
- There is a lack of documentation to support the proposed Project with their currently being no Development Agreement nor a Terms of Reference for the Project Control Group. A Development Agreement is essential to bind each funding party to the various agreed roles and responsibilities during the design and the construction phase. We recommend that DCY does not progress with funding the Project without a Development Agreement to ensure that appropriate legal protections limit DCY's financial exposure to Project overruns, construction risks, defect liabilities and to provide for some control over final designs and value management decisions which could impact the recurrent or whole of life costs of maintaining the building once constructed.
- It is not clear who is responsible for any future cost overruns on the kiosk/café and public toilet elements of the Project construction nor does DCY currently have suitable control over the Project to mitigate the risk of potential cost overruns. The latest available cost estimate (July 2021), based on the Project concept designs, shows the Project budget is not sufficient to deliver on the desired scope meaning that there is a high likelihood that value management and/or Project cost overruns will occur. This cost estimate also assumed a Project commencement of 2021 and excluded escalation. DCY should seek clarification from SLSSA as to how a shortfall in funding will be managed and whether or not DCY will be asked to increase its financial contribution if the Project budget is not sufficient to deliver on the identified scope of works.

PRUDENTIAL REVIEW KEY FINDINGS

S48 (2)	Description	Prudential Review Comments	Management Response (provided by DCY CEO)
(a)	The relationship with strategic management plans .	The Project is specifically disclosed in DCY's strategic planning documents and is aligned to the RDA's Regional Visitor Strategy. Financial provisions have been included in the LTFP to meet both the capital and an estimate of the long term costs relating to the Project.	Agreed.
(b)	The objectives of the Development Plan .	SLSSA will be the applicant for the Development Application. DCY has written to the Minister for Planning and Local Government to see if it is appropriate that the State Commission Assessment Panel be the relevant Authority to assess the Development Application and is awaiting a response.	Council has now received a response from the Minister and the Development Application will be assessed by the Fleurieu Regional Assessment Plan (FRAP).
(c)	The expected contribution of the project to the economic development of the local area. The impact on businesses carried on in the proximity . How the project should be established in a way that ensures fair competition in the marketplace.	Economic modelling has been undertaken to estimate the expected contribution of construction activity on economic activity and jobs. As DCY is not proposing to operate the Café / Kiosk or the SLSC, the principles of Fair Competition do not apply. Suitable arrangements will need to be made with the existing Lessee of the Café/Kiosk so that the Lessee can relocate and continue to trade during the construction period.	Economic Development modelling prepared externally by Regional Development Australia (RDA) was tabled at the December 2020 Council meeting. Council has received legal advice and appointed an external commercial real estate agent to negotiate the relocation of the Kiosk during the construction phase in accordance with their lease relocation clause.
(d)	The level of consultation with the local community and how the community can influence the project.	DCY has undertaken broad consultation on the entire Normanville Foreshore Masterplan, of which the Project is a key element. The community has been afforded a reasonable opportunity to contribute and influence the outcome of the Project consistent with DCY's Public Consultation Policy.	Initial Consultation on the broader Normanville Foreshore Masterplan occurred for a six week period from December 2020 to January 2021. Council at its Special meeting held 29 January 2021 resolved (C21014 in part): <i>That Council leave the consultation channels open for the community to continue to provide feedback on all aspects of the Normanville Foreshore Masterplan, especially as the Masterplan progresses and greater detail on the individual components is provided and that Elected Members will be kept informed at every Council meeting of all feedback received.</i> Feedback continued to be received and updated Engagement Reports were tabled and considered at each Council meeting between February 2021 and July 2021.

