

Minutes

# Strategic Financial Management Committee

MEETING HELD ON WEDNESDAY 11 FEBRUARY 2009

---

# CITY OF JOONDALUP

## MINUTES OF THE STRATEGIC FINANCIAL MANAGEMENT COMMITTEE MEETING HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON WEDNESDAY 11 FEBRUARY 2009

### ATTENDANCE

#### Committee Members:

Cr Geoff Amphlett	Presiding Person	Central Ward
Cr Russ Fishwick	Deputy Presiding Person	South Ward
Mayor Troy Pickard		
Cr Tom McLean		North Ward

#### Officers:

Mr Garry Hunt	Chief Executive Officer
Mr Mike Tidy	Director Corporate Services
Mr Mike Archer	City Projects Administrator
Mrs Janet Foster	Administrative Services Coordinator

### DECLARATION OF OPENING

The Presiding Person declared the meeting open at 1824 hrs.

### APOLOGIES/LEAVE OF ABSENCE

Apologies	Cr Michele John
	Cr Brian Corr

### CONFIRMATION OF MINUTES

#### MINUTES OF THE STRATEGIC FINANCIAL MANAGEMENT COMMITTEE MEETING HELD ON 26 FEBRUARY 2008

**MOVED Cr Fishwick SECONDED Cr McLean that the minutes of the meeting of the Strategic Financial Management Committee held on 26 February 2008 be confirmed as a true and correct record.**

The Motion was Put and

**CARRIED (4/0)**

In favour of the motion: Crs Amphlett, Fishwick and McLean, Mayor Pickard

### ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

Nil

**DECLARATIONS OF INTEREST**

Nil

**IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY SIT BEHIND CLOSED DOORS**

Nil

**PETITIONS AND DEPUTATIONS**

Nil

**REPORTS**

**ITEM 1                    CONFIDENTIAL REPORT                    -                    20 YEAR  
STRATEGIC FINANCIAL PLAN REVIEW                    -  
[52582] [51567]**

**WARD:**                    All

**RESPONSIBLE  
DIRECTOR:**                    Mr Mike Tidy  
Corporate Services

---

**PURPOSE**

For the Strategic Financial Management Committee to consider and recommend to Council the endorsement of the review of the 20 Year Strategic Financial Plan.

**EXECUTIVE SUMMARY**

The 20 Year Strategic Financial Plan is due for review by the Strategic Financial Management Committee. The previous Plan was adopted in 2006. The previous Plan projected the City's financial position for 20 years using the 2006/07 budget as the base year for projections.

The Plan has been extensively reviewed to bring the base year up to date and to incorporate revised projections. These projections recognise decisions and proposals considered by Council since the 2006 Plan and are also based on more accurate and up to date asset condition data that is now available.

The projections plot two scenarios. One scenario is based on existing assets only and the required refurbishment and improvement of these to maintain them. The other scenario incorporates projected new capital assets in addition to the refurbishment and improvement of existing assets.

In both cases the scenario projects substantial and increasing cash deficits in the first twelve (12) years which then plateau and reduce. In both cases these projections are based on the proceeds from land sales at Tamala Park being quarantined.

These results are predicated on a series of assumptions which are dealt with in the report.

*It is recommended that the Strategic Financial Management Committee:*

- 1 *NOTES the principles, estimates and explanatory notes supporting the reviewed Strategic Financial Plan 2008/09 – 2027/28 forming Attachments 1 and 2 to this Report;*
- 2 *Further CONSIDERS the financial parameters on which the reviewed Strategic Financial Plan 2008/09 – 2027/28 is based.*

## **BACKGROUND**

The existing Strategic Financial Plan was adopted by Council in June 2006. The Plan set out projections over a 20 year timeframe however primary focus was on the first five years. At the time the Plan was used to meet the requirements of Section 5.56 of the Local Government Act 1995 which requires in part that –

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

The Plan was advertised for public comment and six submissions were received.

