

**City of Salisbury**  
Section 48 Prudential Report  
**Walpole Road Stage 3**  
**Project**

September 2015





Disclaimer: This document is for the exclusive use of the person named on the front of this document (**'Recipient'**). This document must not be relied upon by any person who is not the Recipient. BRM Holdich does not take responsibility for any loss, damage or injury caused by use, misuse or misinterpretation of the information in this document by any person who is not the Recipient. This document may not be reproduced in whole or in part without permission.

Liability limited by a scheme approved under Professional Standards Legislation.

**BRM HOLDICH**  
**BUSINESS RESOURCE MANAGEMENT**

**Level 8, 420 King William Street, Adelaide SA 5000**  
**Tel 08 8168 8400 Fax: 08 8168 8499**

ABN: 79 392 957 230

## Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>I</b>
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Background.....	1
1.2 Rationale .....	2
1.3 The Project .....	2
1.4 Legal Framework and Prudential Issues.....	3
<b>2. RELATIONSHIP WITH RELEVANT STRATEGIC MANAGEMENT PLANS .....</b>	<b>6</b>
2.1 Relevant Strategic Management Plans.....	6
2.2 Salisbury City Plan 2020 – Sustainable Futures .....	6
2.3 Annual Plan 2015/16; .....	8
2.4 Long Term Financial Plan .....	8
2.5 Asset Management Plan.....	9
2.6 Landscape Plan .....	9
2.7 Regional Objectives.....	9
2.8 South Australian State Objectives.....	10
2.9 National Objectives .....	11
<b>3. OBJECTIVES OF THE DEVELOPMENT PLAN.....</b>	<b>12</b>
3.1 Development Approval .....	12
3.2 Development Zone.....	13
3.3 Approving Authority .....	13
<b>4. ECONOMIC DEVELOPMENT .....</b>	<b>14</b>
4.1 Contribution to Economic Development.....	14
4.2 Economic Impact of Civil Works.....	15
4.3 Economic Impact of House and Land Packages .....	16
4.4 Overall Impact of Walpole Road Stage 3 Project.....	17
4.5 Impact on Business in the Proximity .....	17
4.6 Fair Competition .....	17
<b>5. COMMUNITY CONSULTATION.....</b>	<b>19</b>
5.1 Level of Consultation .....	19
5.2 Community Influence and Contribution .....	22
<b>6. FINANCIAL ASSESSMENT .....</b>	<b>23</b>
6.1 Revenue Production, Revenue Projections and Potential Financial Risks .....	23
6.2 Recurrent and Whole of Life Costs, Financial Arrangements .....	24
6.3 Financial Viability .....	25
<b>7. PROJECT RISK AND MITIGATION STRATEGIES .....</b>	<b>27</b>
7.1 Risk Management .....	27
7.2 Risk Mitigation .....	28
<b>8. PROJECT DELIVERY .....</b>	<b>29</b>
8.1 Delivery Mechanism .....	29
8.2 Procurement Implications .....	29
<b>9. CONCLUSION.....</b>	<b>31</b>
<b>ATTACHMENT ONE: LOCAL GOVERNMENT ACT, 1999 – SECTION 48 .....</b>	<b>33</b>

## EXECUTIVE SUMMARY

The following report has been prepared in accordance with Section 48 of the Local Government Act 1999 which requires a council to consider a report addressing the prudential issues set out in subsection 2 of the Act before engaging in a project where the expected capital cost over the ensuing five years is likely to exceed \$4,520,811.

In 2008, land owned by the City of Salisbury along Walpole Road was first identified for residential development. A broad precinct masterplan was prepared which has resulted in the land being progressively developed by the City of Salisbury. This development has been assisted by a Commonwealth Government grant of \$1.5 million from the Housing Affordability Fund (HAF). Walpole Road Stage 3 is the remaining residential site within this precinct to be developed and is the final project to be delivered under the HAF grant.

The Walpole Road Stage 3 Project involves the City of Salisbury, acting as the master developer of former community land delivering the subdivision infrastructure and selling approximately 100 residential housing allotments into the market. The Project has a total estimated cost of \$9,286,569 (ex GST) with a forecast revenue return to Council of \$14,287,157 reflecting the value of land sales minus the full rate of GST plus \$680,000 from the HAF.

It should be noted that although there are exemptions under Section 48 subsection 3 of the Act for road construction or maintenance; or drainage works which form a considerable component of the cost of the Project works (\$5.082 million of the \$9.287 million) it was considered prudent to have a report prepared to meet the requirements of Section 48 (2) of the Act given the commercial nature of the Project.

### *Relationship with Strategic Management Plans*

The Walpole Road Stage 3 Project is considered to be strongly aligned with the City of Salisbury strategic direction and the desired outcomes as outlined within the Salisbury City Plan 2020 – Sustainable Futures. It will assist to advance three of the four key direction identified in the Plan. The Project would also assist to advance a number of the state priorities and targets, particularly in relation to The 30 Year Plan for Greater Adelaide. The support of the Commonwealth Government has been tangible in the form of the \$1.5 million HAF grant.

Provision has been made in the Annual Business Plan and Budget 2015/16 for the Project however due to revisions resulting from the completion of the detailed Business Case these will need to be increased if the Project proceeds. Proceeding with the Project will also require amendments to be made in the Long Term Financial Plan and the Asset Management Plan.

