

# minutes

## Finance Committee

MEETING HELD ON **WEDNESDAY 8 JUNE 2016**

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## CITY OF JOONDALUP

MINUTES OF THE FINANCE COMMITTEE MEETING HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON WEDNESDAY 8 JUNE 2016.

### ATTENDANCE

#### Committee Members

Cr Tom McLean, JP      *Presiding Member*  
Mayor Troy Pickard  
Cr Russell Poliwka  
Cr Mike Norman  
Cr Sophie Dwyer

#### Officers

Mr Garry Hunt	Chief Executive Officer	
Mr Mike Tidy	Director Corporate Services	
Mr Nico Claassen	Director Infrastructure Services	
Mr Blignault Olivier	Manager City Projects	
Ms Christine Robinson	Manager Executive and Risk Services	
Mr Brad Sillence	Manager Governance	<i>absent from 7.35pm to 7.36pm</i>
Mr Alan Ellingham	Senior Financial Analyst	<i>until 8.30pm</i>
Mrs Deborah Gouges	Governance Officer	

### DECLARATION OF OPENING

The Presiding Member declared the meeting open at 7.02pm.

### DECLARATIONS OF INTEREST

Nil.

### APOLOGIES/LEAVE OF ABSENCE

#### Apologies:

Cr John Logan.  
Cr Philippa Taylor.

**Leave of Absence Previously Approved**

Cr John Chester	18 June to 23 June 2016 inclusive;
Cr Sophie Dwyer	21 June to 26 June 2016 inclusive;
Cr John Logan	27 June to 3 July 2016 inclusive.

**CONFIRMATION OF MINUTES****MINUTES OF THE FINANCE COMMITTEE HELD ON 4 APRIL 2016**

**MOVED Mayor Pickard SECONDED Cr Norman that the minutes of the meeting of the Finance Committee held on 4 April 2016 be confirmed as a true and correct record.**

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Dwyer, Norman and Poliwka.

**ANNOUNCEMENTS BY THE PRESIDING MEMBER WITHOUT DISCUSSION**

Nil.

**IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC**

In accordance with Clause 5.2 of the City's *Meeting Procedures Local Law 2013*, this meeting was not open to the public.

**PETITIONS AND DEPUTATIONS**

Nil.

**REPORTS****ITEM 1                      INDEPENDENT      REVIEW      OF      THE      CITY'S  
APPROACH TO FINANCIAL MODELLING**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Garry Hunt Office of the CEO
<b>FILE NUMBER</b>	102400
<b>ATTACHMENTS</b>	Attachment 1      Review of City of Joondalup 20 Year Strategic Model Attachment 2      Review of Joondalup Performing Arts and Cultural Facility
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

**PURPOSE**

For the Finance Committee to note the details of the reports following an independent review of the City's approach to financial modelling for the *20 Year Strategic Model* and the *Joondalup Performing Arts and Cultural Facility Model* (the Models).

**EXECUTIVE SUMMARY**

At the Finance Committee meeting held on 24 November 2015 there was a request to have an information session to take Elected Members through the process the City undertakes to ensure the integrity of its financial modelling. Before this meeting is arranged the Chief Executive Officer instructed that an appropriately qualified consultancy firm be engaged to undertake an independent review of the City's approach to financial modelling.

Following a request for quotation process Deloitte was engaged to undertake a review of the City's approach to financial modelling. The scope of the review focussed on the financial modelling used for the development of the following:

- 1      *20 Year Strategic Financial Plan 2014-15 to 2033-34.*
- 2      *Joondalup Performing Arts and Cultural Facility.*

Deloitte has completed its review and issued the City with separate reports for the above.

*It is therefore recommended that the Finance Committee NOTES:*

- 1      *the details of the reports titled Review of City of Joondalup 20 Year Strategic Model and Review of Joondalup Performing Arts and Cultural Facility (JPACF) Model forming Attachments 1 and 2 to this Report;*

- 2 *there are no major flaws of any significance for the Models;*
- 3 *the Models are shown to be rigorous and provide assurance to the City's financial modelling approach;*
- 4 *the recommendations made by Deloitte to improve the effectiveness of the Models including linking supporting and subsidiary documentation to the Models will be considered.*

## BACKGROUND

A detailed scoping document was developed by the City with the objective of seeking to establish if the City's financial modelling is in line with any applicable standards, principles and best practice, both nationally and internationally, that ensures the integrity of the City's financial modelling approach. The review was to include, but not be limited to, the following:

- Adherence to financial modelling best practice for example FAST (Flexible, Appropriate, Structured, Transparent) Standard or any other applicable standards, principles or best practice.
- Consistency with relevant standards, guidelines and good practice in Australia and internationally.
- Approach to collection and review of data is appropriate.
- The robustness of the financial modelling processes, including a review of the checks carried out on the results of the models.

The scope was issued to a number of consultancy firms with a request for quotation for undertaking the review. Following an assessment of the submissions received Deloitte was engaged to undertake the review. The review has now been completed and Deloitte has issued the final reports to the City.

## DETAILS

The review focussed on two main areas of financial modelling for which separate reports have been prepared.

### 20 Year Strategic Model

The City's *20 Year Strategic Financial Plan* outlines the City's approach to delivering infrastructure and services to the community in a financially sustainable and affordable manner. The plan projects the City's financial position over a 20 year period based on a range of assumptions and estimates that provides information to assess:

- necessary funding requirements to afford capital replacement programs and new capital projects
- the City's capacity to maintain overall financial sustainability into the long term.

### Joondalup Performing Arts and Cultural Facility

The City uses a separate model to evaluate options and prepare discounted cash flows for major projects. The model has been used for a variety of projects including the Joondalup Performing Arts and Cultural Facility (JPACF). The model uses standard techniques to produce discounted cash flow analysis in various formats that are then used for business cases and Council reports.

The JPACF is a significant project for the City. The business case was prepared in early 2015, and uses information from the Project Financial Evaluation Model. The business case was noted by Council at its meeting held on 28 July 2015 (CJ126-07/15 refers) and more recently at its meeting held on 15 December 2015 (C77-12/15 refers). Council has now committed to the next phase of the project, with approximately \$1.25 million being allocated for schematic design. The data within the Project Financial Evaluation Model and the business case was presented to Council.

#### Overview of Work Performed by Deloitte (four segments)

### **1 Adherence to a financial modelling Standard (FAST)**

The FAST modelling Standard, established by the FAST Standard Organisation, advocates a philosophy of good financial model design rules founded on the acronym FAST: Flexible, Appropriate, Structured and Transparent. The FAST Standard is primarily concerned with good spreadsheet design. Although it does not extend to the management and control environment in which the spreadsheets are used (for example back-up, version control and testing) financial modellers are encouraged to consider these important aspects when building their financial models. (N.B. These aspects were included in the work performed by Deloitte in segment 2).

The City's Models were assessed on an exception basis for their adherence to the FAST Standard for developing financial models. Deloitte's assessment only considered aspects of the Standard that were adhered to in every instance as compliant.

### **2 Consistency with financial modelling best practice**

The best practice approach is a series of quality assurance principles and actions to ensure that financial model development, implementation and application are the highest achievable. Deloitte Business Modelling Centre of Excellence has extensive modelling experience and over a number of years has collated a comprehensive set of principles from a selection of good modelling practices.

Deloitte assessed the City's models with these principles against two criteria:

- Compliance: How well do the Models comply with the given principles?
- Risk: What is the level of risk to the Models, having regard to a material impact on the Models' calculated outputs?

### **3 Approach to collection and review of data**

All input data was extracted from the Models and each value checked back to the relevant source documents.

### **4 Testing the robustness and logic of the financial modelling processes**

Calculations on selected worksheets within the Models were reviewed for mathematical accuracy, consistency and appropriateness. An analytical review was also conducted on key Model outputs.

### Overall Findings of Review

Deloitte's findings are based on a 'by exception' basis. Their commentary, findings and recommendations relate only to instances where they observed a divergence from the relevant standard, best practice principle or model logic methodology.

The review found no major flaws of any significance for the Models and that the Models are shown to be rigorous and provide assurance to the City's financial modelling approach.

The City will consider the recommendations made by Deloitte to determine if they address any deficiencies in the Models and if their implementation will improve the Models' performance. Recommendations accepted by the City will be detailed in an Action Plan that will assign responsibility and target dates for their incorporation into the *20 Year Strategic Model* and the JPACF Model.

### Key Findings of Review for the 20 Year Strategic Model

#### **1 Adherence to a financial modelling Standard (FAST)**

- The FAST Standard contains four standard groups against which compliance was assessed. Overall compliance with the FAST Standard was around 65% (on a weighted-average basis). Results of the four standard groups are:

<b>FAST Standard Group</b>	<b>20 Year Strategic Model (%) Compliance</b>
Workbook Design	82%
Worksheet Design	70%
The Line Item	57%
Excel Features Used in Modelling	43%

#### **2 Consistency with financial modelling best practice**

- The best practice principles are categorised into five main segments. Deloitte noted 59 out of 98 instances of high or good consistency with best practice principles. The key findings for each segment are:
  - Documentation – The current specification information contained within the Model is insufficient to allow operation of the Model by a new user who is unfamiliar with the layout and structure of the Model.
  - Structure – Array functions have been used extensively which significantly increases the model calculation time. The Model contains several instances of circularities, which have been addressed through the use of macros. Deloitte note that some of these circularities are caused by the use of array calculations themselves and with alternative calculations the circularities could potentially be eliminated.
  - Verification – The Model has been reviewed by the model owner however there is no evidence that an internal peer review has been conducted during the model development process. Deloitte has also conducted a logic review of specific elements of the Model.



- Output Validation – The Documentation worksheet notes “*Although there is some risk and sensitivity (in the Model) it should be improved. Monte Carlo simulation should be carried out to test the probability of the ratio projections*”. Deloitte did not observe any Monte Carlo simulation in the Model. (N.B. Monte Carlo simulation is a technique used to understand the impact of risk and uncertainty in financial, project management, cost, and other forecasting models).
- Data and Assumptions – There is limited evidence contained within the Model that identifies and supports the cross-referencing of input data with source documentation. Deloitte was provided with additional documentation that supports such input data, however in terms of best practice, consistency provision of the external documentation was noted in Deloitte’s findings. Further to this, Deloitte undertook a separate data assumption validation exercise, as set out in Section 4 of the Report.

### 3 Approach to collection and review of data

- Deloitte understands that part of the data review process is to validate source data with business unit managers and directors. Discussions with the model developer found that the source data was corroborated and approved by relevant business unit leaders. Any inconsistencies raised during this review were raised and resolved with the Model owner.

### 4 Testing the robustness and logic of the financial modelling processes

- Deloitte’s review has resulted in 21 comments in their findings register. These comments relate to calculation errors, use of hardcoded values in formulae, inconsistencies in application of formulae and use of the array function.
- Reserve funding is “ring fenced” for allocation to specific capital projects. To accommodate this allocation in the Model, replication of funding calculations is required which increases file size and calculation time as the calculations use arrays as part of the formulae.
- Summary outputs are duplicated which increases file size and calculation time.
- The “Funding\_Macro” macro contains several processes which are necessary to prevent circularities in the Model, however Deloitte observed that if these arrays were refined or calculations restructured, the requirement for the macro could be removed.