S48 (2)	Description	Prudential Review Comments	Management Response (provided by DCY CEO)
(e)	Revenue projections and potential financial risks.	<p>No additional revenue has been forecast in the DCY LTFP as a result of undertaking the Project.</p> <p>Undertaking the Project exposes DCY to financial risks, both in terms of capital project cost overruns and unbudgeted whole of life costs. These financial risks are not currently well understood nor have they been satisfactorily documented or mitigated.</p>	<p>Additional revenue will be included in the Long Term Financial Plan (LTFP) once the future leases have been determined and revenue becomes known.</p> <p>Administration have previously determined financial risks and have now committed to document them into one document and table at the February 2022 Council meeting.</p>
(f)	Recurrent and whole-of-life costs.	<p>DCY has provided for additional maintenance costs as well as the cost of depreciation and interest in its LTFP relating to the Project assets.</p> <p>Given the proximity of the building to the ocean, significant future maintenance costs may be incurred by DCY. Ensuring that the building is constructed with high quality materials designed to withstand the location will be a key to reducing the whole of life costs associated with the building to within the existing financial provisions.</p> <p>A whole of life Project cost estimate has not been prepared.</p>	<p>To ensure that the building is constructed with high quality materials Council at their February 2021 Council meeting endorsed a design brief for the Surf Club and Kiosk/Café.</p> <p>The brief included Council’s vision for the rebuild of the Normanville Surf Life Saving Club and adjacent kiosk described in design principles which have been developed to assist in the concept designs including:</p> <p><i>Design Principle 2:</i></p> <p><i>Robust in Nature — Built to withstand the severe coastal conditions. — Low maintenance and energy efficient.</i></p>
(g)	Financial viability of the project.	<p>DCY’s debt levels will increase by undertaking the Project and this increase has been factored into the latest version of the LTFP. The adopted LTFP shows that the current level of debt can be serviced, and that debt will reduce over the LTFP period, but this assumes relatively low levels of new capital asset spending in the future. Council should continue to closely monitor its debt exposure and serviceability and ensure the LTFP is considered when making future material financial decisions.</p>	<p>Agreed.</p>
(h)	Risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks.	<p>While risk has been considered at a high level, we recommend a Project specific risk register is developed to identify and assess key Project risks and identify suitable risk mitigation strategies. The lack of a Project specific risk register is a key limitation with the existing due diligence processes undertaken to date on the Project.</p>	<p>Administration have committed to document and table a Project specific risk register at the February 2022 Council meeting.</p>
(i)	The most appropriate mechanisms or arrangements for carrying out the project.	<p>It is proposed that the Project will be managed and delivered by SLSSA. DCY will participate in a Project Control Group that will oversee the Project, but this PCG does not have any written authority and is not bound by a documented Terms of Reference.</p> <p>This exposes DCY to risk that it will have limited control over the final form of development and key decisions made during construction.</p>	<p>Administration have committed to document a Terms of Reference for the Project Control Group and table to the February 2022 Council meeting.</p>

S48 (2)	Description	Prudential Review Comments	Management Response (provided by DCY CEO)
(j)	If the project involves the sale or disposition of land , the valuation of the land.	As the Project does not involve the sale of land no valuation is required.	Agreed.
	An appropriate level of due diligence is applied to the proposed project.	We recommend a Project specific risk register and legal documentation to confirm the roles and responsibilities on each funding party be developed to complete DCY's Project due diligence activities.	Administration have committed to document and table a Project specific risk register and legal documentation at the February 2022 Council meeting.



1. INTRODUCTION

1.1 Background

- 1.1.1 The Normanville Surf Life Saving Club (orange highlight) and the Normanville Kiosk and Café (yellow highlight) are situated on the Normanville Foreshore to the immediate north of the entrance to the Normanville Jetty. An overhead and street view of the location are shown in Figure One and Figure Two.

Figure One: Overhead view of the Normanville Foreshore



Figure Two: Street view of the Normanville Café / Kiosk and Surf Lifesaving Club





- 1.1.2 Both the Normanville Kiosk and Café and the Normanville Surf Life Saving Club (NSLSC) are currently contained within separate buildings owned by the District Council of Yankalilla (DCY). The surf life saving club building is currently leased to the NSLSC while the Normanville Kiosk and Café is leased to a private operator which is due to expire on 31 December 2026.
- 1.1.3 In or around 2015, Surf Life Saving South Australia (SLSSA) identified the need to upgrade and expand the facilities at the Normanville Surf Life Saving Club. Since this time, the Normanville Surf Life Saving Club (NSLSC), SLSSA and DCY have been working together to generate a project that results in an upgrade to the surf life saving facilities in Normanville.
- 1.1.4 A detailed chronology of the history of the Project and the Council meetings at which this matter has been considered is contained in a comprehensive Council Report dated 21 September 2021.

1.2 The Normanville Foreshore Redevelopment

- 1.2.1 The redevelopment of the NSLSC and Normanville Kiosk and Café is part of a broader and interdependent plan to revitalise the Normanville Foreshore.
- 1.2.2 The first phase of this broader plan is for DCY to make a further investment in self contained cabins in the Jetty Caravan Park. This upgrade has been endorsed by Council and detailed designs are currently being prepared.
- 1.2.3 It is intended that upon completion of the upgrade to the cabins, additional revenue forecast to be earned from the Jetty Caravan Park will help to subsidise additional recurrent costs relating to the other foreshore projects.
- 1.2.4 Figure Three shows the interdependent relationship between the three projects.