### *Objectives of the Development Plan*

The Walpole Road Stage 3 Project is to be undertaken within the Residential Zone, this proposed land use and development is broadly consistent with the Objectives of the City of Salisbury Development Plan. The Project involves works, the land division and filling of land, which are defined as “development” under the Development Act 1993. Under the provisions of the Development Act and Regulations the Development Assessment Commission is the relevant authority to determine any development application related to this Project.

It should be noted that Development Approval has yet to be obtained by Council, and this is a prerequisite for the Project to proceed.

### *Contribution to Economic Development*

Should Council proceed with the Project the estimated cost is \$9.287 million, this is expected to increase economic activity from the completion of the Project and is estimated to have a positive economic impact in the region, generating an increase in economic output of over \$78.897 million from the overall investment of \$35.697 million. The Project is estimated to have an impact of up to 235 jobs through direct, industrial and consumption effects.

The Project is likely to have a positive impact on businesses in the area.

The market advice obtained from consultants through the Business Case was to position the Project in the market to differentiate it from other land development projects proposed in the broader locality, so as to not directly compete, and the proposed plan of development reflects the consultant advice obtained. On this basis it is unlikely that fair competition is impacted, however if Salisbury was to regularly undertake land development activities of a reasonable scale then these activities may be construed as constituting a significant business activity and the National Competition Principles would need to be considered.

### *Community Consultation*

Public Consultation has been extensive and has been undertaken in accordance with the Public Consultation Policy, it has followed the principles which are identified by Council as central to the Public Consultation process.

The multi-staged consultation undertaken for the broader Walpole Road master planning suggests that the community has had opportunity to influence this Project at a number of key decision points.

Further, the outcomes from the one-on-one consultation process are evidence that the community has been afforded the opportunity to contribute to and influence the outcomes of the Walpole Road Stage 3 Project.

### *Financial Issues*

The Project will generate revenue from a Commonwealth Government HAF grant of \$680,000 and through the sale of residential allotments which is expected to deliver revenue from sales (minus the full rate of GST) of \$13.607 million.

By implementing the Project through a master development delivery strategy the estimated net return of \$4.626 million, is an increase to Council of \$2.407 million above the potential return from the sale of the land as a single undeveloped parcel.

The major financial risks have been identified and are understood, actions to mitigate these risks have been developed, in part through the application of learning from previous projects.

The whole of life Project costs are expected to be covered by the additional rate revenue which is to be created from the new allotments.

The projected return from the investment in the Project appears to be commensurate with the level of risk associated with land development. However, it should be noted that given the current land value of \$2,219,143 if land sales were 19% below projections then the Project would not be as financially attractive as selling the land as a single parcel. We note that this option may not achieve all of Salisbury's strategic objectives in undertaking the Project.

### *Risk Issues*

Consistent with the Salisbury Risk Management Charter a Risk Management Plan was prepared for the Project, identifying a total of 16 risks, none of these risks had an inherent rating of 'Extreme' which is the level identified as exceeding Salisbury's risk tolerance.

The approach to risk management has been consistent with the Risk Management Charter and risks are being actively managed in accordance with the Risk Management Plan, this has seen the number of identified risks reduce from 16 in the Business Case to nine.

### *Project Delivery*

The recommended project management and delivery mechanisms were determined having regard to external specialist consultant advice, and are considered appropriate in terms of managing financial, construction, environmental, community and other key project risks, and in terms of alignment of Project outcomes with Council's strategic management plans.

A formal Acquisition strategy has been adopted and implemented by the Salisbury Executive for the engagement of the Consultancy Project Team. The procurement methods outlined in the strategy are consistent with the Salisbury Procurement Policy. The Acquisition strategy will need to be updated to reflect the projected increase in the cost of the Project.

### *Conclusions*

The Walpole Road Stage 3 Project has been conducted to date consistent with satisfying the Principles and requirements of the Salisbury Prudential Management Policy.

## 1. INTRODUCTION

### 1.1 Background

- 1.1.1 In 2008, land owned by the City of Salisbury (Salisbury) along Walpole Road was first identified for residential development.
- 1.1.2 On 16 August 2010, Salisbury entered into a deed with the Commonwealth Government securing a Housing Affordability Fund (HAF) grant of \$1,500,000 for the Walpole Road Paralowie Master Planning and Affordable Housing Development Project.
- 1.1.3 A broad precinct masterplan was developed to guide both Council residential development proposals and identify opportunities for integration of Council Projects with adjacent private development partners to maximise the quality of the outcome.
- 1.1.4 The Walpole Road land was identified as surplus to Council and community needs and its community land status was revoked pursuant to the Local Government Act 1999. In addition the zoning of the land was changed through a Development Plan Amendment (DPA) under the Development Act 1993 from Open Space Zone to Residential Zone. These actions cleared a path for residential development of the land to be considered.
- 1.1.5 As part of the rezoning process Salisbury has agreed to commit to provide a Metropolitan Open Space System (MOSS) contribution payback to State Government. The MOSS payback relates to allotments 30, 31 and 163 which were in part funded for purchase by the Planning and Development Fund to be retained by Salisbury for Open Space Purposes.
- 1.1.6 Consistent with the masterplan Salisbury has undertaken Strategic Development Projects Walpole Road Stage 1, trading as Greentree Walk, and Walpole Road Stage 2, trading as Riverwalk within this precinct. These projects are covered by the HAF grant and are in the final stages of delivery with all construction complete.
- 1.1.7 Walpole Road Stage 3 is the remaining residential site within this precinct to be developed and is the final project to be delivered under the HAF grant, with the end date of the agreement set at 30 September 2017, with construction and sales required to be completed by November 2016.
- 1.1.8 In May 2014, the Salisbury Strategic Property Development Sub-Committee approved the Walpole 3 - Stage 1 Feasibility and approved a budget for the preparation of the Stage 2- Business Case to test and validate the design and assumptions prepared as part of the initial project feasibility.
- 1.1.9 A detailed Business Case was prepared to validate the preliminary feasibility for the Walpole Road Stage 3 Project in order to inform Council's decision making process in respect to the project delivery approach.
- 1.1.10 The Business Case for Walpole Road Stage 3 has confirmed a preferred delivery strategy for Council to act as the master developer, funding the cost of development and selling residential housing allotments into the market. This delivery strategy aims to ensure Salisbury will meet its long term commitment to the Commonwealth