### 5 Recommendations

Segment	20 Year Strategic Model
Adherence to a financial modelling standard (FAST).	<ul style="list-style-type: none"> <li>• Review the FAST Standard compliance appendix and update the Model as appropriate.</li> </ul>
Consistency with financial modelling best practice.	<ul style="list-style-type: none"> <li>• Develop a detailed specification document and user guide to assist new users with understanding and operation of the Model.</li> <li>• Develop and implement a plan for internal review and QA testing of the Model, including regular peer review with testing criteria documented within the Model.</li> </ul>

Segment	20 Year Strategic Model
Approach to collection and review of data.	<ul style="list-style-type: none"> <li>• A number of inputs are sourced from other Excel workbooks. These checking of other workbooks was outside the scope of the review and as such have not been assessed in this process. A review should be conducted to ensure that output data of these other source workbooks are accurate and fit for purpose.</li> <li>• Update assumption book in the Model to include relevant source document version, date provided, data owner and current input value.</li> </ul>
Testing the robustness and logic of the financial modelling process.	<ul style="list-style-type: none"> <li>• Review and amend calculations which are returning incorrect results. Consider peer review during the model development process to assist with validation of model inputs, calculations and outputs.</li> <li>• Remove manual hard coded adjustments from calculations. If these adjustments are still required include them as separate input values to increase transparency in calculations.</li> <li>• Where practical, amend calculations containing array functions to reduce formula size and complexity and improve the operation and calculation time of the Model. Amending these formulae may also remove the requirement for a macro to be run to solve reserve and loan balances.</li> <li>• To reduce file size and calculation time remove duplicate summary output and link dependent cells to source calculations.</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that supporting documentation for the workbook contains details relating to any adjustments made to calculation methodology, reconciliations between calculated values and use of hard codes within formulae.</li> <li>• Update the Model to remove hard coded values and links to blank cells from formulae. Where hard coded values are still required include them as stand alone input assumptions.</li> <li>• For future versions of the Model use a model comparison tool to identify changes to calculations compared to the current version. Perform a review to validate updated calculations.</li> <li>• Review the structure and use of array functions in the Model to remove the requirement to solve reserve and loan balances through the use of a macro.</li> </ul>

Key Findings of Review for the Joondalup Performing Arts and Cultural Facility**1 Adherence to a financial modelling Standard (FAST)**

- The FAST Standard contains four standard groups against which compliance was assessed. Overall compliance with the FAST Standard was around 80% (on a weighted-average basis). Results of the four standard groups are:

<b>FAST Standard Group</b>	<b>JPACF Model (%) Compliance</b>
Workbook Design	88%
Worksheet Design	83%
The Line Item	78%
Excel Features Used in Modelling	57%

**2 Consistency with financial modelling best practice**

- The best practice principles are categorised into five main segments. Deloitte noted 59 out of 98 instances of high or good consistency with best practice principles. The key findings for each segment are:
  - Documentation – The current specification information contained within the Model is insufficient to allow operation of the Model by a new user who is unfamiliar with the layout and structure of the Model.
  - Structure – Arrays have been used in the Model and increase the model calculation time.
  - Verification – The Model has been reviewed by the model owner however there is no evidence that an internal peer review has been conducted during the model development process. Deloitte has also conducted a logic review of specific elements of the Model.
  - Output Validation – The risk worksheet contains analysis of the impact of changes to key input assumptions that are seen as being at risk along with an estimate of the required increase in operating subsidy to offset the downside risk. Deloitte note however that this worksheet is not dynamic and contains hard coded values.
  - Data and Assumptions – There is limited evidence within the Model of cross-referencing of input data with source documentation. Deloitte was provided with additional documentation which forms part of this review process however this documentation was outside the scope of the review. Deloitte has undertaken a data assumption validation exercise.

**3 Approach to collection and review of data**

- Deloitte understand that part of the data review process is to validate source data with business unit managers and directors. Discussions with the model developer found that the source data was corroborated and approved by relevant business unit leaders. Any inconsistencies raised during this review were raised and resolved with the Model owner.

#### 4 Testing the robustness and logic of the financial modelling processes

- Deloitte's review has resulted in 15 comments in their findings register. These comments relate to calculation errors, use of hardcoded values in formulae, inconsistencies in application of formulae and use of the array function.
- The Model contains in excess of 500 unique calculations that have been constructed using an array as part of the formula. The use of arrays increases the size of the Model and slows the speed at which the Model recalculates.
- Deloitte observed instances in the Model where a manual change has been made to a calculation, using a hard coded value, to accommodate a specific model scenario. These adjustments override calculation methodologies and can lead to error if the model scenario was to be changed or updated.
- The outputs of the Model have been tested against the input assumptions contained within the Model. The reconciliation exercise has not yielded any additional queries or findings.

#### 5 Recommendations

Segment	Joondalup Performing Arts and Cultural Facility
Adherence to a financial modelling standard (FAST).	<ul style="list-style-type: none"> <li>• Review the FAST Standard compliance appendix and update the Model as appropriate.</li> </ul>
Consistency with financial modelling best practice.	<ul style="list-style-type: none"> <li>• Develop a specification document and user guide to assist users with understanding and operating of the Model.</li> <li>• Develop a plan for regular internal review and QA testing of the Model, including formal sign off of Model input assumptions.</li> </ul>
Approach to collection and review of data.	<ul style="list-style-type: none"> <li>• A number of inputs are sourced from other Excel workbooks. These workbooks were not within the scope of this engagement and have not been reviewed by Deloitte. A review should be conducted to ensure that output data is accurate and fit for purpose.</li> <li>• Include a worksheet in the workbook which documents all the sources of input data, including relevant versions.</li> </ul>
Testing the robustness and logic of the financial modelling process.	<ul style="list-style-type: none"> <li>• Remove manual adjustments from calculations. If these adjustments are still required include them as separate input values to increase transparency in calculations.</li> <li>• Where practical, amend calculations containing array functions to reduce formula size and complexity and improve the operation and calculation time of the Model.</li> <li>• For future versions of the Model use a model comparison tool to identify changes to calculations compared to the current version. Perform a review to validate updated calculations.</li> <li>• Update Model to remove hard coded values and links to blank cells from formulae. Where hard coded values are still required include them as standalone input assumptions.</li> </ul>

**Legislation / Strategic Community Plan / policy implications**

**Legislation** *Local Government Act 1995. Section 5.56 of the Local Government Act 1995 provides that:*

*“(1) A local government is to plan for the future of the district.”*

**Strategic Community Plan**

**Key theme** Financial Sustainability.

**Objective** Effective management.

**Strategic initiative**

- Manage liabilities and assets through a planned, long-term approach.
- Balance service levels for assets against long-term funding capacity.

**Key theme** Financial Sustainability.

**Objective** Major project delivery.

**Strategic initiative**

- Effectively prioritise major capital projects to facilitate long-term financial sustainability.
- Support new projects that balance identified financial risks against effective management approaches.

**Policy** Not applicable.

**Risk management considerations**

There are significant risk exposures for the City when projecting its long-term financial position and when evaluating options and preparing discounted cash flows for major projects. It is essential that the City's financial modelling approach is rigorous and structured with appropriate systems and controls included.

Implementation of the recommendations made by Deloitte in their reports will enhance the City's current systems and controls and help mitigate risk exposures within the City's financial modelling approach.

**Financial / budget implications**Current financial year impact

<b>Account no.</b>	1.210.A2101.3265.0000.
<b>Budget Item</b>	Consultancy.
<b>Budget amount</b>	\$ 50,000
<b>Amount spent to date</b>	\$ 0
<b>Proposed cost</b>	\$ 48,000
<b>Balance</b>	\$ 2,000

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The Deloitte reports did not identify any concerns that the Models are flawed or compromised such that they cannot be relied upon. The Models are robust and functioning appropriately as designed with significant levels of compliance against the FAST Standard and best practice assessment.

The review by Deloitte only focused on the Excel models and the documentation within the Models themselves. It is the view of Deloitte that all supporting and subsidiary documentation should be included within the Models. The City maintains numerous supporting and subsidiary documentation outside the Models, the existence of which has been noted by Deloitte. The City is confident that maintaining this documentation in this way has no adverse impact on the support it gives to the Models.

The City recognises that following the FAST Standard will assist in the creation of a well designed model, and serve as a platform for common style that ensures models are more easily understood by other parties. However, there are some practical shortcomings with the FAST Standard and it is not expected that the model would be trying to achieve 100% compliance.

The FAST standard is very prescriptive and essentially a one size fits all. Each model is different and may not necessarily follow the same logic / structure as others.

In relation to the Workbook Design, Deloitte notes that FAST compliance is scored down due to Imports and Export font are not a different colour. This was a conscious decision and is not seen to add any additional value to the operation of the Models.

Deloitte also notes low compliance for the Worksheet Design (for the design of input sheets), particularly a lack of instructions / comments on input worksheets. The Models are not designed to be open for use by multiple users. It is therefore unnecessary to have detailed documentation beside every input, which would clutter the model; rather there are clear labels for all inputs that provide guidance for a trained and experienced user.

For Excel Features, the FAST Standard requires no use of Named Ranges and Arrays are discouraged. The use of Named Ranges improves the robustness of the macros used in the models and ensures that formulas are maintained at a reasonable length and are easier to read.

Despite these differences FAST compliance of 65% for the 20 Year Strategic Financial Plan model and 80% for the JPACF Model was achieved with much of the score related to the sound design of the workbook and formulae.

The Best Practice evaluation by Deloitte is a more meaningful evaluation than the assessment of adherence to the FAST Standard. This evaluation tested 98 issues that Deloitte considered to be best practice. The standards are deemed to be very high and it would not be expected that any model would achieve high achievement in every issue.

Each of the two Models scored highly as summarised below. Of the 98 issues assessed, seven were deemed not applicable for the *20 Year Strategic Model* and eight not applicable for the JPACF Model. There are very few issues classed as 'poor' and these are not considered to be of major consequence.

Best Practice Assessment	20 Year Strategic Model	JPACF Model
High	37	40
Good	22	19
Fair	27	27
Poor	5	4
Not Applicable	7	8
<b>TOTAL ISSUES PRESENTED</b>	<b>98</b>	<b>98</b>

The majority issues for both Models were classed as 'high' or 'good', with 65% for the 20 Year Strategic Model and 66% for the JPACF Model.

Best Practice Assessment	20 Year Strategic Model		JPACF Model	
High	37	65%	40	66%
Good	22		19	
Fair	27		27	
Poor	5		4	
TOTAL ISSUES PRESENTED (minus not applicable)	91		90	

## VOTING REQUIREMENTS

Simple Majority.

## OFFICER'S RECOMMENDATION

That the Finance Committee NOTES:

- 1 the details of the reports titled *Review of City of Joondalup 20 Year Strategic Model* and *Review of Joondalup Performing Arts and Cultural Facility Model* forming Attachments 1 and 2 to this Report;
- 2 there are no major flaws of any significance for the Models;
- 3 the Models are shown to be rigorous and provide assurance to the City's financial modelling approach;
- 4 the recommendations made by Deloitte to improve the effectiveness of the Models including linking supporting and subsidiary documentation to the Models will be considered.

**MOVED Cr Dwyer SECONDED Cr Norman that the Finance Committee NOTES:**

- 1** the details of the reports titled *Review of City of Joondalup 20 Year Strategic Model* and *Review of Joondalup Performing Arts and Cultural Facility Model* forming Attachments 1 and 2 to this Report;
- 2** there are no major flaws of any significance for the Models;
- 3** the Models are shown to be rigorous and provide assurance to the City's financial modelling approach;
- 4** the recommendations made by Deloitte to improve the effectiveness of the Models including linking supporting and subsidiary documentation to the Models will be considered and a subsequent report provided to the Finance Committee.

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Dwyer, Norman and Poliwka.

*Appendix 1 refers*

*To access this attachment on electronic document, click here: [Attach1agnFINANCE160608.pdf](#)*



## ITEM 2                      DRAFT 20 YEAR STRATEGIC FINANCIAL PLAN 2015-16 TO 2034-35

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Mike Tidy Corporate Services
<b>FILE NUMBER</b>	105350, 101515
<b>ATTACHMENTS</b>	Attachment 1      Schedules (Option 1) Attachment 2      Draft <i>20 Year Strategic Financial Plan</i> 2015-16 to 2034-35 Attachment 3      Gantt Chart of Major Projects Attachment 4      Draft <i>20 Year Strategic Financial Plan</i> 2015-16 to 2034-35 including Option 4
<b>AUTHORITY / DISCRETION</b>	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.