Figure Three: Broader Normanville Foreshore Project

Normanville Foreshore Components closely linked





- 1.2.5 While each component of the broader project is linked, this Prudential Report focuses only on the redevelopment of the NSLSC and the Normanville Kiosk and Café.

1.3 The Project

- 1.3.1 The Project is the demolition of the existing NSLSC and the Normanville Café and Kiosk and the construction of a single two-storey building to support both the operations of the NSLSC and a café / kiosk to service the Normanville Foreshore with an estimated total capital cost of \$5.40 million.
- 1.3.2 A selection of the most recent concept designs for the Project are shown in Figure Four with detailed floor plans shown in Annexure One.

Figure Four: Project Concept Designs



View looking North from the existing carpark



View looking east from the Normanville Jetty



- 1.3.3 The Project will be delivered through a joint financial arrangement between the South Australian Fire and Emergency Services Commission (SAFECOM), NSLSC and DCY.
- 1.3.4 The surf life saving component of the build is the key area of output for SAFECOM and NSLSC while the café / kiosk and public toilet component of the build is being delivered for the direct benefit of DCY.
- 1.3.5 The proposal is for SLSSA to project manage the entire Project and deliver the building to an agreed specification and upon completion transfer the asset to DCY for ongoing management and maintenance.
- 1.3.6 The surf life saving component of the build has a budget of \$3.50 million and is to be funded by the following contributions.
 - 1.3.6.1 SAFECOM - \$1.960 million;
 - 1.3.6.2 DCY - \$1.155 million; and
 - 1.3.6.3 Normanville SLSC - \$0.385 million.
- 1.3.7 DCY has also provisioned an additional \$0.300 million for public toilets and improved rear access to the new combined building.
- 1.3.8 The Kiosk / Café component has a budget of \$1.600 million and is to be funded solely by DCY. DCY's total Project contribution is therefore \$3.055 million with a total Project value upon completion estimated to be \$5.40 million.

1.4 Purpose of a Prudential Review

- 1.4.1 Section 48 of the Local Government Act (Act) requires 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

(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.

- 1.4.2 As at the date of this report the indexed value of the \$4.00 million threshold identified in Section 48 (1) (b) (ii) is \$4.939 million.



1.4.3 Council has also adopted a Prudential Management Policy which applies to all Council projects. The objective of the Policy is to ensure that Council projects:

- *achieve identified public benefits or needs and*
- *minimise financial risks*

by

- *making a decision to proceed only after an appropriate level of due diligence has been applied;*
- *appropriate management of the project; and*
- *evaluation after the project.*

1.4.4 Under the Policy, a proposed project must first be assessed as to the level of due diligence required.

1.4.5 As the Project has an estimated cost which is above the prudential limit threshold DCY has engaged BRM Advisory to prepare a report to satisfy the requirements of Section 48 of the Act and the Prudential Management Policy.

1.4.6 The preparation of a prudential report is the highest level of due diligence envisaged in the DCY Prudential Management Policy.



2. PRUDENTIAL REVIEW

2.1 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	District Council of Yankalilla Strategic Plan – 2030 Vision Annual Business Plan and Budget 2021/22 Asset Management Plan - Buildings	The Project is specifically referenced and/or aligned with the objectives in Council’s key strategic planning documents. The Annual Business Plan and Budget contains \$0.300 million in capital funding in FY2021/22 and \$5.100 million in allocated funding provisions in FY2023 for the capital cost of the Project of \$5.400 million of which \$3.055 million will be funded by DCY and the remainder by SAFECOM and NSLSC.
Regional Plans	South Australian Regional Visitor Strategy (2025)	Within the Regional Visitor Strategy, the Fleurieu Peninsula strategic priorities include: <ul style="list-style-type: none"> • Make the region known as a place for outstanding food and drink, adventure, arts, culture, wellness and nature and water based experiences; and • Foster collaboration between councils and other stakeholders to strengthen the region’s coastal areas for business development and improved visitor experience. We consider that the broader upgrade and further activation of the Normanville Foreshore is strongly aligned with these objectives.
State Plans	Growth State	The Project will stimulate construction jobs and future tourism activity in the Council area and is therefore aligned to the State Government’s Growth State agenda.
National Plans	No relevant plans have been identified	
<p>Findings: Requirements of Section 48 (2) (a) have been met. DCY has capital budget allocations for both the SLSC and the Café / Kiosk components of the Project in the 2021/22 Annual Business Plan to occur in both FY2022 and FY2023 which is broadly consistent with the current planned Project delivery timeframe, although some of the FY2022 budget provision may need to be carried forward into FY2023. The Project is well aligned with a number of State Government and Regional Strategies around tourism and economic growth.</p>		