Government under the Housing Affordability Fund deed committed in 2008 and is in line with the expectations set within the community that Council would be delivering this land for residential housing.

1.1.11 The alternative option was for Council to sell the development site into the market for a private developer to develop. This option was discounted for financial reasons and because there would then be limited influence outside the statutory approvals process for Council to deliver on other strategic objectives beyond financial objectives, such as broader community benefit from the development through upgrade of adjacent open space, the quality of the environment delivered by the development, and housing choice, diversity and affordability.

## 1.2 Rationale

1.2.1 Salisbury has undertaken a series of projects involving the development of under-utilised Council owned land across the city as development opportunities are progressively identified.

1.2.2 Projects which have already been delivered or are nearing completion under this program include:

- Brahma Green, Brahma Lodge – affordable housing project;
- Ryans Road, Parafield Gardens – residential land division “Emerald Green”;
- Walpole Road, Paralowie – residential land division “Greentree Walk”;
- Whites Road, Parafield Gardens – residential land division “Riverwalk”; and
- Diment Road, Salisbury North – residential land division “The Reserve”.

1.2.3 In each of the above projects Salisbury acted as the developer, and partnered with other parties in the case of Emerald Green and Brahma Green to deliver the project outcomes.

1.2.4 Walpole Road Stage 3 therefore reflects a continuation of that development program, and is the final part of the broader Walpole Road project referenced in the City Plan.

## 1.3 The Project

1.3.1 The Walpole Road Stage 3 Project involves Salisbury, acting as the master developer of former community land delivering the subdivision infrastructure and selling approximately 100 residential housing allotments into the market.

1.3.2 The Project has a total estimated cost of \$9,286,569 (ex GST) with a forecast revenue return to Council of \$14,287,157 reflecting the value of land sales minus the full rate of GST plus a \$680,000 grant secured from the Commonwealth Government under the Housing Affordability Fund (HAF) in 2008.

## 1.4 Legal Framework and Prudential Issues

1.4.1 Salisbury has adopted a Prudential Management Policy, dated 27 July 2015, that sets out Council's approach for prudential management of all its projects. The objectives of the Policy are:

1.1 *to ensure that a Council project is undertaken only after an appropriate level of "due diligence" is applied to the proposed project; and*

1.2 *to ensure that each Council project is:*

- *managed during the project, and*
- *evaluated after the project, to*

*achieve identified public benefits or needs; and to minimise financial risks.*

1.4.2 The principles of the Policy require the following.

*"The decision maker should determine with respect to any project (based on the size, complexity and amount of financial or other risk) the level of:*

- *Due care and diligence that is required*
- *At a minimum this should require an assessment of:*
  - *the benefits and needs of the project*
  - *whether the project will (or might) generate any additional risks for the Council;*
  - *the financial sustainability of a project (large or small) and whether funding of the whole-of-life costs of the project will (or might) require additional allocations beyond those already accommodated in Council's annual budget and long-term financial plan*

- *Details required*

*This may range from a single page describing the project scope, to a comprehensive business case (for example using the Corporate templates - "Project Management – Business Case").*

- *Risk assessment appropriate*

*This may range from, a simple note that the proposed project has been determined as being of low or negligible risk, to a more detailed risk assessment in line with Council's Risk Management framework.*

- *Expertise required*

*This may range from a single staff member (for the smallest projects with least risk), to a working party of staff and external specialists with expertise*

*in areas such as engineering, finance, project management, town planning (for more complicated and/or riskier projects).*

- *Accountability and reporting required*
- *Post project implementation review and evaluation*
  - *Evaluation and review can identify systemic issues and opportunities for improvement.”*

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

1.4.4 Furthermore, Section 48 (1) (b) (ii) of the Local Government Act 1999 (Act) specifies certain criteria that that require a council to consider a report addressing the prudential issues set out in subsection 2, in this case the relevant criteria is that the expected capital cost of the project over the ensuing five years is likely to exceed \$4,520,811.