Since the preparation of that Plan, changes in the financial position of the City, the asset condition data that is now available and various subsequent decisions that have been made in relation to projects mean the Plan requires review.

In relation to the requirements of Section 5.56 of the Local Government Act these are now met by the City's Strategic Plan 2008 - 2011 adopted by Council in March 2008. The 20 Year Strategic Financial Plan is a supporting planning tool to the Strategic Plan.

## **DETAILS**

Before considering the detail of the report there is a disclaimer that needs to be made.

### *Disclaimer*

*The 20 Year Strategic Financial Plan is a planning tool. It is based on many assumptions. It also includes 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. Endorsement by Council of the 20 Year Strategic Financial Plan does not constitute a commitment or agreement to any of the projects or proposals that have not already been approved.*

Since the 2006 Plan the City has made decisions or is progressing to a point of making decisions in relation to assets and services that now need to be included in the projections. For example the 50 metre pool at Craigie Leisure Centre and the introduction of paid parking were not covered in the first five years of the original Plan. The original Plan used as a base year the 2006/07 Budget. The financial position has changed and the base year now needs to be reset at the 2008/09 Budget. Also since the original Plan there has been significant data gathering and development of the City's database in relation to existing asset condition. While still not complete the information in relation to the City's assets is now better known and understood and more reliable than was the case at the time of the 2006 Plan.

In the process of reviewing the 20 Year Strategic Financial Plan the following has occurred:

- Consultation with City Officers in relation to projects, proposals and projections.
- The baseline starting year has been updated to the 2008/09 budget.
- Projects that the City has committed to since the previous Plan or which have some likelihood of being committed to have been incorporated into the Plan.
- All asset refurbishment and improvement projections have been reviewed and revised based on current known asset condition data and where current expenditure levels are not sufficient to achieve effective asset refurbishment and improvement the projections include increases to meet this objective.

The overall projections going forward have been based on a number of fundamental assumptions.

The baseline assumptions for average percentage increases in revenues and expenses over the life of the Plan have taken account of the current economic climate. They assume a worsening situation in 2009/10 with a modest recovery in 2010/11 and better conditions subsequently. The assumptions are as follows –

	<u>Assumption</u>	<u>2009/10</u>	<u>2010/11</u>	<u>Beyond</u>
1.	Rates	3.0%	3.5%	4.5%
2.	Interest rates for investment earnings	3.25%	3.75%	5.0%
3.	Fees and charges	3.0%	3.5%	3.5%
4.	General purpose grants	3.0%	3.0%	3.0%
5.	Employee costs	5.0%	3.0%	4.0%
6.	Other operating expenditure	4.0%	4.0%	4.0%

Other assumptions incorporated in the projections are –

- 1 On and off street parking fees based on the existing implementation have been treated the same as other fees and charges and calculated on 4% increases, however, in addition revenue has been factored in from the projected provision of multi storey car parking. This revenue is identified separately in the Plan and is linked to the projected timeframes for the construction of these facilities.

- 2 Government grants have been broken into two parts. Those grants that would normally be expected based on the City's current activities and these include the projected 3% increases. The others are new grants that relate to specific individual projects that have been projected to occur at different points over the life of the 20 Year Strategic Financial Plan. These new grants are once offs occurring in particular financial years or split over a couple of years and there is no growth factor or continuing grant income in relation to these.
- 3 The City has a small number of existing loans and has budgeted in 2008/09 for some additional loan borrowing. The repayment of interest and principal on these existing loans and projected 2008/09 loans has been included into the forward projections but there have been no other loan borrowings factored in.
- 4 The City anticipates receiving substantial revenues from land sales resulting from its participation in the development of Tamala Park. The projections for the 20 Year Strategic Financial Plan are predicated on the basis that all of these funds will be placed in reserve.