### PURPOSE

For Council to adopt the draft *20 Year Strategic Financial Plan* (20 Year SFP) for the period 2015-16 to 2034-35 and *Guiding Principles 2015*.

### EXECUTIVE SUMMARY

The 20 Year SFP for the period 2014-15 to 2033-34 was adopted by Council at its meeting held on 15 December 2015 (CJ223-12/15 refers). The key changes in the current update are as follows:

- Rates increase of 2.5% in 2016-17 instead of 4%.
- Employment costs increase of 2% in 2016-17, 2017-18 and 2018-19 instead of 3%.
- Capital Renewal Expenditure – additional \$62 million expenditure projected for capital renewals from 2020-21 onwards to achieve an asset sustainability ratio of 105% instead of 90%.

The 20 Year SFP is prepared using a set of Guiding Principles. The Guiding Principles include five key ratios that form the foundation of the plan. There is a maximum possible achievement of 100 ratios over the 20 years of the plan (five per year x 20 years). Ideally the City should achieve at least 90 of the key ratios, because there are three ratios (net municipal closing funds, rates % increase and debt service coverage ratio) where the City should be achieving the ratio in every year, while the other two ratios (operating surplus ratio and asset sustainability ratio) should be achieved in most years.

Of the five key ratios identified within the *Guiding Principles*, 85 out of 100 are achieved, although there is only 35 out of 50 achieved in the first 10 years. Although the projected achievement of 85 ratios out of 100 is two higher than the adopted plan, it is far from ideal because the City should achieve at least 90 of the key ratios. Indeed the operating surplus ratio, which is the most important ratio, is below the threshold for the first eight years and only comes within tolerance from 2023-24. For those ratios that are not achieved (operating surplus ratio and asset sustainability ratio), there is a positive trend. The ratios are explored in great detail within the plan at Attachment 2. Summary comments to note include the following:

- Rates increases at no more than 5%. This is achieved in 20 of the 20 years.
- Balanced cash budget is a ratio that must be achieved every year, and the recommended option achieves that.
- Operating surplus ratio is the most important indicator out of all the ratios, as it has a mix of all the other ratios combined (liquidity, asset management, operating performance). The City currently has an operating surplus ratio that is negative however there are projected to be steady improvements. The target is to have a five year average between 2% and 8% which is projected to be achieved in 12 of the 20 years. The starting point of the projections of 2015-16 is negative 4.6% and it becomes difficult for the City to improve this in the next few years due to the new investment and the additional operating expenses required to operate new facilities. For example the Joondalup Performing Arts and Cultural Facility will depress the operating surplus ratio by 2.8% each year due to the operating subsidy required, interest expense on borrowings and the depreciation. The projections from 2023-24 onwards are all within the target or exceed it.
- Asset sustainability ratio - measures the rate at which the City spends capital expenditure on replacement versus depreciation. The target is to be between 90% and 110%, the long-term average should be 100%. This ratio fails the target in the first 10 years which suggests that there is insufficient expenditure on replacement of existing assets and too much on new assets. The City's assets and infrastructure are relatively young and at this stage in their life cycle it is reasonable for the asset sustainability ratio to be depressed. The City will need to increase expenditure on renewals in later years as the City becomes older; this has been factored into the capital forecast. This ratio will be subject to on-going review with updates to the asset management plans and the ratio calculated separately for each asset class.
- Debt service coverage ratio compares the amount of operating cash flow available versus loan repayments. Ideally there should be surplus from operating cash flow of five times or more of loan repayments. It is intended that the ratio does not fall below the range of three to five, and the target is to avoid this occurring for five years in a row. This ratio is achieved in all 20 years, however there are four years where the ratio falls below the desired threshold of five. This is a short-term impact caused by the borrowings of major investment including the Joondalup Performing Arts and Cultural Facility and Edgewater Quarry.

In the early years of the plan cash reserves are depleted, reducing from \$66 million at June 2015 to \$19 million by June 2018. The \$19 million relates mostly to tied reserves, with \$4 million left in the Strategic Asset Management Reserve by June 2018 and zero by June 2022. The early years of the plan (and in particular 2017-18 and 2018-19) are projected to have a high level of new investment and consequently use up most of the Strategic Asset Management Reserve and then cause higher external borrowings than the City has normally used. Indeed, between the years 2015-16 to 2018-19 the City projects borrowings of \$55 million, \$47 million of which relates to the Joondalup Performing Arts and Cultural Facility.

The plan has the same assumptions as the adopted plan for the Joondalup Performing Arts and Cultural Facility whereby the Tamala Park proceeds are used to support the construction and then used after construction to assist with the loan repayments. The Tamala Park proceeds would be sufficient to pay for \$47 million of the \$67 million of borrowings (approximately 10 years worth of the borrowings), but the remaining \$20 million (the last five years) are assumed to be met from municipal funds.

There are \$101 million borrowings projected within the 20 years of the plan; however these are spread across multiple years and begin to be repaid immediately. The maximum balance owing is estimated to be \$83 million at June 2023, although this reduces quickly to \$54 million by June 2025. The borrowings of \$101 million may appear to be high, but in terms of the bold projects taken on and the ring-fencing of specific land proceeds (Tamala Park and Edgewater Quarry) to help fund major projects, the use of borrowings in the draft 20 Year SFP is within acceptable tolerances of the debt service coverage ratio.

The draft 20 Year SFP 2015-16 to 2034-35 (Attachment 2 refers) shows tracked changes from the previously adopted plan, however it should be noted that all charts and tables, other than those proposed to be deleted, have also been updated.

*It is therefore recommended that Council:*

- 1      *ADOPTS the draft 20 Year Strategic Financial Plan 2015-16 to 2034-35 as at Attachment 2 to this Report;*
- 2      *ADOPTS the Guiding Principles 2015 as included in Appendix 1 of Attachment 2 to this Report;*
- 3      *REVOKES the Borrowing Strategy that was adopted by Council at its meeting held on 20 July 2010 (CJ123-07/10 refers).*

## **BACKGROUND**

The new plan included in this document covers the years 2015-16 to 2034-35 and is referred to as the draft 20 Year SFP. The previous plan will also be referred to throughout this document. The previous plan covers the years 2014-15 to 2033-34 and was adopted by Council at its meeting held on 15 December 2015 (CJ223-12/15 refers).

A new 20 Year SFP covering the years 2015-16 to 2034-35 has been prepared (Attachment 2 refers) and is referred to as the draft 20 Year SFP.

## **DETAILS**

### Disclaimer

*Readers of the 20 Year Strategic Financial Plan should note that the document is used predominantly as a planning tool. As such it is based on many assumptions and includes several projects and proposals that in some cases:*

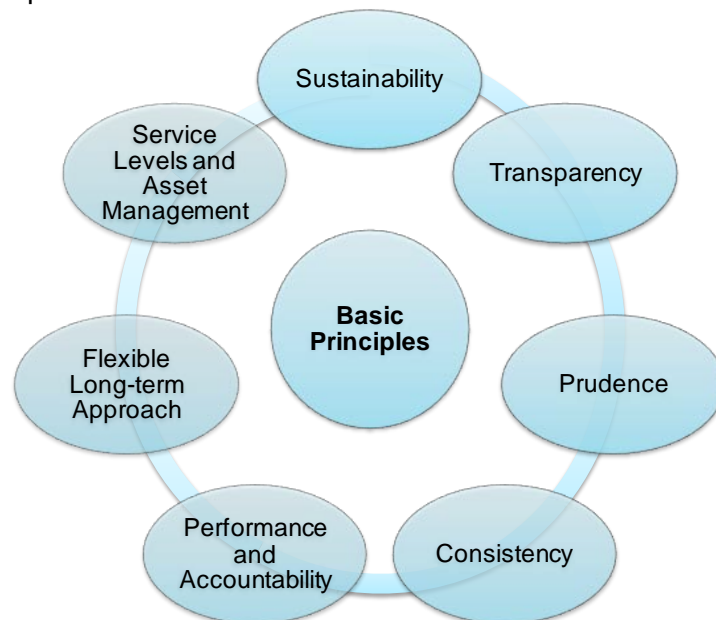
- *have been approved by Council and are in progress*
- *have been considered by Council, but are yet to receive final approval*
- *have only been considered by Elected Members at a strategy level*
- *have only been considered by Officers*

- *are operational in nature and based on the continued provision of services and maintenance of City assets and infrastructure in accordance with management and other plans.*

*Any of the assumptions and any of the projects or proposals not already approved could prove to be inaccurate both as to likely requirement, timing and financial estimates or may not come to pass at all. They have, however, been included based on the best available information and knowledge to hand at this time in relation to likely requirement, timing and financial estimates. Adoption of the 20 Year Strategic Financial Plan by Council does not constitute a commitment or agreement to any of the projects or proposals that have not already been approved or the financial estimates and projections.*

### Drivers and Philosophies

The 20 Year SFP has been developed using a set of Guiding Principles. These are reviewed annually and were last adopted by Council at its meeting held on 15 December 2015 (CJ223-12/15 refers). There are seven basic principles which form the foundation of the overall Guiding Principles:



### Guiding Principles 2016

The City reviews and updates the Guiding Principles on an annual basis. There are five changes proposed, none of which are significant. The changes proposed are intended to provide greater clarification and also take account of observations prevalent during recent adopted plans. The proposed Guiding Principles 2016 are shown with tracked changes at Appendix 1 of Attachment 2.

Table 1 – Proposed Changes to Guiding Principles

No	Page	Change	Details
1	1	Header	<ul style="list-style-type: none"> <li>o 2016 referred to instead of 2015</li> </ul>
2	2	<u>Targets/Ratios</u> First Bullet  <b>Number of ratios used</b>	<ul style="list-style-type: none"> <li>o Minor clarification that the number of ratios within the statutory accounts are seven, not eight as previously stated.</li> <li>o Reference to the ratios being “DLG” ratios is replaced with reference to the ratios being required as part of the annual statutory accounts.</li> <li>o Balanced Cash Budget is one of the five key ratios used in the SFP and has now been listed with the other four ratios for completeness, so that all five key ratios used in the SFP are listed together.</li> </ul>
3	3	<u>Funding/Treasury</u> First Bullet  <b>Debt Service Coverage Ratio</b>	<p>The primary indicator to be used by the City for evaluating borrowings is the debt service coverage ratio which is therefore given clearer emphasis in this section. This is consistent with West Australian Treasury Corporation (WATC) and the statutory ratios. The changes to this section are:</p> <ul style="list-style-type: none"> <li>o Reference should now be made to the City’s Adopted Strategic Positioning Statement on Sustainable Borrowing. The Borrowing Strategy should be revoked because:               <ul style="list-style-type: none"> <li>- Positioning Statement on Sustainable Borrowings was adopted by Council. This provides an overall position on borrowings and refers to the Guiding Principles (not the Borrowing Strategy).</li> <li>- Guiding Principles are sufficient to oversee the key parameters of borrowings.</li> <li>- Borrowing Strategy is inconsistent with the Guiding Principles.</li> </ul> </li> <li>o Targets for the debt service coverage ratio are also slightly amended. The previous minimum threshold that was established was two. However the minimum ratio that the West Australian Treasury Corporation would consider appropriate for the City is three and this is now recommended as the minimum.</li> <li>o The final part of this section that is proposed to be removed relates to the term (number of years) that borrowings should be arranged for. The previous statement in the Guiding Principles that loans for buildings should be no more than 50% of the life of a building derived from the Borrowings Strategy which is now proposed to be revoked and was well intended; however buildings can have a life of up to 100 years so the previous statement could imply that the maximum borrowing term is 50 years. Borrowings would be assessed on an individual basis and it is likely that shorter terms (less than 20 years) would be sought because the shorter the term the less interest is paid.</li> </ul>

No	Page	Change	Details
4	4	<u>New Expenditure</u> Fourth Bullet  <b>Asset Sustainability Ratio</b>	<ul style="list-style-type: none"> <li>○ The asset sustainability ratio is a key ratio for the City.</li> <li>○ However it is unrealistic to assume that the ratio must be achieved in every year. If the age of assets is young then it is reasonable for renewals to be lower than depreciation.</li> <li>○ In the long-run the City should achieve a ratio of between 90% to 110%.</li> <li>○ The clarification added merely supports the comments that have already been prevalent in recent adopted plans.</li> </ul>
5	4	<u>Process</u> Fourth Bullet  <b>Finance Committee</b>	<ul style="list-style-type: none"> <li>○ Reference changed from Strategic Financial Management Committee to the Finance Committee in accordance with the changes to the recent governance of the plan.</li> </ul>

### Key Ratios

There are five key ratios that the 20 Year SFP aims to achieve. These are referred to throughout the report. The five key ratios are listed in the table below. Ideally the City should achieve at least 90 of the key ratios, because there are three ratios (balanced cash budget, rates %, increase and debt service coverage ratio) where the City should be achieving the ratio in every year, while the other two ratios (operating surplus ratio and asset sustainability ratio) should be achieved in most years.