1.4.5 It should be noted that although there are exemptions under Section 48 subsection 3 of the Act for road construction or maintenance; or drainage works which form a considerable component of the cost of the Project works (\$5.082 million of the \$9.287 million) it was considered prudent to have a report prepared to meet the requirements of Section 48 (2) of the Act given the commercial nature of the Project. The prudential issues identified in Section 48 (2) are:

- (a) *the relationship between the project and relevant strategic management plans;*
- (b) *the objectives of the Development Plan in the area where the project is to occur;*
- (c) *the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;*
- (d) *the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;*
- (e) *if the project is intended to produce revenue, revenue projections and potential financial risks;*
- (f) *the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;*
- (g) *the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;*

- (h) *any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);*
- (i) *the most appropriate mechanisms or arrangements for carrying out the project.”*

1.4.6 This report has been prepared in accordance with Section 48 of the Act, which is reproduced in full as Attachment One.

1.4.7 BRM Holdich has been engaged by the City of Salisbury to prepare a report to satisfy the requirements of Section 48 and the Prudential Management Policy.

## 2. RELATIONSHIP WITH RELEVANT STRATEGIC MANAGEMENT PLANS

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

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

### 2.1 Relevant Strategic Management Plans

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

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

#### 2.1.2.1 City of Salisbury

- Salisbury City Plan 2020 – Sustainable Futures;
- Annual Plan 2015/16;
- Long Term Financial Plan;
- Asset Management Plan; and
- Landscape Plan.

#### 2.1.2.2 Regional

- No relevant regional plan.

#### 2.1.2.3 South Australian State Government

- South Australian Strategic Plan; and
- 30 Year Plan for Greater Adelaide.

#### 2.1.2.4 National

- Housing Affordability Fund

### 2.2 Salisbury City Plan 2020 – Sustainable Futures

2.2.1 The strategic direction for the City of Salisbury is detailed in *City Plan 2020 – Sustainable Futures*.

2.2.2 The Salisbury vision is for excellence in building a community of opportunity and spirit in a quality environment.

2.2.3 This vision is implemented through four key directions:

- The Prosperous City
- The Sustainable City
- The Living City
- Achieving Excellence

2.2.4 The alignment of the Walpole Road Stage 3 Project with the key directions, objectives and strategies of City Plan 2020 is shown in Table One.

**Table One: Degree of Alignment with City Plan 2020**

Key Direction	Objective	Strategy / Critical Action
The Prosperous City	2: To enhance and create quality urban areas with high amenity and integrated infrastructure.	Strategy 3: Investigate opportunities and advocate for unlocking new urban land for development. Critical Action: Investigate potential residential urban growth opportunities across the city including regeneration areas such as Ingle Farm. Critical Action: Facilitate development of under utilised urban land across the city in order to capitalise on opportunities for economic development and urban growth.
The Living City	3: To have a city where a quality of life is achievable.	Strategy 1: Facilitate access to affordable housing. Critical Action: Deliver 15% affordable homes in Walpole Road, Ryans Road and Diment Road projects.
Achieving Excellence	5: To apply planning, business and resource management that enables excellent service delivery and financial sustainability.	Strategy 1: Integrate and align planning, business and resource management processes to improve outcomes. Critical Action: Establish business case development for all significant projects to ensure that appropriate allocation of financial resources and 'return' on investment; and ensure the application of project management practices to enable appropriate oversight, improved outcomes and opportunities for organisational learning. Strategy 3: Maintain financial management practices built on robust information to deliver long term sustainability. Critical Action: Undertake the Strategic Property Development Review which will include continuation of a program of property development on surplus council land.

2.2.5 The project is considered to be strongly aligned with the City of Salisbury strategic direction and the desired outcomes as outlined within the Salisbury City Plan 2020 – Sustainable Futures.

## 2.3 Annual Plan 2015/16;

- 2.3.1 The Salisbury Annual Plan links the overarching long term City Plan with the budget, the services delivered and rate levels.
- 2.3.2 The completion of a business case and commencement of delivery of the projects that make up the “Tranche 2” strategic property development projects was identified within the Annual Plan 2015/16 as a service level for the Strategic Development Projects program.
- 2.3.3 The Walpole Road Stage 3 Project is one of the Tranche 2 projects.
- 2.3.4 A budget allocation and forecast revenue figures for the Walpole Road Stage 3 Project were also identified in the 2015/16 Annual Plan based on an initial site and project feasibility undertaken by Council, with adjustments to the forecast budget and forecast revenue identified as part of completing the Business Case. These are shown in Table Two along with the revised Project estimates.

**Table Two: Current Budget Provisions and Revised Business Case Estimates**

	Current Budget Provisions		Revised Business Case Budget	
	Cost	Net Revenue	Cost	Net Revenue
Expended to Date	\$756,669	\$680,000	\$756,669	\$680,000
2015/16	\$5,135,331	\$5,277,000	\$5,796,000	-
2016/17	\$60,000	\$3,593,000	\$2,586,721	\$10,786,928
2017/18	\$10,000	\$813,000	\$236,102	\$2,820,229
<b>Total</b>	<b>\$5,962,000</b>	<b>\$10,363,000</b>	<b>\$9,286,569</b>	<b>\$14,287,157</b>

- 2.3.5 Should the decision be taken to proceed with the Project then the budget allocations for 2015/16 will need to be increased as part of the normal Budget Review process to reflect the Business Case.