The overall summary of the 20 Year Strategic Financial Plan is included as Attachment 1. It includes two graphs at the bottom, one of which represents the net cash position if new capital projects are included and the other represents the net cash position if new capital projects are not included. It should be noted that these projections are all cash based and represent the projected municipal fund cash surpluses/deficits.

A summary of the projected balance of reserve funds is included at the bottom of the table of financial projections but are not included in the net operating position figures or reflected in the graphs. It should be noted that in the case of the net cash position without new capital projects, the reserve fund balances exceed the cash deficits for the first 10 years of the projected Plan. In years 11 and 12, however, the net cash position exceeds the projected reserve fund balance before it changes back again from year 13. The net cash projections and balance are cumulative. Similarly, in relation to the net cash position with new capital projects for the first four years from 2009/10 reserves exceed the deficits however from that point onwards the net cash deficits exceed the reserve funds and by a substantial amount.

The summary at Attachment 1 shows from the top of the table the income projections for 20 years represented by note numbers 1-10 followed by the operating expenditure projections numbered 11-16 (please note that although depreciation is listed for the purposes of information all projects are cash based and these figures are reversed out in the totals). This results in a net operating result. Capital then follows numbered 17-20. The capital is broken up into existing capital and new capital with loan repayments (principal) shown separately. Below capital numbered 21-26 are the cumulative brought forwards, transfers to and from reserves, proceeds from land sales at Tamala Park, the sale of other assets and borrowings.

As previously mentioned the borrowings only reflect existing and 2008/09 budgeted borrowings. The only asset sales in the projections are land sales at Tamala Park and the disposal of plant and equipment as it is changed over. All of the proceeds of Tamala Park are projected to be transferred to reserves.

The existing capital programme and the new capital programme calculations are derived from calculations sheets not provided with this report.

Attachment 1 is supported by explanations and notes that relate to the overall summary document. These are included as Attachment 2. These provide a description and explanation of each line item in the Attachment 1 summary. In addition they provide a summary that highlights the major variations between the financial years and identifies the key projects that cause those variations.

**Issues and options considered:**

A broad range of assumptions have been made in relation to putting together the financial projections as explained in the Details section above. Any one of these assumptions could be modified and in combination there are many permutations. In terms of the basic underlying assumptions related to the percentage increases, any variation to these can potentially have a major impact on the projections because there is a compounding effect over the 20 year life of the projections. The percentage projections have been made relatively conservatively and it is felt that this is the most appropriate approach.

There are a number of philosophical issues that should be considered in the context of the 20 Year Strategic Financial Plan projections although they have not been included at this stage.

These include:

Rationalisation of Assets

The projections do not include any projections related to the potential rationalisation of assets. This is in line with adopting a conservative approach. The projections therefore include refurbishment and improvement of all existing assets.

It is fairly clear that in going forward the City will need to consider the rationalisation of assets and there are a number of opportunities that will present to enable this to happen. One primary example is the master planning for Percy Doyle Reserve, which is included in the forward projections but does not reflect any demolition or reduction in the number of existing building assets.

Rationalisation of facilities is always a contentious issue and requires significant community engagement. Dealing with the issues of the perceived loss of existing exclusive space and finding uses that are compatible to share space is a major challenge.

Tamala Park Land Sale Proceeds

As indicated in the assumptions, the projections at this point have been predicated on the basis that all proceeds from Tamala Park will be placed into reserve, effectively quarantined. While it is intended that these reserve funds be used for specific purposes, these purposes have not been identified and the projections do not reflect any transfers from this reserve. There needs to be a framework developed that identifies the types of purposes or uses to which these funds may be applied. The proceeds from land sales, while a significant revenue stream over a projected nine year period, represents a one off opportunity as the land can only be sold once.

The best use of funds from the realisation of an appreciating asset (land) would be to create or acquire another appreciating or income producing asset. The nature of this

business is such, however, that there would be limited opportunities that would meet this criteria subject to how they might be interpreted. For example does income producing mean those assets generate all the income that is required to sustain their ongoing use and maintenance or could it include those assets which will generate a significant income stream although not enough to sustain their ongoing use and maintenance.