Table 2 – Key Ratios

Ref	Key Ratios	Details
1	<b>Rates Increase</b> %	<ul style="list-style-type: none"> <li>○ Rates % increases capped at no more than 5% of the overall rates revenue.</li> </ul>
2	<b>Balanced Cash Budget</b>	<ul style="list-style-type: none"> <li>○ Balanced cash budget (net municipal funds) for each year of the plan is a key requirement.</li> <li>○ Flexible use of reserves and disposal proceeds can be used to help shortfalls in municipal funds, although these have to be paid back to the required reserve at some point in future.</li> </ul>
3	<b>Operating Surplus Ratio</b>	<ul style="list-style-type: none"> <li>○ Ratio compares the amount of operating surplus versus own source revenue.</li> <li>○ Ratio is the most important indicator of long term financial sustainability because it takes account of all key financial aspects of the City:               <ul style="list-style-type: none"> <li>- Community (rates, fees and charges)</li> <li>- Asset management (depreciation)</li> <li>- Operating expenses</li> <li>- Liquidity (interest payments)</li> </ul> </li> <li>○ A desired ratio for operating surplus is between 2% and 8%, as a five year average.</li> <li>○ The ratio is currently negative for the City.</li> <li>○ As this ratio is the most important indicator and it is currently negative the next section provides more details of this.</li> </ul>

Ref	Key Ratios	Details
4	<b>Asset Sustainability Ratio</b>	<ul style="list-style-type: none"> <li>○ Evaluates asset management.</li> <li>○ Asset sustainability compares the amount of expenditure on capital replacements versus depreciation.</li> <li>○ The ratio is an indicator of whether the City is spending adequate amounts on its replacement program in comparison to the consumption (depreciation) of its assets.</li> <li>○ The target for asset sustainability ratio, as per the Department Local Government and Communities (DLGC) guidelines, is between 90% and 110%. The City has slightly varied the targets to achieve 90% and 110% based on a five year average, rather than each individual year.</li> </ul>
5	<b>Debt Service Coverage Ratio</b>	<ul style="list-style-type: none"> <li>○ This is the key ratio to evaluate treasury management.</li> <li>○ Used by WATC to evaluate requests for loans.</li> <li>○ The ratio is the calculation of how much operating surpluses (before interest and depreciation) covers the amount of loan repayments (principal and interest) each year.</li> <li>○ The target for debt service coverage ratio is that the ratio does not fall less than five. That is that the City should have surpluses that are at least five times greater than the loan repayments.</li> <li>○ Where there are higher levels of borrowings it may be acceptable to go below five but no less than three, which is regarded by the West Australian Treasury Corporation as the minimum. However the ratio should not fall below five for five years in a row.</li> <li>○ The City has also determined that some years legitimately fail the minimum of three, if the City were repaying a lot of debt based on one-off proceeds.</li> <li>○ Ratio for 2015-16 is high as there are \$23.8 million of operating surpluses (before interest and depreciation) which is 9.6 times as the loan repayments of \$2.5 million.</li> </ul>

Ratios are not merely figures that are calculated for the purpose of complying with a reporting requirement. The ratios provide an assessment of the current and future financial sustainability of the City.

#### Operating Surplus Ratio 2015-16

The projected ratio for 2015-16 is negative (4.6%) and is calculated as follows:

Plus operating income	\$143.2 million	Rates, fees, operating grants, interest.
Less operating expenses	\$149.6 million	Employee costs, materials and depreciation.
Equal operating deficit	(\$6.4 million)	Operating income less expenses
Divided by own source income	\$140.8 million	Income excluding grants and contributions.
Equal operating surplus ratio	(4.6%)	Operating deficit divided by own source income.

The ratio indicates that the City does not have a balanced operating budget although it does have a balanced cash budget. The key differences between having a balanced cash budget and the operating surplus ratio are:

- Operating surplus ratio does not take account of all cash items (such as capital expenditure and capital grants), many of which can be one-off.
- Operating surplus ratio includes non-cash items such as depreciation. Depreciation is a large expense for the City and it is therefore important for the operating surplus ratio to include it.
- The operating surplus ratio provides a better measure of recurring performance, and although the ratio includes non-cash items (depreciation) the ratio provides a more complete picture of income versus expenditure because it is important for the City to have sufficient income to meet all expenses, including depreciation.

A negative ratio in the long-term is not sustainable because there would come a point when there would be insufficient cash available to meet service levels. The ratio has been depressed for a number of years, as the City has grown and taken on new services and infrastructure there have been increased operating expenses and depreciation which has not been fully matched in income.

The key issue for the City is to ensure that there is a long-term plan to improve the ratio which this plan addresses. Additionally, the City should consider the long-term implications when updating the annual budget and mid-year budget review.

#### How the 20 Year Strategic Financial Plan is produced

There are five sets of assumptions used to build up the 20 Year SFP, as summarised below. These assumptions are explained in more detail in Section 6 of the plan itself (Attachment 2 refers).

#### 1 External Environment

- Demographics.
- Economic indicators.
- Housing Strategy.
- Business Growth.

#### 2 Operating Income and Expenses

- Baseline analysis. Draft Budget 2016-17 is used as the baseline.
- Escalation factors (such as % increases) are then applied to each individual service item.
- Volume changes based on approved projects and planned projects. Where information is available from a feasibility study (for example, Joondalup Performing Arts and Cultural Facility) or a decision by Council, then this information is used.

#### 3 Capital Expenditure

- Draft *Five Year Capital Works Program 2016-17 to 2020-21* is embedded into the draft 20 Year SFP.
- Forecast for each of the programs from 2021-22 to 2034-35 have been made.
- Other 'business as usual' capital programs (Information technology, fleet, and parking) have been forecast.
- Major Projects – based on feasibility studies or Council papers.
- Escalation factors (such as % increases) are then applied to each individual project.



#### 4 Capital Disposals

- Sale of land such as Tamala Park.

#### 5 Funding.

Each program or project has been separately assessed, to identify whether the project is funded by either:

- municipal funds
- specific reserves
- strategic asset management reserve
- disposal proceeds (for example Grove Child Care / Dorchester Hall)
- borrowings.

The most important set of inputs to the plan are the second group – operating income and expenses. These assumptions are recurring, and have a bigger on-going impact than one-off capital expenditure. For example a lower rate increase in one year will affect each year of the plan thereafter.

#### Key Assumptions

The update of the plan is at a time of growing economic uncertainty in Western Australia, Australia and globally. The most recent quarterly CPI results showed deflation for the quarter, which was one of the main reasons why the Reserve Bank lowered the cash rate to 1.75%, the lowest figure on record. Meanwhile the Wages CPI has steadily reduced and workplace agreements are being agreed of less than 2%.

Some of the key assumptions in the plan are:

- 2.5% rate increase for 2016-17 instead of 4.0% (4% was included in the previous plan). The lower rate increase has an impact in 2016-17 of approximately \$1.5 million, but over a 20 year period reduces cash by \$60 million.
- 2% Increase in employment costs for 2016-17, 2017-18 and 2018-19 instead of 3.0% (3% was included in the previous plan). The lower increases have a benefit in the plan of \$62 million additional cash.

The City has reviewed the projections for capital renewals. The previous plan targeted a 90% achievement of the asset sustainability ratio from 2023-24. The 90% means that for each \$10 of depreciation there should be \$9 of capital renewals. To achieve this ratio additional funds have been set aside into a separate capital line referred to as “backlog unspecified”. As the ratio in the early years of the plan is much lower than 90% (average of 70% in the first five years), it is now assumed that the asset sustainability ratio would have to be higher than 100% in the later years of the plan to ensure that service levels of assets could be maintained. A target of 105% for the asset sustainability ratio is now targeted, which results in \$104 million of expenditure set aside into the “backlog renewals”, as opposed to the \$40 million that was set aside in the previous plan.

As mentioned earlier the most important set of assumptions in the plan are the on-going operating activities. The plan continues to assume that increases in income (predominantly rates) will be higher each year than the increase in expenses as the plan assumes an average 4.4% rate increase whereas employment expenses and materials contracts have an average increase of approximately 3%. This gap of 1.4% results in the income growing by 1.4% more than the expenses and is the primary reason for the improved projections of operating surpluses. There is a high risk with these assumptions though that will be subject to comment later in the report, because if the City decides not to have rate increases in line with the plan, then the operating position may not improve.

### Attachments

There are three attachments:

- Attachments 1.1 to 1.8 are the detailed schedules. Each of these attachments is explained in the table below. This relates to Option 1 (details of other options are provided later in the report).
- Attachment 2 is the draft plan itself. The contents of this are explained in a separate table.
- Attachment 3 is a Gantt Chart of major projects.

Table 3 – Attachments 1.1 to 1.8 – Detailed Schedules

No	Report	Purpose
1.1	Key Ratios Summary	<ul style="list-style-type: none"> <li>○ Summary of the Key Ratios achieved versus previous plan.</li> <li>○ Other key indicators are also summarised.</li> <li>○ Graphs of key indicators.</li> </ul>
1.2	20 Year Financial Projections	<ul style="list-style-type: none"> <li>○ Operating statement, capital expenditure, funding.</li> </ul>
1.3	Assumptions	<ul style="list-style-type: none"> <li>○ Escalation assumptions applied for operating income and operating expenditure.</li> <li>○ Also includes other key assumptions, such as costs of borrowing.</li> </ul>
1.4	Major Project Assumptions	<ul style="list-style-type: none"> <li>○ List of major projects.</li> <li>○ Comparison of updated capital cost versus previous plan, and comparison of timescales for completion.</li> </ul>
1.5	Capital Expenditure by Year – excluding escalation	<ul style="list-style-type: none"> <li>○ Summary of all capital requirements, both for existing programs and new projects.</li> <li>○ Projects that are highlighted in yellow are in Attachment 1.7.</li> </ul>
1.6	Capital Expenditure by Year – including escalation	<ul style="list-style-type: none"> <li>○ Summary of all capital requirements, both for existing programs and new projects.</li> <li>○ Projects that are highlighted in yellow are in Attachment 1.7.</li> </ul>
1.7	Capital Projects Funding	<ul style="list-style-type: none"> <li>○ Funding summary to explain how each of the large / significant projects are funded.</li> <li>○ This only includes those projects that are not funded solely by municipal.</li> </ul>
1.8	Reserves	<ul style="list-style-type: none"> <li>○ Projected reserve balances and movements.</li> </ul>

The table below provides a summary view of the content of the plan (Attachment 2 refers):

Table 4 – Explanation of the draft 20 Year SFP

Summary	Reference	Pages	Details
<b>Introduction</b>	Sections 1 to 3	3 to 9	Introductory sections, explaining the purpose of the draft 20 Year SFP, executive summary and description of the City of Joondalup.