## 2.4 Long Term Financial Plan

- 2.4.1 Salisbury is mindful of its responsibilities to be financially sustainable whilst still seeking to achieve its corporate goals. This is defined as having a financial position capable of meeting long term service and infrastructure levels and standards, acceptable to the community, without substantial increases in rates or disruptive cuts to services. It implies inter-generational equity.
- 2.4.2 The Long Term Financial Plan (LTFP) reflects these responsibilities and aspirations.
- 2.4.3 The LTFP covers the period 2015/16 to 2024/25 and is updated annually to incorporate changes in external factors such as government policy decisions and global economic pressures, and internal factors.

- 2.4.4 The LTFFP as endorsed by Council as part of the 2015/16 budget incorporates the financial impact of the Walpole Road Stage 3 Project as originally budgeted with a net favourable impact of \$4.4million.
- 2.4.5 Based on the Business Case the Project forecast has been revised to a net favourable impact of \$5.0m.
- 2.4.6 The improvement in financial position should be accounted for when the LTFFP is next updated in the ordinary course of business.
- 2.4.7 If the Business Case projections are met there will be a positive impact on Council's financial sustainability.

## 2.5 Asset Management Plan

- 2.5.1 Salisbury owns and is responsible for the management, operation and maintenance of a diverse asset portfolio that provides services and facilities to the community. Asset Management Plans have been developed to ensure that Council continues to provide effective and comprehensive management of its asset portfolios.
- 2.5.2 The Walpole Road Stage 3 Project works will create new Council assets that will need to be included within Council's Asset Management Plan on completion.
- 2.5.3 An estimate has been completed that forecasts a total new Council asset value of \$2,123,656 as a result of this project with annual depreciation estimated at \$53,301.

## 2.6 Landscape Plan

- 2.6.1 Salisbury seeks to build upon its distinctive landscapes and public open spaces. Accordingly, it has developed a set of policies and guidelines for the future development of new and existing public domain, landscape areas, road corridors, reserves, amenity landscapes, areas of cultural and environmental significance, industrial and residential developments. These policies and guidelines are reflected in the City of Salisbury Landscape Plan.
- 2.6.2 Salisbury should ensure that the landscaping of the Walpole Road Stage 3 Project is consistent with the Landscape Plan.

## 2.7 Regional Objectives

- 2.7.1 No regional objectives have been identified.
- 2.7.2 However, the State Government, in conjunction with the Cities of Salisbury, Playford, and Port Adelaide Enfield, are in the process of finalising the Northern Economic Plan (NEP) as a response to the economic and social impacts associated with the closure of the automotive industry in Australia. The economic modelling undertaken in relation to this Walpole Road Stage 3 Project indicates that it will contribute positively to the expected objectives of the NEP.

## 2.8 South Australian State Objectives

- 2.8.1 The State Government's broad vision for sustainable land use and the built development of the state is outlined in the Planning Strategy. The relevant volume of the Planning Strategy for this Development Plan is The 30-Year Plan for Greater Adelaide (February 2010).
- 2.8.2 The 30 Year Plan has three key objectives all of which appear relevant to the Walpole Road Stage 3 Project, these are:
- Maintain and improve liveability;
  - Increase competitiveness; and
  - Drive sustainability and resilience to climate change.
- 2.8.3 Furthermore, as an “infill” development that proposes to introduce alternative housing options to an established suburb and to significantly upgrade existing open space, the Project meets a number of principles of The 30 Year Plan including:
- 1 - a compact and carbon efficient city;
  - 2 - housing diversity and choice;
  - 3 – accessibility;
  - 8 – healthy safe and connected communities; and
  - 9 – affordable living.
- 2.8.4 The Project is also consistent with the following policies contained within The 30 Year Plan.
- Overall spatial distribution;
  - Housing mix affordability and competitiveness;
  - Affordable housing; and
  - Health and wellbeing.
- 2.8.5 The State Strategic Plan is also relevant. The State Strategic Plan is built on six pillars and identifies a number of targets. Table Three identifies the relationship between the Project and the Our Community pillar and the goals and targets which are supported or advanced through the Project.

**Table Three: The Project Alignment with the State Strategic Plan**

Relevant State Pillar	State Goals and Targets Advanced
<b>Our Community</b>	<p>Goal: We are committed to our towns and cities being well designed, generating great experiences and a sense of belonging.</p> <p>Target 1 Urban Spaces</p> <p>Goal: New developments are people friendly, with open spaces and parks connected by public transport and bikeways.</p> <p>Target 56 Strategic infrastructure</p> <p>Goal: We have a sense of place, identity, belonging and purpose.</p> <p>Target 23 Social Participation</p> <p style="background-color: yellow;">Increase the proportion of South Australians participating in social, community and economic activities by 2020</p>
<b>Our Environment</b>	<p>Goal: We want Adelaide to grow up rather than out.</p> <p>Target 68: Urban Development</p> <p>By 2036, 70% of all new housing in metropolitan Adelaide will be being built in established areas.</p>

## 2.9 National Objectives

- 2.9.1 The Australian Government through the Department of Social Services established a Housing Affordability Fund (HAF) to lower the cost of building new homes.
- 2.9.2 Assistance through the HAF was provided to focus on supply side barriers to the development of affordable housing, particularly:-
- Reducing lengthy planning and/or development assessment processes, which impact on the holding costs for housing development; and
  - Reducing the costs of infrastructure developments, such as roads, water, sewerage, open space and community facilities, which are incurred by State and Local Governments and often passed on through developers to new home buyers.
- 2.9.3 Salisbury secured \$1.5 million through the HAF for the Walpole Road Paralowie Master Planning and Affordable Housing Development Project, of which the Walpole Road Stage 3 Project is part.
- 2.9.4 The Project is therefore considered to be closely related to national objectives.