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2.2 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 Assessment	Planning, Development and Infrastructure Act 2016.	The Project works will constitute development under the Planning, Development and Infrastructure Act 2016 (PDI Act). NSLSC is the applicant for the Development Application and have engaged UPRS to assist with preparing the Development Application.
Development zone	Planning and Design Code	The Project sits within the Conservation Zone and accordingly public notification will be required to progress the development.
Approving Authority	Planning, Development and Infrastructure Act 2016.	DCY has written to the Minister for Planning and Local Government to request the State Commission Assessment Panel (SCAP) be appointed as the approving authority on the grounds that Council has an interest in the Project. DCY has yet to receive a response. Should Council be determined as the appropriate planning authority to assess the Development Application DCY will delegate this responsibility to the Fleurieu Regional Assessment Panel.
<p>Findings: Requirements of Section 48 (2) (b) have been met. NSLSC is responsible for the Development Application for the Project which was submitted to DCY in November 2021 but has yet to be assessed. DCY may be the relevant planning authority to assess the Development Application although DCY has sought a referral to SCAP. Given the development is to be undertaken in the Conservation Zone, in close proximity to the ocean and the sand dunes, there is a level of complexity in relation to the planning aspects of the Project. Consultants UPRS (Development Application and Planning Statement), Wavelength (Coastal Setback Assessment), WGA (Civil / Stormwater) and Oxigen (Landscaping plans) have been engaged by SLSSA to support the Development Application process.</p>		



2.3 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 to economic development	Economy ID Economic Impact Report	<p>DCY, through Regional Development Australia Adelaide Hills, Fleurieu and Kangaroo Island, has prepared an Economic Impact report to estimate the expected impact that the construction phase of the Project will have on economic activity and jobs.</p> <p>Based on an assumed \$5.100 million project budget (\$0.300 million less than the current budget allocation), progressing the Project is expected to generate an additional \$5.500 million in local economic output and create an additional 6 local jobs. The total increase in output on the Australian economy is \$9.080 million with an additional 19 jobs created.</p> <p>No work has been undertaken to quantify the expected ongoing economic activity and jobs created by the upgraded SLSC or Café/Kiosk.</p>
Impact on businesses in the proximity	None	<p>The impact of the Project on the existing operations of the Normanville Café/Kiosk and the SLSC during construction will be significant and needs to be carefully managed by DCY in accordance with the requirements of the current leases.</p> <p>The only other business in the immediate proximity of the Project site is the Jetty Caravan Park which is owned by DCY and should not be materially impacted by the Project.</p>
Fair competition	None	<p>Assuming that neither the surf life saving club or the Café / Kiosk will be operated by DCY the principles of Fair Competition do not apply.</p>
<p>Findings:</p> <p>Requirements of Section 48 (2) (c) have been met.</p> <p>DCY has quantified the expected economic impact from the construction phase of the Project on the local and national economy using the Economy.id Economic Impact Model. The Project is not expected to have a material impact on businesses in the proximity (other than the existing kiosk/café and SLSC).</p> <p>As DCY are not intending to operate either the surf life saving club or the café / kiosk, the principles of Fair Competition are not applicable to this Project.</p>		



2.4 Level of 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	Public Consultation Policy Local Government Act 1999 Strategic Plan Foreshore Speak Out Normanville Foreshore Masterplan Normanville Foreshore Consultation Booklet Normanville Foreshore Corflute	DCY has undertaken a comprehensive community consultation process on the broader Normanville Foreshore Masterplan, of which the Project is a key component. The consultation process was initially open for a six-week period, consistent with the requirements of DCY's Public Consultation Policy for Level 3 engagement activities. The Normanville Foreshore Masterplan consultation document contains two pages on the upgrade to the SLSC and the Café/Kiosk in which the integrated building approach is tabled and the location of the building is confirmed as a rebuild on the existing site. All community feedback was tabled to Council on 16 February 2021. Additional community feedback on the Normanville Foreshore Projects continued to be tabled at Council meetings from March 2021 through to July 2021. The consultation processes undertaken have exceeded the minimum consultation requirements in the Local Government Act and are consistent with the principles of the DCY Public Consultation Policy.
Level of community influence to the Project	None	The original proposal to rebuild the SLSC in the existing carpark location was changed as a result of strong community opposition. This is an example of the community having the opportunity to influence the direction of the Project.
Findings: Requirements of Section 48 (2) (d) have been met. DCY's Consultation Policy is based on a principle that members of the community have a right and a responsibility to be involved in Council's decisions. Through the consultation processes undertaken in relation to the Normanville Foreshore Masterplan, community members have had an opportunity to influence and contribute to the Project and Elected Members have been provided with the community's views to inform decision making.		