In considering what might constitute an income stream there probably also needs to be some wide criteria. Fees, charges, rents, leases, associated parking revenues etc derived directly from the asset development are obvious inclusions. The economic development multiplier effect that might drive future rate revenue or future paid parking growth should not be ignored.

Based on these considerations possible criteria for the use of the Tamala Park land sale proceeds are:

- First priority to assets capable of producing an income stream sufficient to completely sustain those assets.
- Second priority to assets capable of producing an income stream although not sufficient to completely maintain those assets.
- An income stream to include direct income from fees, charges, rents, leases, associated parking revenues etc and indirect income from economic development subject to this being supported by an economic analysis and assessment.
- Sale proceeds not to be utilised for the development and creation of any asset that will not result in an income stream.

Should Council wish to consider the possibility of using some of the Tamala Park land sale proceeds for assets that would not result in an income stream then there would need to be some very tight parameters around this use. Without this, and once precedents were set, there would be risks that over time the funds would be consumed for these purposes. Parameters could include identifying specific purposes and also putting a cap or a ceiling on the percentage of the land sale proceeds that could be used for that kind of purpose.

### Loans

As discussed in the Details above, the current projections only include loan funds insofar as they already exist or are planned in the 2008/09 financial year. The projections do not make any provision for loan borrowings in the future. Clearly from the net results of the projections and after taking into account all of the proceeds from the Tamala Park land sales the City's projections show that there are insufficient funds to meet all of its needs. The City needs to consider the potential use of loan funds and how these might be best applied.

Ideally loan funds should be applied in a manner not too dissimilar to the discussion around the use of the Tamala Park land sale proceeds ie in situations where there is likely to be an income stream, generated. In funding terms there is greater flexibility with loans to tailor them to a project's timetable since loans can be taken out at any time. Using reserve funds requires these to be accumulated before they are available to be used on a project. On the down side, however, a loan adds a cost to running the asset and the income stream not only has to sustain the asset but meet interest and principal repayments.

It is acknowledged that using these criteria limits the potential application of the use of loan funds but nevertheless there are some situations in the forward projections where this criteria could be met. In particular the forward projections include provision for the construction of multi storey car parks which are expected to generate car parking fees. These represent an excellent example of where the loan funds could be applied with the income stream potentially being sufficient to sustain the asset and meet loan repayments. The recently implemented paid parking program is budgeted to be funded from loan.

Should the Council wish to consider the possibility of using loans it is felt that a determination should be made that the City will embrace loan borrowings but only in those situations where there is an income stream generated sufficient to sustain the asset and meet the loan repayments.

### Strategic Issues

At the strategic weekend held earlier in the year there was some philosophical discussion of some key high level issues. Two of these do have some potential financial implications but no provision has been made in the 20 Year Strategic Financial Plan. These are the possible handover of Arena to the City of Joondalup and the development of a building in the CBD on City of Joondalup land.

While clearly these two issues are in the City's thinking at this point, how these events might be financially structured is not known other than that there is a strong desire for them to be self funding or cost neutral. It is on this basis that they have not been included in the Plan.

### **Link to Strategic Plan:**

1.3.2 The City maintains a long-term Strategic Financial Plan which is reviewed regularly.

### **Legislation – Statutory Provisions:**

Section 5.56 of the Local Government Act 1995 provides that -

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

The 20 Year Strategic Financial Plan is an integral part of the City's planning for the future.

### **Risk Management considerations:**

The 20 Year Strategic Financial 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 Strategic Financial Plan by virtue of endorsing it. Periodic review and update of the 20 Year Strategic Financial Plan will ensure that it remains a relevant and useful document to manage the City's financial affairs into the future.