Summary	Reference	Pages	Details
<b>Strategy</b>	Sections 4 to 5	10 to 12	<p>These two sections explain the strategy used to prepare the projections. Includes:</p> <ul style="list-style-type: none"> <li>• Summary of the guiding principles.</li> <li>• <i>Asset Management Policy</i> and <i>Five Year Capital Works Program</i>.</li> </ul>
<b>Assumptions</b>	Section 6	13 to 22	<p>This section provides details of the five sets of assumptions used to build up the projections:</p> <ul style="list-style-type: none"> <li>• External environment.</li> <li>• Operating income and expenses.</li> <li>• Capital Expenditure.</li> <li>• Capital Proceeds.</li> <li>• Funding.</li> </ul>
<b>Impacts Key Ratios and Funding</b>	Sections 7 to 9	23 to 40	<p>These three sections explain the ratio projections and the supporting schedules.</p>
<b>Risk and Sensitivity</b>	Sections 10 to 11	41 to 46	<p>Analysis of risk and scenario analysis.</p>
<b>Guiding Principles</b>	Appendix 1	47 to 49	<p>20 Year SFP – Proposed Guiding Principles 2016.</p>
<b>Capital Projects</b>	Appendix 2	50 to 51	<p>List of capital programs/projects, and associated operating impacts.</p>
<b>Financial Statements</b>	Appendix 3 and Financial Statements FS1 to FS4	52 to 61	<p>The supporting Financial Statements to the draft 20 Year SFP.</p> <p>The Financial Statements are:</p> <ul style="list-style-type: none"> <li>• As per the DLGC LTFP Framework and Guidelines (note Statement of Financial Position and Equity Statement have been combined as a single statement).</li> <li>• Similar statements required for the Budget and Annual Financial Statements, but in an abridged format.</li> <li>• Each followed by a table that explains each line.</li> </ul>
<b>Supporting Schedules</b>	Supporting Schedules SS1 to SS5	62 to 69	<p>Five supporting schedules provide additional detail on calculations and projections.</p>

## Issues and options considered

### Reserves & Borrowing

In the early years of the plan cash reserves are depleted, reducing from \$66 million at June 2015 to \$19 million by June 2018. The \$19 million relates mostly to tied reserves, with \$4 million left in the Strategic Asset Management Reserve by June 2018 and zero by June 2022. The early years of the plan (and in particular 2017-18 and 2018-19) are projected to have a high level of new investment and consequently use up the Strategic Asset Management Reserve and then cause higher external borrowings than the City has normally used. Indeed, between the years 2015-16 to 2018-19 the City projects borrowings of \$55 million, \$47 million of which relates to the Joondalup Performing Arts and Cultural Facility.

The plan has the same assumptions as the previous plan for the Joondalup Performing Arts and Cultural Facility whereby the Tamala Park proceeds are used to partially fund the construction and then proceeds received after construction are used to repay borrowings. The Tamala Park proceeds would be able to repay \$47 million of the \$67 million of borrowings (approximately 10 years worth of the borrowings), but the remaining \$20 million (the last five years) are assumed to be met from municipal funds.

There are \$101 million borrowings projected within the 20 years of the plan, however these are spread across multiple years and begin to be repaid immediately. The maximum balance owing is estimated to be \$83 million at June 2023, although this reduces quickly to \$54 million by June 2025. The borrowings of \$101 million may appear to be high, but in terms of the bold projects taken on and the ring-fencing of specific land proceeds (Tamala Park and Edgewater Quarry) to help fund major projects, the use of borrowings in the draft 20 Year SFP is within acceptable tolerances of the debt service coverage ratio.

### Options

At the time of presenting the 20 Year SFP for adoption, there are likely to be projects and plans being reviewed that have different assumptions to those included in the 20 Year SFP. The 20 Year SFP is updated annually, and therefore revised assumptions can be included in future updates of the 20 Year SFP.

There are four options presented for consideration by the committee:

- Option 1, as presented in Attachment 1.
- Option 2 - City Centre Street Lighting funded with Borrowings instead of Reserves. This has been evaluated due to discussions at Budget Workshops with Elected Members.
- Option 3 – Joondalup Performing Arts and Cultural Facility Excluded. This is evaluated because it is the single largest project.
- Option 4 – Changes to three major projects as discussed at Finance Committee at its meeting held on 4 April 2016.
  - Edgewater Quarry Masterplan. Scope amended in line with March 2016 Strategy Session. This would reduce the capital expenditure from \$22 million to \$13 million (although land proceeds would also reduce). Note that the \$13 million estimate would be subject to further detailed review in line with the revised scope of the masterplan.
  - Whitfords Library and Senior Citizen Centre. Refurbishment assumed instead of redevelopment. This would potentially reduce the capital costs from \$12 million to \$3 million. However it must be emphasised that the \$3 million is based on a high level estimate and would require further scoping in future updates of the plan.

- Heathridge Masterplan. \$1 million has been included in previously adopted plans and is included in Options 1, 2 and 3. The \$1 million estimate is a high level estimate for refurbishment of leisure centres every five years. The Heathridge site will be subject to the masterplan process which has yet to provide details of options or costings. Rather than continue to leave the \$1 million in the plan, this option would replace it with \$300,000 which relates only to the costs of preparing the masterplan.

The outcomes of the options are summarised in the table below:

Table 5 – Option Results

			<u>Adopted</u> Dec-15	<u>Base</u> Option 1 As per Attachment 1	<u>Project Options</u> Option 2 City Centre Street Lighting Option 3 JPACF Excluded Option 4 Major Project Changes		
1	Overall Key Ratios	How many achieved (max 100)	83	85	85	87	85
2	Financial Health Indicator: Yr 1 to 6	Score out of 100 (70 is Sound, 80 is good)	66	68	67	73	68
3	Proposed Borrowings	20 Year Total (\$m)	\$89.9	\$100.5	\$102.3	\$49.4	\$84.4
4	Treasury Borrowings Criteria	No of Years where borrowings fails Test	0	2	2	0	0
5	Cash Held less Borrowings Owing	at end of 2034-35 \$ms	\$428.6	\$231.1	\$232.1	\$488.4	\$256.8
6	Rates % Increase:	Average Increase Years 1 to 5	4.4%	4.1%	4.1%	4.1%	4.1%
7	Operating Surplus Ratio:	What Year does SFP first achieve target ?	2021-22	2023-24	2023-24	2021-22	2023-24
8	Operating Surplus Ratio:	Average Years 1 to 10	2.7%	0.3%	0.3%	2.8%	0.4%

Key issues of concern are highlighted in yellow. Further comments are as follows:

- Overall key ratios – the exclusion of the Joondalup Performing Arts and Cultural Facility would improve the achievement of the key ratios by two. As explained in the same analysis last year, the removal of the Joondalup Performing Arts and Cultural Facility does have significant impacts on the plan, but would not be able to achieve ratios in the early years of the plan.
- Financial health indicator (Years 1 to 6) is projected to be less than sound for Options 1, 2 and 4. This indicator will be subject to further commentary later on.
- Borrowings – Option 2 results in similar borrowings overall to Option 1, albeit the timings would be different.
- Treasury borrowings criteria – fails in two of the years for Option 1 and Option 2. This is not a major concern as it relates to the exceptions as described earlier in the amended guiding principles.
- Cash held less borrowings – Option 3 would have much more cash available than the other options. Options 1, 2 and 4 all have a lot less cash than the previous plan.
- Operating surplus ratio – Option 3 is the only option that would be within tolerance in the same year as the previous plan. All other options would worsen the projection of the operating surplus ratio by two years.

The options are:

- 1 adopt the draft 20 Year SFP, without any further changes (Option 1)
- 2 adopt the draft 20 Year SFP with changes as per Options 2, 3 or 4, or any other changes requested  
or
- 3 do not adopt the draft 20 Year SFP at this stage, pending further changes.

Option 1 is recommended.

### Legislation / Strategic Community Plan / policy implications

**Legislation** Section 5.56(i) of the *Local Government Act 1995* provides that:

*“A local government is to plan for the future of the district.”*

### Strategic Community Plan

**Key theme** Financial Sustainability.

**Objective** Effective management.

**Strategic initiative**

- Manage liabilities and assets through a planned, long-term approach.
- Balance service levels for assets against long-term funding capacity.

**Policy** *20 Year Strategic Financial Plan – Guiding Principles.*

### Risk management considerations

The plan is based on many assumptions. There is a risk that those assumptions could be wrong or may not come to pass, however, it is a planning tool and the City is not committed to anything in the plan by virtue of endorsing it. Periodic review and update of the plan will ensure that it remains a relevant and useful document to manage the City's financial affairs into the future.

#### Rates Increases Lower in Future Years than Planned

As outlined earlier in the report the rate increase of 2.5% in 2016-17, rather than 4%, has a long term impact on the plan with an overall impact of \$60 million and contributes to the operating surplus ratio being not within tolerance until 2023-24. The rates increases that are assumed in the plan for the following four years are much higher than the 2016-17 increase. If the City decides to have lower increases in one or more of those years, this would have further long-term impacts on the plan.

The table below considers other scenarios of rates increases and their impact on net cash. If the rate increases were 1% less than the current projections the overall reduction in cash at the end of 20 years would be \$150.4 million. If the rate increases were 2% less there would be \$297.4 million less cash. The number of key ratios achieved would also reduce significantly in both scenarios.

Table 6 – Rates Increases Risk

Scenario	Rates Increases %				Impact on Cash \$m			Key Ratios Achieved
	2017-18	2018-19	2019-20	2020-21	1 Year Impact (2017-18)	4 Year Impact (2020-21)	20 Year Impact (2034-35)	
Proposed Plan	4.0%	5.0%	5.0%	5.0%				85
1% less of an increase	3.0%	4.0%	4.0%	4.0%	-\$1.0	-\$11.2	-\$150.4	77
2% less of an increase	2.0%	3.0%	3.0%	3.0%	-\$2.0	-\$22.2	-\$297.2	69

### Tamala Park Proceeds

One of the key assumptions in the plan is the projected proceeds from Tamala Park. By the end of 2015-16 the City is projected to have \$9 million in the Tamala Park Reserve, with a further \$58 million in proceeds to be received from 2016-17 to 2028-29. All of these proceeds are assumed to be used for the Joondalup Performing Arts and Cultural Facility, although there would still be \$20 million shortfall in the repayment of borrowings that would have to be made up by general municipal funds.

As there are tougher economic conditions it is worth considering the impacts on the funding for the Joondalup Performing Arts and Cultural Facility and in overall cash if the Tamala Park proceeds were significantly lower than projected, either through reduced land values or non-development of the site. Below are some scenarios of lower proceeds and potential impacts:

- 25% less sales proceeds would result in \$16.5 million less income and therefore \$16.5 million less towards the construction and repayments of Joondalup Performing Arts and Cultural Facility. This would result in higher borrowings and a total impact of \$23.5 million including interest. The total shortfall to the overall establishment costs of the Joondalup Performing Arts and Cultural Facility paid by municipal funds would be \$43.5 million.
- 50% less sales proceeds would result in \$33 million less income and increased borrowings cost of \$47 million (including interest). The shortfall paid by municipal funds would be \$67 million.

### Capacity of Delivering Major Projects

Within some years of the plan (notably 2017-18 and 2019-20), there are multiple planned projects. The responsibility for delivering these projects is split between different directorates as indicated in Section C of Attachment 1.4 and this indicates that there is a reasonable level of split of responsibility between different teams and confidence that the projects can be implemented as per the schedule. A Gantt chart has also been prepared to indicate how the major projects are spread over the years of the draft 20 Year SFP and is shown at Attachment 3.