2.5 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	2021/22 Annual Business Plan (containing the updated LTFP)	<p>There will be revenue generated from undertaking the Project in the form of future lease fees payable by both the SLSC and the future leaseholder(s) of the Café and/or Kiosk. There is also the potential for some temporary loss of lease revenue from the Café/Kiosk during the construction phase of the Project.</p> <p>As a conservative measure, no increase in lease revenue above current levels has been included in the adopted LTFP despite the potential for Council to negotiate an improved financial arrangement with future lease holder(s) as a result of the upgraded facilities.</p>
Potential financial risks	Normanville Foreshore Risk Matrix	<p>A risk register for the broader Normanville Foreshore Project has been developed which recognises some of the key financial risks relating to this Project. The mitigation strategies for each key financial risk that has been identified appear to be reasonable.</p> <p>However, there are financial risks specific to this Project which have not been recognised in the existing Risk Register. The major additional financial risk being in relation to the impact that future capital value management initiatives may have on the final form of the development, and the impact this could have on ongoing maintenance and whole of life costs of the completed building.</p>

Findings:

Requirements of Section 48 (2) (e) **have been partially met.**

There is unlikely to be a material change in recurrent revenue from undertaking the Project, although some additional lease fees in relation to the Café/Kiosk could be derived in the future. No additional revenue provisions have been included in the DCY LTFP.

We have identified two key additional financial risks in relation to the Project:

- impact that future value management initiatives may have on future recurrent and whole of life costs; and
- to extent to which DCY may be expected to contribute to any budget shortfall or capital cost overruns.

We do not consider that financial risk has been fully addressed in the due diligence actions undertaken to date by the DCY Administration.



2.6 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 and whole of life costs	None	<p>Recurrent costs in relation to the Project include future building maintenance, interest, and depreciation. Other operational costs of the buildings are assumed to be the responsibility of the future lessees.</p> <p>Additional building maintenance costs (in addition to the current provisions in the annual budget relating to the existing SLSC and Kiosk/Cafe building) are forecast to be \$25k per annum in the LTFP. Given the building will be new, this additional provision appears reasonable for the duration of the LTFP period however it may not be sufficient in future years.</p> <p>DCY has advised us that the remaining book value of the existing SLSC and Café / Kiosk to be \$0.610 million. Upon demolition, this remaining book value will need to be written off creating a one-off impact in the Statement of Comprehensive Income and a future reduction in recurrent depreciation expenses of approximately \$16.5k per annum based on the average depreciation rates used in the LTFP.</p> <p>The impact of the asset write-down is not currently included in the LTFP.</p>
Financial arrangements	Annual Business Plan and Budget Treasury Policy	<p>The proposed financial arrangements are that the surf life saving club component will be funded through a combination of SAFECOM (\$1.96 million) NSLSC (\$0.385 million) and DCY (\$1.155 million) contributions and that the Café / Kiosk (\$1.6 million) and public toilets and rear access (\$0.300 million) will be solely funded by DCY.</p> <p>We have sighted written email confirmation from SAFECOM confirming the financial arrangements to deliver the SLSC portion of the Project however formal legal documentation has not yet been prepared.</p>
<p>Findings:</p> <p>Requirements of Section 48 (2) (f) are yet to be met.</p> <p>DCY has considered the financial implications of progressing the Project on its current and future financial sustainability through including provisions and assumptions in the latest version of the LTFP. However, a whole of life cost estimate has not been prepared.</p> <p>At this stage there are no legal documents that give rise to rights and responsibilities on all of the funding parties. Given that DCY will be responsible for future ownership and maintenance of the completed buildings, it should ensure that it has an appropriate level of control over the final form of development so that whole of life costs can be controlled.</p>		