### **Financial/Budget Implications:**

The 20 Year Strategic Financial Plan represents projections and estimates based on many assumptions and is a planning tool. Endorsement of the 20 Year Strategic

Financial Plan does not constitute a commitment or agreement by the City to the projects and proposals or the projections included in the Plan.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

The 20 Year Strategic Financial Plan represents the primary and key financial planning document for the City and has a direct bearing on planning for the financial sustainability of the City.

**Consultation:**

The 20 Year Strategic Financial Plan has been prepared after consulting with City staff.

**COMMENT**

The original 2006 Plan has been reviewed and significantly updated with a new base year of 2008/09 and revised projections and estimates for the 20 year lifespan of the plan. It is based on known revenue and expenditure estimates, existing or expected Council commitments and projections for what is required in relation to the refurbishment and improvement of existing assets and the development of new capital assets. It is important to appreciate that it includes many assumptions. It is possible that these assumptions could prove to be inaccurate or may not come to pass at all. It will continue, therefore, to be reviewed, updated and reassessed into the future.

The key purpose of the 20 Year Strategic Financial Plan is as a long term planning tool and is an overall guide to the financial sustainability of the City. It provides a point of reference against which debate about future projects and proposals and their implications can be assessed and measured.

**ATTACHMENTS**

- |              |   |
|--------------|---|
| Attachment 1 | 20 Year Strategic Financial Plan Summary                |
| Attachment 2 | 20 Year Strategic Financial Plan Explanations and Notes |

**VOTING REQUIREMENTS**

Simple Majority

## **OFFICER'S RECOMMENDATION**

That the Strategic Financial Management Committee:

- 1 NOTES the principles, estimates and explanatory notes supporting the reviewed Strategic Financial Plan 2008/09 – 2027/28 forming Attachments 1 and 2 to this Report;
- 2 Further CONSIDERS the financial parameters on which the reviewed Strategic Financial Plan 2008/09 – 2027/28 is based.

The Director Corporate Services provided an overview of the report. Discussion ensued.

**MOVED Cr Fishwick SECONDED Cr McLean that the Strategic Financial Management Committee**

- 1 **NOTES the reviewed Strategic Financial Plan 2008/09 – 2027/28 forming Attachments 1 and 2 to this Report;**
- 2 **REQUESTS a further version of the Strategic Financial Plan 2008/09 – 2027/28 be prepared which factors in economic cycles based on past history;**
- 3 **as a minimum, RECONSIDERS the Strategic Financial Plan on an annual basis in February each year.**

**The Motion was Put and**

**CARRIED (4/0)**

**In favour of the motion:** Crs Amphlett, Fishwick and McLean, Mayor Pickard

## **ITEM 2                    DIRECTIONAL/ADVERTISING SIGNS TO BE INSTALLED ON CITY STREET SIGNS – [06004]**

**WARD:** All

**RESPONSIBLE  
DIRECTOR:** Mr Ian Cowie  
Governance and Strategy

---

### **PURPOSE**

To seek the views of the Committee on the proposal to allow street signs within the City to have approved advertising installed.

## **EXECUTIVE SUMMARY**

This report suggests that, on balance, allowing street sign advertising at certain key locations throughout the City should be progressed.

## **BACKGROUND**

To examine alternate revenue streams for the City, the concept of allowing advertising to be installed on City owned street signs was suggested.

A number of other local governments have a contract with an external agent to allow advertising to be installed on street signs generally in the form of an illuminated street sign with an associated message. An example is shown at Attachment 1.

The City has a similar contract with an external agent that allows for advertising to be installed on various bus shelters. Advertising must conform to agreed guidelines.

## **DETAILS**

### **Issues and options considered:**

The proposal is for the City to enter into a contract to allow for designated street signs to have an illuminous street sign and associated advertising message installed. These signs would be managed by the external agent in return for revenue paid back to the City. It is: -

- estimated that the City could accommodate up to 50 advertising units;
- estimated that each sign has a limit of 2sqm of advertising area;
- anticipated that the contract would be a 10 year plus 10 year option;
- an option for the City to be compensated with installation of infrastructure rather than fees for advertising;
- suggested that where advertising space is not sold, then community messages could be installed.