The City reviews the scheduling and implementation of major projects on an annual basis, as part of the review of *Five Year Capital Works Program* and *20 Year Strategic Financial Plan*, and will continue to evaluate capacity as part of the annual reviews

### **Financial / budget implications**

The draft 20 Year SFP represents projections and estimates, based on many assumptions and is a primary planning tool for the development of future budgets. Adoption of the draft 20 Year SFP, however, does not constitute a commitment or agreement by the City to the projects and proposals it contains or the financial estimates and projections included in the draft 20 Year SFP.

The plan has been prepared and reviewed during the Annual Budget process, which will enable the plan to be used as an enabler to the Annual Budget for the following year.

### **Regional significance**

Not applicable.

## Sustainability implications

The draft 20 Year SFP represents the primary and key strategic financial planning document for the City and has a direct bearing on planning for the financial sustainability of the City.

## Consultation:

The draft 20 Year SFP has been prepared after extensive consultation with City Business Units, the Executive Leadership Team and Elected Members.

## COMMENT

The draft 20 Year SFP 2015-16 to 2034-35 (Attachment 2 refers), sets out a significant program of works and projects for the City of Joondalup over the next 20 years. These are in keeping with and represent the *Joondalup 2022* vision for the City: “A global City: bold, creative and prosperous”.

Although the program is ambitious, it is achievable with financial discipline and the draft 20 Year SFP maps out how this can be done.

The draft *20 Year Strategic Financial Plan 2015-16 to 2034-35* replaces the previous plan adopted in 2015.

## Ratios

The table below summarises the key ratios.

Table 7 – Ratios

<b>KEY RATIO</b>		<b>Target Range</b>		<b>Updated SFP</b>		<b>Adopted (Dec'15)</b>		
as per the City's Guiding Principles		Low	High	Number of Years within Tolerance	Number of Years Outside Tolerance	Number of Years Within Tolerance	vs. Current Proposal	
1	Rate % Increase	0.0%	5.0%	20	0	20	0	●
2	Balanced Cash Budget	\$0	\$0	20	0	20	0	●
3	Operating Surplus Ratio %	2.0%	8.0%	12	8	13	-1	●
4	Asset Sustainability Ratio %	90.0%	110.0%	13	7	10	3	●
5	Debt Service Coverage Ratio	< 5	>5	20	0	20	0	●
Total				85	15	83	2	●

Of the five key ratios identified within the *Guiding Principles*, 85 out of 100 are achieved, although there is only 35 out of 50 achieved in the first 10 years. Although the projected achievement of 85 ratios out of 100 is two higher than the adopted plan, it is far from ideal because the City should achieve at least 90 of the key ratios. Indeed the operating surplus ratio, which is the most important ratio, is below the threshold for the first eight years and only comes within tolerance from 2023-24. For those ratios that are not achieved (operating surplus ratio and asset sustainability ratio), there is a positive trend. The ratios are explored in great detail within the plan at Attachment 2; some summary comments to note include the following:



- Rates increases at no more than 5%. This is achieved in 20 of the 20 years.
- Balanced cash budget is a ratio that must be achieved every year, and the recommended option achieves that.
- Operating surplus ratio is the most important indicator out of all the ratios, as it has a mix of all the other ratios combined (liquidity, asset management, operating performance). The City currently has an operating surplus ratio that is negative however there are projected to be steady improvements. The target is to have a five year average between 2% and 8% which is projected to be achieved in 12 of the 20 years. The starting point of the projections of 2015-16 is negative 4.6% and it becomes difficult for the City to improve this in the next few years due to the new investment and the additional operating expenses required to operate new facilities. For example the Joondalup Performing Arts and Cultural Facility will depress the operating surplus ratio by 2.8% each year due to the operating subsidy required, interest expense on borrowings and the depreciation. The projections from 2023-24 onwards are all within the target or exceed it.
- Asset sustainability ratio - measures the rate at which the City spends capital expenditure on replacement versus depreciation. The target is to be between 90% and 110%, the long-term average should be 100%. This ratio fails the target in the first 10 years which suggests that there is insufficient expenditure on replacement of existing assets and too much on new assets. The City's assets and infrastructure are relatively young and at this stage in their life cycle it is reasonable for the asset sustainability ratio to be depressed. The City will need to increase expenditure on renewals in later years as the City becomes older; this has been factored into the capital forecast. This ratio will be subject to on-going review with updates to the asset management plans and the ratio calculated separately for each asset class.
- Debt service coverage ratio compares the amount of operating cash flow available versus loan repayments. Ideally there should be surplus from operating cash flow of five times or more of loan repayments. It is intended that the ratio does not fall below the range of three to five, and the target is to avoid this occurring for five years in a row. This ratio is achieved in all 20 years, however there are four years where the ratio falls below the desired threshold of five, this is a short term impact caused by the borrowings of major investment including the Joondalup Performing Arts and Cultural Facility and Edgewater Quarry.

#### Financial Health Indicator

The Department of Local Government and Communities has recently launched a new website ('My Council') which provides various information for all Councils in Western Australia. The website includes various information that is extracted from annual accounts and other publicly available reports. The data is summarised into a standard platform which then allows users to view Council data consistently for all Councils and to compare Councils to each other. Additionally the website also includes a financial health indicator for each Council. This indicator has been prepared in a similar way to the financial sustainability score that was published in 2014 as part of the Metropolitan Local Government Review.

The financial health indicator is marked out of a maximum of 100 with a score of 70 or more designated as sound. The scores for the City's financial health indicator are summarised below:

2011-12	2012-13	2013-14	2014-15
51	61	60	74

As the score for 2014-15 was over 70 this is described as sound, although the preceding three years were not sound.

The calculation of the financial health indicator is based on the seven statutory ratios. Each of the ratios has a minimum target, a benchmark score and a strong benchmark. The seven ratios are then subject to weightings shown on Table 8 below:

Table 8 – Weightings used for Financial Health Indicator

Operating Surplus Ratio %	21.4%
Own Source Revenue Coverage %	11.8%
Debt Service Coverage Ratio	19.3%
Current Ratio	24.3%
Asset Consumption Ratio %	7.9%
Asset Renewal Funding Ratio %	6.5%
Asset Sustainability Ratio %	8.7%

One of the main reasons for the City receiving a higher score in 2014-15 than in previous years is due to the operating surplus ratio. The ratio in 2014-15 was distorted as it was artificially higher due to the receipt of grants which were intended for 2015-16. If it were not for that distortion the City would have scored less than 70. A projection of the financial health indicator for the next 10 years, as shown below, has been prepared using the data from the draft 20 Year SFP.

Table 9 –Financial Health Indicator Projections

2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
62	67	65	64	62	86	86	88	84	80
Not Sound	Not Sound	Not Sound	Not Sound	Not Sound	Good	Good	Good	Good	Good

The projection indicates that from 2015-16 to 2019-20 the score may be classed as not sound. The primary reasons for this are the operating surplus ratio and the asset sustainability ratio. As both of these ratios improve from 2020-21 the score then improves significantly and is classed as good.

There are no specific recommendations regarding the financial health indicator, other than awareness in that the City is likely to receive a lower score in 2015-16 when the website is next updated. It should also be noted that the City has significant concerns on the weightings applied to each ratio, the current ratio is allocated the highest weighting with 24.3% yet the City would regard this as the least important ratio and not even worthy of including in the overall scoring.

#### Independent Review of Financial Models

The City has recently completed an independent review of financial models, including the model used to prepare the previous plan. The review is subject to a separate report. The review did not identify any concerns that the model for the 20 Year SFP was flawed or compromised such that it cannot be relied upon. The model is robust and functioning appropriately as designed with significant levels of compliance against the FAST Standard and best practice assessment.

## **VOTING REQUIREMENTS**

Simple Majority.

*The Manager Governance left the room at 7.35pm and returned at 7.36pm.*

## **OFFICER'S RECOMMENDATION**

That Council:

- 1 ADOPTS the draft *20 Year Strategic Financial Plan* for the period 2015-16 to 2034-35 as at Attachment 2 to this Report;
- 2 ADOPTS the *Guiding Principles 2015* as included at Appendix 1 of Attachment 2 to this Report;
- 3 REVOKES the Borrowing Strategy that was adopted by Council at its meeting held on 20 July 2010 (CJ123-07/10 refers).

**MOVED Mayor Pickard SECONDED Cr Dwyer that Council:**

- 1 **ADOPTS Option 4 of the draft *20 Year Strategic Financial Plan* for the period 2015-16 to 2034-35 as at Attachment 4 to this Report;**
- 2 **ADOPTS the *Guiding Principles 2016* as included at Appendix 1 of Attachment 4 to this Report;**
- 3 **REVOKES the *Borrowing Strategy* that was adopted by Council at its meeting held on 20 July 2010 (CJ123-07/10 refers).**

**The Motion was Put and**

**CARRIED (4/1)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Dwyer and Norman.

**Against the Motion:** Cr Poliwka.

*The Senior Financial Analyst left the room at 8.30pm.*

*Appendices 2 and 6 refers*

*To access this attachment on electronic document, click here: [Attach2agnFINANCE160608.pdf](#)*

*To access this attachment on electronic document, click here: [Attach6minFINANCE160608.pdf](#)*

### **ITEM 3                      UPDATE ON THE 2015-16 CAPITAL WORKS PROGRAM**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Nico Claassen Infrastructure Services
<b>FILE NUMBER</b>	105564
<b>ATTACHMENTS</b>	Attachment 1      Capital Works Project Report 2015-16
<b>AUTHORITY / DISCRETION</b>	Information - includes items provided to Council for information purposes only that do not require a decision of Council (that is for 'noting').

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#### **PURPOSE**

For the Finance Committee to note the update on the *2015-16 Capital Works Program*.

#### **EXECUTIVE SUMMARY**

The Capital Works Project Report for the 2015-16 program as at 25 May 2016 is attached (Attachment 1 refers).

*It is therefore recommended that the Finance Committee NOTES the report on the Capital Works Projects for 2015-16 as at 25 May 2016 forming Attachment 1 to this Report.*

#### **BACKGROUND**

At its meeting held on 3 November 2015 (JSC02-11/15 refers), Council resolved, in part to:

“2      *ESTABLISH a Finance Committee to:*

- 2.1      oversee the progress of the City’s annual capital works program and review of the City’s Five Year Capital Works Program;*
- 2.2      make recommendations to Council on modifications of capital works projects outside those projects of the Major Projects Committee;*
- 2.3      make recommendations to Council on the services to be provided by the City and the standards of service delivery being cognisant of industry best practice;”*

#### **DETAILS**

The Capital Works Project Report for the 2015-16 program as at 25 May 2016 is provided at Attachment 1.

**Issues and options considered**

Not applicable.

**Legislation / Strategic Community Plan / policy implications****Legislation**

Sections 5.17 and 6.8 of the *Local Government Act 1995*.

A committee cannot make decisions, on behalf of the Council, that require an absolute majority decision (section 5.17 of the *Local Government Act 1995*), in which case, and in accordance with Section 6.8 of the *Local Government Act 1995*, includes approving expenditure not included in the City's Annual Budget. The Finance Committee may only recommend to the Council to approve or modify capital works projects.

**Strategic Community Plan****Key theme**

Financial Sustainability.

**Objective**

Major project delivery.

**Strategic initiative**

Not applicable.

**Policy**

Not applicable.

**Risk management considerations**

Not applicable.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The Capital Works Project Report for the 2015-16 program provides an update on the capital works activities undertaken as at 25 May 2016.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED** Cr Poliwka **SECONDED** Cr Dwyer that the Finance Committee **NOTES** the report on the Capital Works Projects for 2015-16 as at 25 May 2016 forming Attachment 1 to this Report.