### 3. OBJECTIVES OF THE DEVELOPMENT PLAN

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

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

#### 3.1 Development Approval

3.1.1 Development in Salisbury is governed by the Development Plan - Salisbury Council, pursuant to Section 33 of the Development Act 1993 and the associated Development Regulations 2008.

3.1.2 The Development Plan outlines what sort of developments and land use are and are not envisaged for particular zones and various objectives, principles and policies further controlling and affecting the design and other aspects of proposed developments. As such, the Development Plan covers matters including zoning issues, building appearance and neighbourhood character, land division, building siting and setbacks and environmental guidelines.

3.1.3 The Development Plan is structured into Sections, as follows.

- General, containing general policy that applies across the council area and relates to a range of social, environmental, and economic development issues. These issues establish the development standards that apply to all forms of development and provide a yardstick against which the suitability of development proposals is measured.
- Zones, these provisions give greater certainty and direction about where certain forms of development should be located and identifies generally envisaged forms of development. The objectives and design requirements for development in the particular area are also expressed.
- Tables that list the conditions which are applicable to complying development, numeric values for setbacks from road boundaries and car parking rates for certain types of development. Conditions for complying development are grouped into their respective tables.
- Mapping, showing the broad distribution of land uses and movement patterns throughout the council area.

3.1.4 The current version of the Development Plan is dated as consolidated on 10 September 2015.

3.1.5 The Walpole Road Stage 3 Project involves works, the land division and filling of land, which are defined as “development” under the Development Act 1993.

3.1.6 A detailed assessment of a Development Application against the Development Plan will be required, consistent with the provisions of the Development Act. Development approval has yet to be obtained by Council, and is a prerequisite for the Project to proceed.

## 3.2 Development Zone

- 3.2.1 The Walpole Road Stage 3 Project is located in the Residential Zone.
- 3.2.2 The Minister of Planning authorised the Walpole Road, Paralowie Residential Development Plan Amendment (DPA) on 6 August 2015. The DPA rezoned the project site from Open Space Zone to Residential Zone to facilitate the delivery of the Project.
- 3.2.3 The following objectives related to the Residential Zone are considered to be of relevance to the Project.
- 1 A residential zone comprising a range of dwelling types, including a minimum of 15 per cent affordable housing.
  - 2 Increased dwelling densities in close proximity to centres, public transport routes and public open spaces.
  - 3 A zone primarily accommodating a range of dwellings to meet the diverse needs and preferences of the community.
  - 4 Revitalisation of under-utilised suburbs, particularly public housing areas, to facilitate the provision of a greater mix of housing types and improved residential amenity.
  - 6 Development that contributes to the desired character of the zone.
- 3.2.4 As the Walpole Road Stage 3 Project involves division of land for residential purposes within a Residential Zone, the proposed land use and development is broadly consistent with the Objectives of the City of Salisbury Development Plan.

## 3.3 Approving Authority

- 3.3.1 Pursuant to the Development Act 1993, a Council can make decisions on certain kinds of applications where the Council is the applicant as outlined in Schedule 10 (2) of the Development Regulations 2008.
- 3.3.2 However, there are certain classes of development undertaken by a council (including any case where the council is not to undertake all of the relevant development itself) which are to be referred for decision to the Development Assessment Commission.
- 3.3.3 Part 2 Section (d) identifies one such class of development as “development that involves the division of land where the number of allotments resulting from the division will be greater than 4 more than the existing number of allotments.”
- 3.3.4 As the Walpole Road Stage 3 Project involves land division where the number of allotments resulting from the division will be greater than 4 more than the existing number of allotments the relevant authority under the Development Act to determine any development application related to this Project will therefore be the Development Assessment Commission.

## 4. ECONOMIC DEVELOPMENT

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

- (c) *the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;*

### 4.1 Contribution to Economic Development

4.1.1 Economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.

4.1.2 The contribution to economic development of the local area from the Walpole Road Stage 3 Project will primarily come from the following sources:

4.1.2.1 local civil and landscape construction jobs and housing construction jobs involved in the construction of 100 new dwellings that will be created out of this Project;

4.1.2.2 purchases by new home owners of items related to new household formation, such as white goods, furnishings, landscaping etc.; and

4.1.2.3 increased demand for services and retail activity from the increase in population in the local area.

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

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

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

4.1.4 To quantify the benefits from these multiplier effects Salisbury commissioned modelling using Remplan software based on Input-Output methodology, a common tool for measuring secondary and tertiary economic effects.

4.1.5 For modelling purposes, the expenditure associated with the civil works for the 96 allotment residential subdivision has been estimated at \$9.286 million and the completed development has been estimated at an overall cost of \$35.697 million, including the house and land packages.