It is understood that should the signs be defaced or smashed, they will be repaired or replaced quickly by the external agent managing the contract. This element will be explored with potential suppliers should Council decide to progress with the concept. The bus shelter contract contains a similar provision.

The options available to the Council would be to: -

- not allow any street sign advertising to occur within the City;
- allow certain street sign at key intersections within the City to have street sign advertising (Beach Road, Warwick Road, Hepburn Avenue, Whitfords Avenue, Ocean Reef Avenue, Hodges Drive, Shenton Avenue, Burns Beach Road, Joondalup Drive are likely options).
- allow all street signs within the City to have the potential to have street signs that carry an advertising message.

### **Link to Strategic Plan:**

Not applicable

**Legislation – Statutory Provisions:**

Any signage would need to comply with the relevant requirements of Main Roads WA, or the City's Signs Local Law.

**Risk Management considerations:**

The risk of not examining alternate revenue streams increases the burden and reliance on rate revenue to provide for the City's services and programs.

**Financial/Budget Implications:**

The City currently derives approximately \$100,000 a year in revenue for its contract relating to bus shelter advertising. It is difficult to determine the expected revenue if street sign advertising were allowed, but it would not be unreasonable to derive a similar figure, dependent on number of locations.

**Policy Implications:**

Not Applicable.

**Regional Significance:**

Not Applicable.

**Sustainability Implications:**

Not Applicable.

**Consultation:**

Not Applicable.

**COMMENT**

There are a number of local governments that currently have an arrangement to allow such street sign advertising at various locations through the district.

The City has a similar contract for its bus shelters. Allowing street sign advertising within certain locations within the City could be determined as an extension to this. Opening all street signs to advertising is not considered appropriate because of the visual impact it could have. It is also likely that advertisers would only want signs on key roads. It is suggested that such signs not be allowed in the City centre itself to minimise the visual impact there. The actual areas where advertising signage should be allowed will be determined further should Council decide to progress the concept.

**ATTACHMENTS**

Attachment 1      Example signs

**VOTING REQUIREMENTS**

Simple Majority

## OFFICER'S RECOMMENDATION

That the Strategic Financial Management Committee RECOMMENDS that Council:

- 1 SUPPORTS:
  - (a) the principle of allowing street sign advertising;
  - (b) that no such signs be allowed in the Joondalup City Centre;
  - (c) that the actual streets where such signage would be allowed be determined once the 'in principle' decision is made;
  - (d) that any contract entered into for street sign advertising include a clause requiring the rapid replacement/repair of damaged or broken signs;
  - (e) that the advertising allowed conforms to guidelines similar to those which apply to advertising on bus shelters;
- 2 subject to agreement to 1(a) above, REQUESTS the Chief Executive Officer to invite tenders from suitably qualified organisations.

The Chief Executive Officer provided an overview of the report. Discussion ensued. The Committee requested that this matter be referred back for further investigation, in particular to the types of signs used in Claremont, with a further report being presented to the Committee that also gives consideration to sponsorship opportunities.

## **ITEM 3            CONFIDENTIAL REPORT - COMMERCIAL OFFICE DEVELOPMENT            FEASIBILITY ANALYSIS – [09095, 70512]**

**WARD:** All

**RESPONSIBLE** Mr Ian Cowie  
**DIRECTOR:** Governance and Strategy

---

## PURPOSE/EXECUTIVE SUMMARY

For the Committee to consider the report of consultants Jones Lang LaSalle in relation to the feasibility of constructing a commercial office building on the carpark next to the City's administration building. The consultant's report suggests that such a building would not be viable using commercial rates of return.