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Dwyer, Norman and Poliwka.

*Appendix 3 refers*

*To access this attachment on electronic document, click here: [Attach3agnFINANCE160608.pdf](#)*

## ITEM 4                      BI-MONTHLY                      CAPITAL                      WORKS                      PROJECT REPORTS

**WARD**    All

**RESPONSIBLE  
DIRECTOR**                                      Mr Nico Claassen  
Infrastructure Services

**FILE NUMBER**                                      105564

**ATTACHMENTS**

Attachment 1	Timberlane Park Hall Upgrade
Attachment 2	Kingsley Clubrooms
Attachment 3	SES Winton Road
Attachment 4	James Cook Park Landscape Upgrade
Attachment 5	Ocean Reef Road - Marmion Avenue to Oceanside Promenade Dualling
Attachment 6	Whitfords Avenue - Northshore Drive to Belrose Entrance Dualling
Attachment 7	Ocean Reef Road/ Joondalup Drive Intersection Upgrade
Attachment 8	City Centre Lighting
Attachment 9	Chichester Park Flood Lighting Upgrade
Attachment 10	Bramston Park Facility
Attachment 11	Synthetic Hockey Project Warwick

**AUTHORITY / DISCRETION**                      Information - includes items provided to Council for  
information purposes only that do not require a decision of  
Council (that is for 'noting').

### PURPOSE

For the Finance Committee to note the bi-monthly project status reports for capital works projects.

### EXECUTIVE SUMMARY

At the former Capital Works Committee meeting held on 14 September 2015 the Committee determined which capital works project reports were required and the frequency of reporting. The bi-monthly project reports are attached (Attachments 1-11 refer).

*It is therefore recommended that the Finance Committee NOTES the bi-monthly capital works project reports forming Attachments 1 to 11 to this Report.*

### BACKGROUND

At its meeting held on 14 September 2015 the former Capital Works Committee requested that the following project reports from the *2015-16 Capital Works Program* be provided on a bi-monthly basis:

- Iluka Sports Centre Refurbishment.
- Timberlane Park Hall Upgrade.
- Kingsley Clubrooms.
- SES Winton Road.
- James Cook Park Landscape Upgrade.
- Ocean Reef Road – Marmion Avenue to Oceanside Promenade Dualling.
- Whitfords Avenue – Northshore Drive to Belrose Entrance Dualling.
- Ocean Reef Road/Joondalup Drive Intersection Upgrade.
- Joondalup City Centre Lighting.
- Chichester Park Flood Lighting Upgrade.
- Bramston Park Facility.
- Multi Storey Car Park - Boas Avenue.
- Marmion Foreshore Car Park.
- Synthetic Hockey Project Warwick.

At its meeting held on 3 November 2015 (JSC02-11/15 refers), Council resolved, in part to:

“1 *DISBAND the following committees established by the Council at its meeting held on 5 November 2013 (JSC06-11/13 refers):*

1.3 *Capital Works Committee;*

2 *ESTABLISH a Finance Committee to:*

2.1 *oversee the progress of the City’s annual capital works program and review of the City’s Five Year Capital Works Program;*

2.2 *make recommendations to Council on modifications of capital works projects outside those projects of the Major Projects Committee;*

2.3 *make recommendations to Council on the services to be provided by the City and the standards of service delivery being cognisant of industry best practice;”*

The following projects which required bi-monthly project reports have now been completed and the final report was presented to the Finance Committee held on 4 April 2016:

- Iluka Sports Centre Refurbishment.
- Multi Storey Car Park – Boas Avenue.
- Marmion Foreshore Car Park.

## DETAILS

A summary of the projects and their current status is detailed in the bi-monthly project reports forming Attachments 1-11 to this Report.

The following project which required a bi-monthly project report has now been completed and no further reports will be presented to the Finance Committee:

- Bramston Park Facility.



The City is entering a new era with its project management in terms of the scope, complexity and, in some instances, the risks associated with the types of activities being engaged in. The *Project Management Framework* needs to enable the City to deal with those new challenges moving forward.

One of the changes being trialled using the Warwick Hockey Centre Project relates to status reports. These reports will now include budget/expenditure details and more comprehensive project timelines. These reports are also branded differently.

**Issues and options considered**

Not applicable.

**Legislation / Strategic Community Plan / policy implications**

**Legislation** Sections 5.17 and 6.80 of the *Local Government Act 1995*.

A committee cannot make decisions, on behalf of the Council, that require an absolute majority decision (section 5.17 of the *Local Government Act 1995*), in which case, and in accordance with Section 6.8 of the *Local Government Act 1995*, includes approving expenditure not included in the City's Annual Budget. The Finance Committee may only recommend to the Council to approve or modify capital works projects.

**Strategic Community Plan**

**Key theme** Financial Sustainability.

**Objective** Major project delivery.

**Strategic initiative** Not applicable.

**Policy** Not applicable.

**Risk management considerations**

Not applicable.

**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Not applicable.

**Consultation**

Not applicable.

**COMMENT**

The attached capital works project reports provide an update on the activities undertaken in the last two months.

**VOTING REQUIREMENTS**

Simple Majority.

**MOVED Mayor Pickard SECONDED Cr Norman that the Finance Committee NOTES the bi-monthly capital works project reports forming Attachments 1 to 11 to this Report.**

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Dwyer, Norman and Poliwka.

*Appendix 4 refers*

*To access this attachment on electronic document, click here: [Attach4agnFINANCE160608.pdf](#)*

## ITEM 5                      STATUS      REPORT      ON      CITY      FREEHOLD PROPERTIES PROPOSED FOR DISPOSAL AND A PROPOSED CROWN LAND ACQUISITION

<b>WARD</b>	All	
<b>RESPONSIBLE DIRECTOR</b>	Mr Garry Hunt Office of the CEO	
<b>FILE NUMBER</b>	63627, 101515	
<b>ATTACHMENTS</b>	Attachment 1	Lot 200 (24), Lot 201 (22) Lot 202 (20) Kanangra Crescent, Greenwood
	Attachment 2	Lot 23 (77) Gibson Avenue, Padbury
	Attachment 3	Lot 803 (15) Burlos Court, Joondalup
	Attachment 4	Lot 1001 (14) Camberwarra Drive, Craigie
	Attachment 5	Lots 900 (57) Marri Road, Duncraig
	Attachment 6	Lot 12223 (12) Blackwattle Parade, Padbury
<b>AUTHORITY / DISCRETION</b>	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.	

### PURPOSE

For Council to note the progress towards the disposal of a number of City owned freehold land sites and the proposed acquisition of a Crown land community purpose reserve.

### EXECUTIVE SUMMARY

The City's freehold land disposal project initially included 14 sites with two sites being withdrawn from consideration and seven sites having sold (Table 1 below refers). A private treaty negotiation is pending the result of the proposed purchasers' development application on one of the sites. Of the four sites remaining, at its meeting held on 19 April 2016 (CJ062-04/16 refers), Council supported the Chief Executive Officer to conduct a public tender process for their disposal.

The contract and tender documentation is being prepared for three of the four properties, as Lot 900 (57) Marri Road, Duncraig (formerly Lots 642 and 643) will not be available for disposal until early 2017.

Concerning the three remaining properties, it is proposed that the disposal of Lot 803 (15) Burlos Court, Joondalup will go to tender in August 2016 and Lot 1001 (14) Camberwarra Drive, Craigie in October 2016. The three lots in Kanangra Crescent, Greenwood which have received the Western Australian Planning Commission's (WAPC) conditional approval to be amalgamated may also be considered for disposal in October 2016 providing the amalgamation process is finalised and the Minister for Planning's approval regarding Amendment No. 78 is also received.

In respect of the City's proposed acquisition of the State Government owned Lot 12223 (12) Blackwattle Parade, Padbury, the Minister for Land's has approved the City's purchase of this site at 5% of its unimproved value.

Table 2 of this Report provides a summarised account of the progress towards the disposal of the remaining freehold sites and the acquisition of Lot 12223 (12) Blackwattle Parade, Padbury.

*It is therefore recommended that Council:*

- 1 *NOTES the status report on the progress of the City's proposed disposal of five freehold land sites;*
- 2 *NOTES that the Chief Executive Officer will report back to Council on the results of each public tender to enable Council to decide which offers are the most acceptable;*
- 3 *NOTES that Council has previously authorised the Chief Executive Officer to secure the City's acquisition of Lot 12223 (12) Blackwattle Parade, Padbury at the purchase price of \$88,000 exclusive of GST;*
- 4 *REQUESTS that on the purchase of Lot 12223 (12) Blackwattle Parade, Padbury, a report is submitted to Council seeking consideration of the initiation of an amendment to District Planning Scheme No. 2 to rezone the site to a commercial related zoning;*
- 5 *NOTES a further status report on the progress of the City's proposed disposal of freehold land and proposed acquisition of a Crown land site will be submitted to the Finance Committee meeting to be held on 10 August 2016.*

## BACKGROUND

The City's freehold land disposal project initially included 14 sites. Lot 181 (4) Rowan Place, Mullaloo (CJ096-05/12 refers) and Lot 971 (52) Creaney Drive, Kingsley (CJ103-06/14 refers) were withdrawn from sale. Table 1 indicates the seven sites that have sold to date.

Except for the site that was sold to Masonic Care WA in Kingsley, Council approved the sale of these properties for the development of 'Aged or Dependent Persons' Dwellings' – or unit developments for people over 55 years of age.

**Table 1 (GST exclusive)**

Property	Date Sold	Sale Price
Lot 200 (18) Quilter Drive, Duncraig.	March 2013	\$1,350,000
Lot 766 (167) Dampier Avenue, Kallaroo.	March 2013	\$1,055,000
Lot 147 (25) Millport Drive, Warwick.	March 2013	\$1,340,000
Lot 613 (11) Pacific Way, Beldon.	March 2013	\$ 700,000
Lot 671 (178) Camberwarra Drive, Craigie.	March 2013	\$ 828,000
Part Lot 549 (11) Moolanda Boulevard., Kingsley.	August 2015	\$1,050,000
Lot 745 (103) Caridean Street, Heathridge.	December 2015	\$ 874,000

## DETAILS

Table 2

	Property Address	Land Disposals – Current Status
1	<p>Lot 200 (24), Lot 201 (22) and 202 (20) Kanangra Crescent, Greenwood.</p> <p>Land Area: 3005m<sup>2</sup>.*</p> <p>Attachment 1 refers.</p> <p>*Approximate land area, once the three lots are amalgamated.</p>	<p>At its meeting held on 31 March 2015 (CJ046-03/15 refers), Council supported the amalgamation of Lot 200 (24), Lot 201 (22) and 202 (20) Kanangra Crescent, Greenwood. The WAPC has conditionally approved the amalgamation and clearance of the conditions is being progressed.</p> <p>Amendment No. 78 to <i>District Planning Scheme No. 2</i> (DPS2) to recode the amalgamated land from R20 to R40 and to restrict the use to 'Aged or Dependent Persons' Dwellings has progressed to the documents being forwarded to the WAPC on 9 March 2016. The WAPC's recent advice is that a report on the amendment has been submitted to the Minister for Planning and a decision is awaited.</p> <p>At its meeting held on 19 April 2016 (CJ062-04/16 refers), Council authorised the Chief Executive Officer to conduct public tenders on four properties, including the three lots in Kanangra Crescent, Greenwood once the lots are amalgamated and Amendment No. 78 is approved by the Minister.</p> <p>Contract of sale documents and Request for Tender documents will be prepared for this property to potentially go out to tender in October 2016.</p>
2	<p>Lot 23 (77) Gibson Avenue, Padbury.</p> <p>Land Area: 5,159m<sup>2</sup>.</p> <p>Attachment 2 refers.</p>	<p>A public tender process was conducted concerning this site with the tenders received being rejected by Council. This resulted in Council, at its meeting held on 18 November 2015 (CJ223-11/14 refers), providing its support to the sale of the site by public auction, or private treaty.</p> <p>The Stephens Group provided an acceptable offer for Lot 23 (77) Gibson Avenue, Padbury which was submitted to Council at its meeting held on 15 September 2015 (CJ163-09/15 refers). Council authorised the Chief Executive Officer to execute the Option to Purchase associated with the contract for a sum of \$2,146,500 inclusive of GST.</p> <p>A condition in the Option to Purchase is that the City agrees to allow a period of up to 150 days for The Stephens Group to undertake its due diligence and site evaluations, which included the lodgement of a development application.</p> <p>The City has received two requests for extensions of time to the Option Period from The Stephens Group. These requests are due to a substantial redesign of the proposed development to take account of planning concerns raised, one of which was the retention of a large tuart tree on the site. The City agreed to the request, taking the Option Period end date to 19 July 2016.</p>