## 4.2 Economic Impact of Civil Works

- 4.2.1 Total output from the civil works for the Walpole Road Stage 3 Project, including all direct, industrial and consumption effects is estimated to increase by up to \$18.557 million. This represents a Type 2 Output multiplier of 1.998 and is comprised of the following.
- 4.2.1.1 The estimated total value of the civil works of \$9.286 million.
  - 4.2.1.2 A rise of \$7.101 million in the demand for intermediate goods and services from a direct increase in output from the construction investment, including the flow on effects as demand for local goods and services increases.
  - 4.2.1.3 The consumption effects from the creation of jobs in the economy arising from the increases in direct and indirect output which are estimated to be \$2.170 million.
- 4.2.2 Based on the cost of the civil works for Project the construction output should result in an increase of up to 51 jobs from a Type 2 employment multiplier of 2.833, as detailed below.
- 4.2.2.1 The direct effect is estimated to create up to 18 jobs.
  - 4.2.2.2 The indirect or flow on effect is estimated to result in the gain of a further 23 jobs.
  - 4.2.2.3 The consumption effect is estimated to boost employment by 10 jobs.
- 4.2.3 The estimated impact of the Project on wages and salaries is by up to \$3.731 million, representing a Type 2 multiplier of 2.160, the components are detailed below.
- 4.2.3.1 The increase from the direct effect is estimated at \$1.728 million.
  - 4.2.3.2 The indirect or flow on effect is estimated at \$1.527 million, which represents a Type 1 Wages and Salaries multiplier of 1.884.
  - 4.2.3.3 The consumption effects under this scenario are expected to further boost employment in sectors such as retail therefore further increasing wages and salaries by an estimated \$0.476 million.
- 4.2.4 The impact of the Project on value added is estimated to increase by up to \$7.080 million, this represents a Type 2 Value-added multiplier of 2.179 and is comprised of the following.
- 4.2.4.1 A direct impact of \$3.248 million.
  - 4.2.4.2 An indirect or flow-on effect in terms of local purchases of goods and services are anticipated of \$2.602 million, this represents a Type 1 Value-added multiplier of 1.801.

- 4.2.4.3 A consumption effect of \$1.230 million, as a proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy.

### 4.3 Economic Impact of House and Land Packages

- 4.3.1 Total output from the developed house and land packages for the completed Walpole Road Stage 3 Project, including all direct, industrial and consumption effects is estimated to increase by up to \$78.897 million. This represents a Type 2 Output multiplier of 2.210 and is comprised of the following.

- 4.3.1.1 The estimated total value of the house and land packages of \$35.697 million.

- 4.3.1.2 A rise of \$36.104 million in the demand for intermediate goods and services from a direct increase in output from the construction investment, including the flow on effects as demand for local goods and services increases.

- 4.3.1.3 The consumption effects from the creation of jobs in the economy arising from the increases in direct and indirect output which are estimated to be \$7.096 million.

- 4.3.2 Based on the value of the works associated with the Project the construction output should result in an increase of up to 235 jobs from a Type 2 employment multiplier of 2.670, as detailed below.

- 4.3.2.1 The direct effect is estimated to create up to 88 jobs.

- 4.3.2.2 The indirect or flow on effect is estimated to result in the gain of a further 118 jobs.

- 4.3.2.3 The consumption effect is estimated to boost employment by 29 jobs.

- 4.3.3 The estimated impact of the works associated with the Project on wages and salaries is by up to \$12.203 million, representing a Type 2 multiplier of 3.834, the components are detailed below.

- 4.3.3.1 The increase from the direct effect is estimated at \$3.183 million.

- 4.3.3.2 The indirect or flow on effect is estimated at \$7.462 million, which represents a Type 1 Wages and Salaries multiplier of 3.344.

- 4.3.3.3 The consumption effects under this scenario are expected to further boost employment in sectors such as retail therefore further increasing wages and salaries by an estimated \$1.558 million.

- 4.3.4 The impact of the Project on value added is estimated to increase by up to \$24.033 million, this represents a Type 2 Value-added multiplier of 3.454 and is comprised of the following.

- 4.3.4.1 A direct impact of \$6.959 million.

4.3.4.2 An indirect or flow-on effect in terms of local purchases of goods and services are anticipated of \$13.052 million, this represents a Type 1 Value-added multiplier of 2.876.

4.3.4.3 A consumption effect of \$4.022 million, as a proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy.

#### 4.4 Overall Impact of Walpole Road Stage 3 Project

4.4.1 The total combined economic impact of the Walpole Road Stage 3 Project is summarised in Table Four.

**Table Four: Walpole Road Stage 3 Project Economic and Employment Benefits**

Impact	Direct	Indirect	Consumption	Total
Output (\$M)	44.983	43.205	9.266	97.454
Employment (Jobs)	106	141	39	286
Wages and salaries (\$M)	4.911	8.989	2.034	15.934
Value-added (\$M)	10.207	15.654	5.252	31.113

4.4.2 Apart from the economic activity that will be generated from the construction and employment associated with the Project it will assist to increase the population providing stimulus to the local retail and services economy.

#### 4.5 Impact on Business in the Proximity

4.5.1 The development is likely to provide additional custom and trade for a wide range of businesses in the vicinity of the Project and is therefore considered likely to have a positive impact on business in the proximity

#### 4.6 Fair Competition

4.6.1 The Walpole Road Stage 3 Project involves Salisbury acting as the land developer, selling residential land allotments into the market to return revenue to Council.