2.7 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	Annual Business Plan 2021/22	<p>Council's financial contribution of \$3.055 million to the SLSC and the Café/Kiosk has been used not only as a partial contribution to this Project but also to attract an additional \$2.1 million in grant funding from the Open Space Grant Fund for the Normanville Foreshore redevelopment.</p> <p>Undertaking the Project removes the need for future renewal expenditure on the existing buildings which was estimated by DCY to be approximately \$600k over the next four financial years.</p> <p>We have sighted evidence of detailed consideration of the LTFP by Council who should consequently have a strong understanding of the impact that progressing this Project and the broader Normanville Foreshore Redevelopment on DCY's long term financial sustainability.</p>

Findings:

Requirements of Section 48 (2) (g) **have been met.**

The financial viability of DCY can be defined as the ability to generate sufficient income to meet its financial obligations both now and into the future. The latest version of the LTFP which is incorporated in the 2021/22 Annual Business Plan contains reasonable assumptions relating to the capital costs and future income and expenses to be generated from progressing the Project.

While the Net Financial Liabilities Ratio of DCY is approaching 100% which is at the top of the benchmark range recommended by the LGA, DCY has a plan to repay debt and to ensure this ratio is reduced over the LTFP period.

Council should ensure it understands the impact that progressing this Project and the broader Normanville Foreshore Masterplan will have on DCY's future financial viability and the constraints this higher level of debt may place on future councils in relation to future capital spending and service delivery.

In the current low interest rate environment, DCY's interest cover ratio, that is the number of times that DCY can pay its finance costs with revenue, is maxed at 47 times over the LTFP period. This demonstrates a comfortable level of debt serviceability at this point in time however this could change should interest rates increase in the future.



2.8 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	Risk Management Policy Normanville Foreshore Masterplan, Surf Life Saving Club, Kiosk and Library Project Outline & Risk Management Plan Normanville Foreshore Risk Matrix	DCY has an adopted Risk Management Policy, which includes a tailored methodology consistent with the International Standard for Risk Management, AS/NZS/ISO31000:2018 for the identification and management of risk. DCY’s assessment of risk applicable to the Project has been at the broader Normanville Foreshore Redevelopment level rather than at the Project level. We have reviewed this Risk Register and note that generally the high level risks relating to the Project and suitable mitigation strategies have been identified. However, some specific Project risks, in particular those relating to protecting DCY’s long term financial exposure and risks associated with not being directly in control of the construction, have not been documented. Given the significance of this Project, we recommend that prior to completion of detailed designs, a specific risk register be developed to properly identify, assess and mitigate specific risks in relation to the Project. This will allow for more Project specific risks, such as protecting against long term increases to recurrent maintenance costs, negative community sentiment, construction within heritage dunes, negotiations with the Café/Kiosk lease holder over continued operations during construction to be more fully explored through a risk management lens.
Risk mitigation	Normanville Foreshore Risk Matrix	While risk mitigations have been identified and documented at the broader Normanville Foreshore Masterplan level, specific risk mitigations in relation to this Project have been fully identified or documented.
<p>Findings: Requirements of Section 48 (2) (h) have not been met. While the general risk register relating to the Normanville Foreshore Redevelopment has identified high level risks relating to the Project, we recommend DCY prepare a separate risk register that highlights the Project risks and the mitigation strategies that can be put in place to reduce residual risk. In accordance with Section 48, regular updates to the risk register should also be undertaken as the project moves through the planning, design and construction phases and that these updates should be provided to the Chief Executive Officer and the Council on a regular basis, consistent with the requirements of Section 48 (2) (h) of the Local Government Act.</p>		



2.9 Project Delivery

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

Elements	Relevant Documents	Prudential Review Comments
<p>Project Delivery</p>	<p>None sighted.</p>	<p>SLSSA is the entity responsible for delivering the building works which reduces the project delivery risk on DCY.</p> <p>DCY will have two representatives on the Project Control Group that is responsible for overseeing the Project, however this group does not yet have any formal decision making power and accordingly, DCY has no formal means of influencing decisions during the Project delivery phase.</p> <p>One of the key intricacies in relation to this Project is to manage the ongoing arrangements with the current leaseholder of the Café/Kiosk and ensure that Council meets its contractual commitments under the lease in relation to relocation during the construction phase.</p> <p>DCY's ability to negotiate with the leaseholder and satisfy the lease relocation requirements is a key Project risk. DCY should endeavour to ensure that it is not exposed to legal costs and negative publicity in relation to the Project as a result of unsuccessful negotiations with the existing leaseholder. DCY should ensure it obtains appropriate professional advice (legal and/or commercial) in relation to its contractual and ethical obligations to the leaseholder and to also ensure that its Procurement Policy and other probity obligations are considered if a renegotiation with the current leaseholder occurs.</p>
<p>Findings:</p> <p>Requirements of Section 48 (2) (i) have been met.</p> <p>Given SLSA are managing and responsible for delivering the Project, DCY's requirements in relation to Project delivery are limited.</p> <p>The current lack of a Terms of Reference from the Project Control Group is a concern in that DCY have limited ability to formally influence key decisions relating to Project progression.</p> <p>However, DCY will be responsible for negotiating suitable arrangements and providing a location for the existing Café / Kiosk leaseholder to trade during construction. This will be critical in successfully progressing the Project. DCY have confirmed that they have received legal advice in relation to the relocation clause in the existing Café / Kiosk lease.</p>		