## **BACKGROUND**

For some time now there has been general talk about the potential to construct a commercial office building on the carpark next to the City's Administration Building (Attachment 1). This matter was considered at the Elected Members Strategic Weekend held in May 2008. This consideration led to the following Council resolution in July 2008 that: *"Development of a high rise commercial office space within the CBD on Council owned land is supported under the following conditions:*

- *Development should be iconic;*
- *Review the adequacy of the administration building; and*
- *Would require a business plan"*.

Historically this carpark land was designated for a cultural facility which was to be built over a sunken carpark. However, this use has now been superseded with the City's acquisition of land facing onto Grand Boulevard (next to the TAFE Hospitality Training Centre) specifically for this purpose. Consequently, Council now has the opportunity to determine the future purpose of the undeveloped land, currently used for a carpark, on Boas Avenue.

Jones Lang LaSalle were commissioned to consider the feasibility of developing a commercial office building on this site. An initial analysis was prepared in May/June 2008 which is the primary date of assessment; however with the onset of the economic financial crisis the report has been updated to reflect Perth's commercial market. The changes have seen a worsening of the financial prospects due to sales revenue falls, increased construction costs and more competition as a result of surplus office space.

## **DETAILS**

Jones Lang LaSalle have now presented their final report into the feasibility of constructing a commercial office development on the carpark site (Attachment 2).

The report:

- Analyses relevant provisions within the City Centre Development Plan and Manual;
- Provides a broad overview of the economy to set the scene;
- Considers the commercial office market in the Perth CBD and its performance;
- Considers five suburban commercial office markets and compares them to Joondalup;
- Provides an overview of the Joondalup market; and
- Analyses four options for the development of a commercial building on the carpark site.

In terms of the final dot point, Jones Lang LaSalle were asked to consider the potential for an 8-10 storey office building. The consultants introduced two lower, campus style developments into the analysis to provide a comparison of feasibility with an office tower. The four options analysed are therefore:

- A two storey campus style development (the cheapest option);
- A four storey campus style development (slightly higher development costs);
- An eight storey tower configuration; and

- An eight storey tower development which is green star rated.

The analysis concludes that the development is not feasible based on normal market return requirements.

The report notes that a 10% reduction in construction costs has significant implications for feasibility and that residential development in an office block at the penthouse level would improve financial viability. It is also noted that “based on present forecasts, the longer this development is left to bring to fruition, the less viable it will become” (page 76).

The Jones Lang LaSalle report only considers feasibility from a commercial financial basis. As the report notes on page 79, the City is not a normal commercial developer and there are several factors which can influence the financial viability for an organisation such as a local government. These include:

- The site value

Here the report values the site at \$5.9 million. This is an important consideration for a private sector commercial developer. However, the City owns this land and has not spent \$5.9 million purchasing it for development. Its current return is negligible and this will continue, even with the introduction of paid parking. Consequently, it could be argued that while the \$5.9 million figure for site value is a crucial element in any financial assessment for a private sector commercial developer, it is not so in this case for the City. In the report a further model is run for December 2008 and the land value of the site has been removed for comparative purposes. In this model the nil land value scenarios improve ‘viability’ with scenario 1 now at ‘market’ levels. This comparison does not account for the opportunity cost of the value of the land and should therefore be used with caution.

- Rental income

When a private sector commercial developer builds an office block, the developer will receive rental income while it holds the building. Should the City construct the office building, it will also receive rental income. However, in addition it will receive the rates generated from the development. This is not the case for the private developer. Rates for a floor area of approximately 15,000 sqm are expected to be in the vicinity of \$400,000.

- The multiplier effect

A private developer is interested in commercial return. The developer has no direct interest in external multipliers associated with the development. This is not the case for the City. Much of what the City does is undertaken to enhance the amenity, the environment or the economy of the City. Consequently, the multiplier effect associated with the construction of a commercial office building is relevant for the City to consider in relation to such a development.