	Property Address	Land Disposals – Current Status
		At the time of writing the report, amended plans related to the development application had not been received.
3	<p>Lot 803 (15) Burlos Court, Joondalup.</p> <p>Land Area: 4,410m<sup>2</sup>.</p> <p>Attachment 3 refers.</p>	<p>Council provided its authorisation to conduct a public tender on this site at its meeting held on 19 April 2016 (CJ062-04/16 refers). It is proposed that contract of sale and Request for Tender documents will be prepared for the tender process to commence during August 2016.</p> <p>The site is zoned Residential with a restricted use to 'Aged or Dependent Persons' Dwellings and it has a density code of R60.</p>
4	<p>Lot 1001 (14) Camberwarra Drive, Craigie.</p> <p>Land Area: 2,055m<sup>2</sup>.</p> <p>Attachment 4 refers.</p>	<p>Council provided its authorisation to conduct a public tender on this site at its meeting held on 19 April 2016 (CJ062-04/16 refers).</p> <p>It is proposed that the contract of sale and Request for Tender documents will be prepared for the tender process to commence during October 2016.</p> <p>The site is zoned Residential with a restricted use to 'Aged or Dependent Persons' Dwellings and has a density code of R40.</p>
5	<p>Lot 900 (57) Marri Road, Duncraig.</p> <p>Land Area: 1,366m<sup>2</sup> when amalgamated.</p> <p>Attachment 5 refers.</p>	<p>Former Lots 642 and 643 (57 and 59) Marri Road, Duncraig have been successfully amalgamated and the site is described as Lot 900 (57) Marri Road, Duncraig; a new Certificate of Title has been received.</p> <p>Amendment No. 82 which restricts the use of the site's 'Residential' zone to 'Aged or Dependent Persons' Dwellings' and amended the code from R20 to R40 is with the WAPC awaiting the Minister's decision. The amendment documents being with the WAPC since 17 March 2016.</p> <p>At its meeting held on 19 April 2016 (CJ062-04/16 refers) Council noted its previous authorisation to dispose of this site. Disposal has been contingent on the vacation of the two tenants operating from the facility on Lot 900 - the Department of Education's Duncraig Pre-Primary service (DoE) and the Department of Health's Duncraig Child Health Centre (CHC) service.</p> <p>It is proposed that the Duncraig CHC service will be relocated to the Carine CHC at Lot 159 (487L) Beach Road, Duncraig once the Beach Road facility has been refurbished at the City's cost. Refurbishment will commence early October 2016 with the Carine CHC service being temporarily relocated to an alternative City facility during this upgrade. Once the works have been completed, both the Carine and Duncraig CHC services will be incorporated in this facility.</p>

	Property Address	Land Disposals – Current Status
		<p>Council has authorised the disposal of this property by public tender and this is likely to take place early in 2017.</p> <p>A Council request is that on disposal of this site, the purchaser is encouraged to retain existing significant trees as part of the development.</p>

		Acquisition – Current Status
1	<p>Lot 12223 (12) Blackwattle Parade, Padbury.</p> <p>Land Area: 3,332m<sup>2</sup>.</p> <p>Attachment 6 refers. .</p>	<p>At its meeting held on 24 June 2014 (CJ104-06/14 refers), Council accepted in-principle the Department of Land's (DoL) concessional purchase price of \$88,000 (exclusive of GST) subject to the outcome of a 30-day public advertising period. The DoL advised the City on 13 May 2016 that the Minister for Lands had approved this acquisition and a contract of sale would be forwarded to the City in due course.</p> <p>During this acquisition process, the DoL advised that the Department of Planning's (DoP) support was required and the DoP's conditional support was provided. One of the DoP's conditions is that the future sale proceeds from this site are spent on community projects in line with the definition of "Community Purposes" under DPS2.</p> <p>The City's community consultation regarding this matter not only dealt with the proposed acquisition of the site but the consideration of three capital improvement projects for the area. One of these options was Council's preferred project of the installation of traffic lights at the intersection of Walter Padbury Boulevard and Hepburn Avenue, Padbury.</p> <p>Advice from the DoP is that projects connected with parking, traffic and pedestrian issues were not considered to fall within the definition of Community Purposes" under DPS2. Additionally, Main Roads WA does not support the installation of traffic lights at the above location and its support is required.</p> <p>Council considered the outcome of the community consultation at its meeting held on 19 May 2015 (CJ082-05/15 refers). The community supported the acquisition and the three community projects, including Council's preferred project of the installation of traffic lights.</p> <p>In accordance with Council's resolution at its meeting held on 24 June 2014 (CJ104-06/14 refers), the City will now seek clarification from the Minister for Planning and the Minister for Lands regarding the conditions provided to the City on how the proceeds on the proposed disposal of the site should be utilised.</p>

		Acquisition – Current Status
		<p>At its meeting held on 19 May 2015 (CJ082-05/15 refers), Council requested that an advocacy plan be developed to gain support from the relevant State Government departments to enable the future sale proceeds for this site be utilised on Council and the community's preferred project which is to install traffic lights at the intersection of Walter Padbury Boulevard and Hepburn Avenue, Padbury.</p> <p>On receipt and execution of the contract of sale by the City, Council can be requested to consider a rezoning amendment.</p>

### Issues and options considered

As detailed in Table 2.

### Multiple Dwellings

It is noted that currently where land is coded R40 or higher, there is the potential for multiple dwellings to be developed in accordance with the provisions of the *Residential Design Codes* (R-Codes). A multiple dwelling is basically defined as one dwelling vertically placed above another dwelling. It is not possible to determine the potential number of multiple dwellings that could be achieved on sites coded R40 or higher.

### Legislation/Strategic Community Plan/Policy Implications

**Legislation** Sections 3.58 and 3.59 of the *Local Government Act 1995*, together with the *Local Government (Functions and General) Regulations 1996* determine how a local government may dispose of property.

### Strategic Community Plan

**Key theme** Quality Urban Environment.

**Objective** Quality built outcomes.

**Strategic initiative** Buildings and landscaping is suitable for the immediate environment and reflect community values.

**Key theme** Financial Sustainability.

**Objective** Financial diversity.

**Strategic initiative** Identify opportunities for new income streams that are financially sound and equitable.

**Policy**

- *Asset Management Policy.*
- *Sustainability Policy.*

### Risk management considerations

Disposal of property needs to comply with the requirements of sections 3.58 and 3.59 of the *Local Government Act 1995*, which are designed to ensure openness and accountability in the disposal process.



It is possible that the reserve price as per the market valuations obtained may not be realised and the City needs to determine reserve prices below which it will not sell.

The recommendations for disposal are based on a combination of the best financial return, planning outcomes and community benefit.

The proposed changes to the land use for some of the lots being considered for disposal may result in resident dissatisfaction.

Based on the conditions and comments provided by State Government departments to date with regard to the City's acquisition of Lot 12223 (12) Blackwattle Parade, Padbury, this proposal may not proceed in accordance with Council's and the community's preference.

### **Financial / budget implications**

Council has agreed that the proceeds from the sale of freehold land are to be transferred to the Joondalup Performing Arts and Cultural Facility Reserve Fund.

Proceeds achieved from the future sale of Lot 12223 (12) Blackwattle Parade, Padbury are required to be spent on capital/community projects in line with the definition of "Community Purposes" under DPS2.

The associated main expenditure costs related to the City's disposal of freehold land are legal and settlement fees, advertising costs, valuation costs, land surveying and costs related to subdivision/amalgamations.

### **Regional significance**

Not applicable.

### **Sustainability implications**

The disposal of City freehold land that has been set aside for community use should not be disposed of without there being a nominated purpose addressing a community need.

Concerning the freehold land disposal project to date, Council has supported the restricted use of aged or dependent persons' dwellings providing alternative housing choices for the City's ageing population. The sale proceeds from the eventual disposal of Lot 12223 (12) Blackwattle Parade, Padbury will be used for community projects.

### **Consultation**

Regarding consultation, public auction, public tender and private treaty methods have been used with regard to the City's land disposal project. Advertising is a requirement with all three methods unless, in respect of private treaty, the disposal is exempt under Regulation 30 of the *Local Government (Functions and General) Regulations 1996*.

The statutory public advertising period of 42 days for amendments to DPS2 is generally when the community was first able to make a submission on proposed land disposals.

The City has the option to consult with residents using the process outlined in its *Community Consultation and Engagement Protocol* which was used for the consultation on the proposed acquisition of Lot 12223 (12) Blackwattle Parade, Padbury.

## COMMENT

Public tenders will be called for the disposal of Lot 803 (15) Burlos Court, Joondalup during August 2016 with Lot 1001 (14) Camberwarra Drive, Craigie planned to go to tender during October 2016. Should the amalgamation and amendment processes be finalised for the three sites in Kanangra Crescent, Greenwood, by October 2016, this site can also go out to tender.

The Minister for Lands has approved the City's acquisition of Lot 12223 (12) Blackwattle Parade, Padbury at the concessional rate of \$88,000 exclusive of GST. Once the site is in the City's ownership, a report can be prepared for Council to consider the site being rezoned to a commercial type zone. In order to adhere with previous Council resolutions, actions related to communicating with State Government Departments on how the City can utilise the sales proceeds will also commence.

## VOTING REQUIREMENTS

Simple Majority.

### MOVED Cr Dwyer SECONDED Cr Poliwka that Council:

- 1 **NOTES the status report on the progress of the City's proposed disposal of five freehold land sites;**
- 2 **NOTES that the Chief Executive Officer will report back to Council on the results of each public tender to enable Council to decide which offers are the most acceptable;**
- 3 **NOTES that Council has previously authorised the Chief Executive Officer to secure the City's acquisition of Lot 12223 (12) Blackwattle Parade, Padbury at the purchase price of \$88,000 exclusive of GST;**
- 4 **REQUESTS that on the purchase of Lot 12223 (12) Blackwattle Parade, Padbury, a report is submitted to Council seeking consideration of the initiation of an amendment to *District Planning Scheme No. 2* to rezone the site to a commercial related zoning;**
- 5 **NOTES a further status report on the progress of the City's proposed disposal of freehold land and proposed acquisition of a Crown land site will be submitted to the Finance Committee meeting to be held on 10 August 2016.**

**The Motion was Put and**

**CARRIED (5/0)**

**In favour of the Motion:** Cr McLean, Mayor Pickard, Crs Dwyer, Norman and Poliwka.

*Appendix 5 refers*

*To access this attachment on electronic document, click here: [Attach5agnFINANCE160608.pdf](#)*

**URGENT BUSINESS**

Nil.

**MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil.

**REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION**

Nil.

**CLOSURE**

There being no further business, the Presiding Member declared the meeting closed at 8.45pm; the following Committee Members being present at that time:

Cr Tom McLean, JP  
Mayor Troy Pickard  
Cr Russell Poliwka  
Cr Mike Norman  
Cr Sophie Dwyer