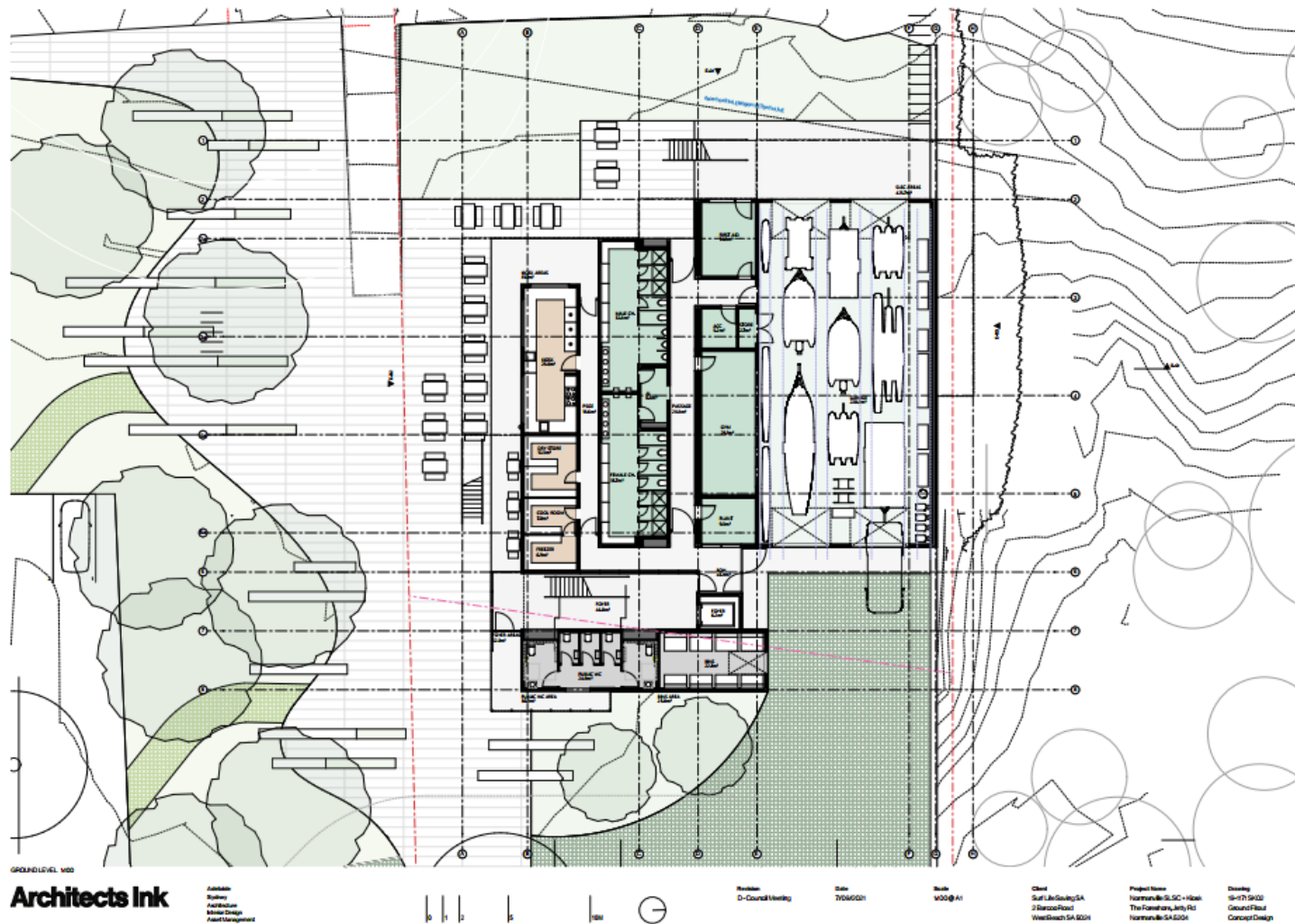
2.10 Sale or Disposition of Land

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	None	The Project does not involve the sale or disposition of land.
Findings: Requirements of Section 48 (2) (j) are not applicable to this Project.		