Attachment 3 identifies the multiplier effects of establishing a 15,000sqm commercial office building. The analysis is based on 750 jobs being supported by the development. Such an increase in jobs is expected to increase output by \$197 million directly and by \$367 million overall when further multipliers are added. The 750 jobs directly created are expected to inflate to 1,412 in total

when multiplier effects are added. Attachment 3 shows how the flow on benefits will be achieved within the Joondalup City Centre and the Joondalup economy as a result of such a development.

**Issues and options considered:**

The Committee could recommend to Council that:

- The City progresses the concept of a commercial office development via further due diligence; or
- The City abandons the concept of a commercial office development.

**Link to Strategic Plan:**

- 3.1 To encourage the development of the Joondalup CBD.
- 3.2 To increase employment opportunities within the City.
- 4.2.3 Facilitate the development of landmark buildings within the City Centre.

**Legislation – Statutory Provisions:**

Not applicable.

**Risk Management considerations:**

There are significant risks associated with undertaking any project of this nature. There are no significant risks associated with undertaking feasibility analyses.

**Financial/Budget Implications:**

These are explained in the report from Jones Lang LaSalle and the report on multiplier effects. The construction of a commercial building on the fee paying car park will generate some opportunity costs in terms of lost revenue. Should construction cover two years, two years of parking revenue will be lost. Based on initial car park takings, it is expected that approximately \$60,000 will currently be foregone if the car park is closed for the development over the two year period. Those currently parking in the car park should be able to find alternative parking under the paid parking arrangements which have moved commuter parking from the centre City area.

**Policy implications:**

This report advances the City's strategic position in relation to CBD land.

**Regional Significance:**

A commercial office development will have regional significance and act as a major regional employment node.

**Sustainability implications:**

There are sustainability implications associated with this project. Depending upon the way the project progresses, these implications will be economic, social and environmental.

**Consultation:**

Not applicable.

**COMMENT**

For Committee members to consider whether they wish to support the progression of the concept of a commercial office development based on the feasibility analysis from Jones Lang LaSalle and the additional comments provided in this report. If the decision is taken to progress the concept to a more detailed feasibility phase, for the Committee to consider which of the four options presented by Jones Lang LaSalle they would like to pursue and whether an element of residential could/should be included in any development.

Alternatively a further option exists including the ability to explore taking the proposed project directly to the Property Development Market via an expression of interest process to test the viability of the assumptions in the consultants report.

**ATTACHMENTS**

- Attachment 1 Map of proposed site
- Attachment 2 Report from Jones Lang LaSalle
- Attachment 3 Economic Impact Report

**VOTING REQUIREMENTS**

Simple Majority.

**OFFICER'S RECOMMENDATION**

For Strategic Financial Management Committee members to consider the Jones Lang LaSalle report and determine whether they wish to support progression of the concept and, if so, in what general form.

The Chief Executive Officer and the City Projects Administrator provided an overview of the report. Discussion ensued.

**MOVED Cr McLean SECONDED Cr Fishwick that the Strategic Financial Management Committee:**

- 1 **NOTES** the report from Jones Lang LaSalle dated December 2008 detailing the feasibility of a commercial development in Boas Avenue, Joondalup;
- 2 **REQUESTS** the Chief Executive Officer to prepare a further report on:
  - (a) **options for development of City-owned landholdings in the City Centre;**

- (b) parameters for development of designated City Centre commercial sites.

**The Motion was Put and**

**CARRIED (4/0)**

**In favour of the motion:** Crs Amphlett, Fishwick and McLean, Mayor Pickard

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

Nil

**REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION**

**Asset rationalisation opportunities**

Mayor Pickard requested that information be provided to the committee on asset rationalisation opportunities.

**Strategic Directions Report**

The Chief Executive Officer advised that the Strategic Directions Report will be provided as an attachment to future Committee agendas.

**CLOSURE**

There being no further business, the Presiding Person declared the Meeting closed at 2003 hrs; the following Elected members being present at that time:

Cr Geoff Amphlett  
Mayor Troy Pickard  
Cr Russ Fishwick  
Cr Tom McLean