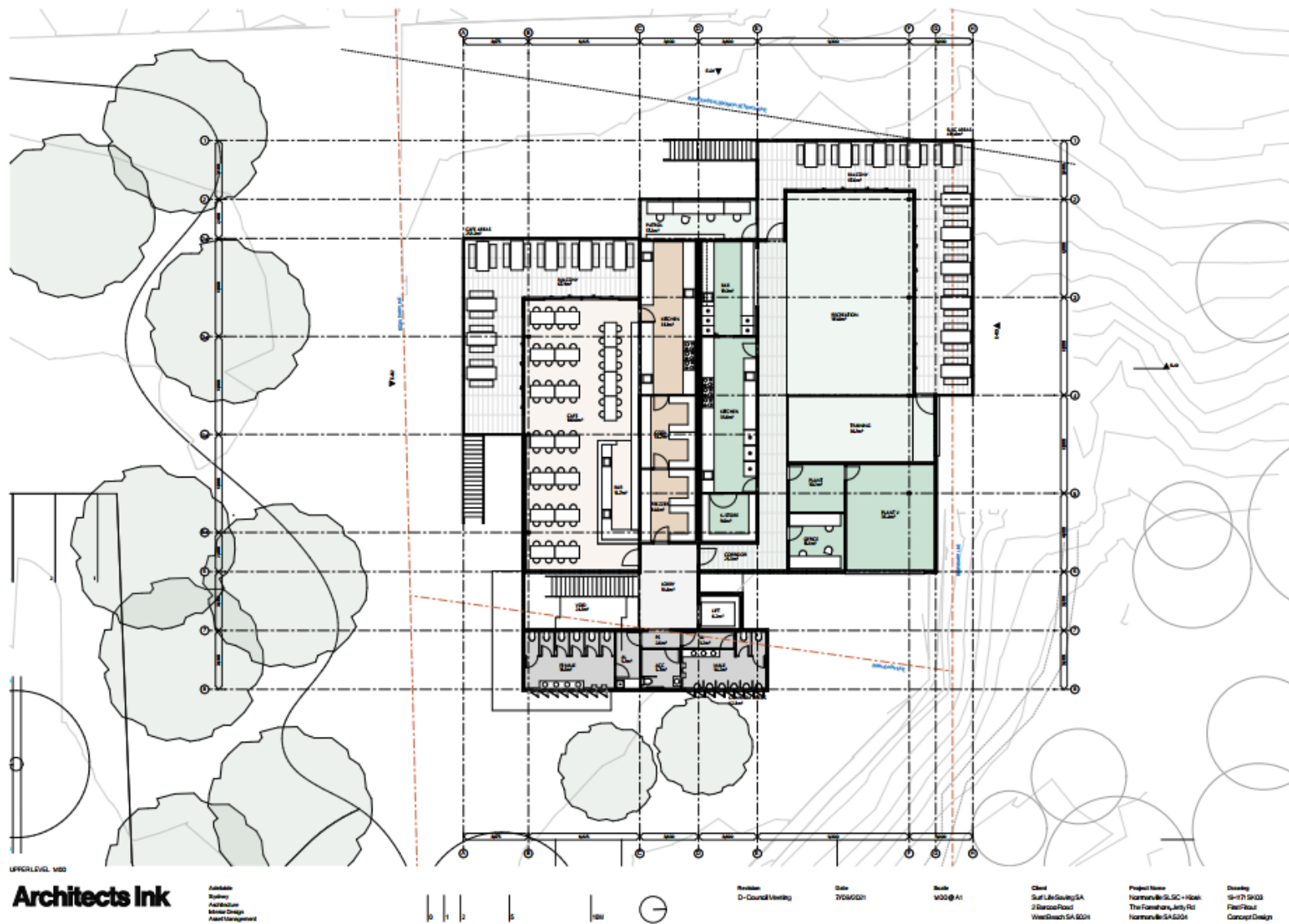


ANNEXURE ONE: PROJECT CONCEPT DESIGNS





District Council of Yankalilla - Short Form Section 48 Prudential Report
Normanville Surf Life Saving Club and Café/Kiosk Redevelopment





ANNEXURE TWO: 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.



- (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.