4.6.2 It is acknowledged that Salisbury will need to manage the same development risks such as unknown/unforeseen costs and market conditions affecting sales rates that all other residential developers face in the land development market.

4.6.3 The Business Case prepared for the Project identified a number of competitor residential land development projects within the immediate locality and broader Adelaide northern market.

4.6.4 Consideration must be given as to whether the activities of Salisbury as a land developer constitute a “significant business activity” in accordance with the Clause 7 Statement of the Competition Principles Agreement and the Government Business Enterprises (Competition) Act 1996 which provides the framework for implementing National Competition Policy by local government entities in South Australia.

- 4.6.5 If these activities were considered to constitute a significant business activity, deemed to be significant within the definitions of Clause 7, then Salisbury would need to give consideration to whether competitive neutrality principles will need to be applied to their activities.
- 4.6.6 Competitive neutrality is about ensuring that the significant business activities of publicly owned entities compete fairly in the market.
- 4.6.7 The application of competitive neutrality principles is about transparent cost identification and pricing in a way which removes or neutralises the net cost advantages arising from public ownership when compared to private sector operators, these principles do not apply to those activities which are non-business, or non-profit activities.
- 4.6.8 In circumstances where Salisbury was regularly undertaking land development it is more likely that the activities as a land developer could be construed as constituting a significant business activity.
- 4.6.9 We note that the market advice obtained from consultants through the Business Case was to position the Project in the market to differentiate it from other land development projects proposed in the broader locality, so as to not directly compete, and the proposed plan of development reflects the consultant advice obtained.

## 5. COMMUNITY CONSULTATION

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

- (d) *the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;*

### 5.1 Level of Consultation

5.1.1 Salisbury is strongly committed to open, accountable and responsive decision making, which is informed by effective communication and consultation between the Council and the community. The Public Consultation Policy, prepared pursuant to Section 50 of the Local Government Act 1999, adopted 23 June, 2013 reflects this commitment.

5.1.2 The Policy sets out the following principles as central to the Public Consultation process.

- Participation: Council views all members of its Community as being citizens and recognises that citizenship grows and develops with the participation of citizens in democratic processes.
- Respect: Council values and respects the diversity of the Community of the City of Salisbury and believes that all citizens have the right to be consulted and to participate in Councils consultative and decision-making processes.
- Partnership: Council will work in partnership with the Community to shape the future of the City of Salisbury because it believes that the City's future is best achieved through an active and informed citizenry.
- Wellbeing: Council believes that Community wellbeing, vibrancy and sustainability is enhanced by citizens participating in Council's decision-making process.
- Accountability: Council is accountable to its Community through Community participation and engagement for the management of its resources, assets and expenditure and for the decisions it makes.
- Accessibility: Council recognises that there are a number of groups within the Community who have particular requirements to enable them to participate effectively in decision making processes. Council will ensure that any barriers to effective Community participation and engagement are addressed.

5.1.3 The Policy also establishes that beyond its legislative obligations Council will seek to uphold the intent of the Policy whenever significant consultation is warranted. Decisions about the appropriate level of consultation are to be based on the following.

- Council's strategic priorities and policies;
- Public and community interest;
- Economic impact;
- Environmental impact;
- Cultural impact;
- Social impact; and
- Available resources.

5.1.4 The land owned by Salisbury along Walpole Road was first identified for residential development in 2008. This development has been undertaken in three stages, the first two stages are reportedly in the final stages of delivery with all construction complete.

5.1.5 Consultation in respect to the broader Walpole Road master planning has occurred at a number of key project milestones points since project initiation in 2008. Consultation has also been undertaken for each of the stages and the Projects are referenced in Sustainable Futures, the Salisbury City Plan.

5.1.6 Specifically, in relation to the Walpole Road Stage 3 Project, this required the revocation of, community land and the rezoning of the land.

5.1.7 Consultation with surrounding residents regarding revocation of the community land was undertaken in accordance with the Public Consultation Policy and, in accordance with Section 194 of the Act.

5.1.7.1 This consultation included:

- the publishing of Public Notices in the local Leader Messenger newspaper, on the Salisbury website and in the State Government Gazette;
- the distribution of letters to owners and occupiers of property surrounding the subject land;
- the erection of a sign on site advising the community of the proposal; and
- preparation of reports in accordance with Section 194 of the Act.

5.1.7.2 The revocation of the classification as community land for a portion of Allotment 29, in Deposited Plan 6440 contained in Certificate of Title

Volume 5376 Folio 383 was resolved by Council on 29 April 2013 consistent with the requirements of Section 194(3)(b) of the Act.

- 5.1.7.3 The revocation of the classification as community land of a portion of Allotment 30 in Deposited Plan 6440 Walpole Road, Paralowie described in Certificate of Title Volume 5376 Folio 384, portion of Allotment 31 in Deposited Plan 6440 Walpole Road, Paralowie described in Certificate of Title Volume 5621 Folio 583 and portion of Allotment 163 in Deposited Plan 42193 Walpole Road, Paralowie described in Certificate of Title Volume 5287 Folio 58 was resolved by Council on 28 July 2014 consistent with the requirements of Section 194(3)(b) of the Act.
- 5.1.8 The most recent statutory consultation on matters related to the project occurred in respect to the Walpole Road Development Plan Amendment (DPA) in mid-2014 in accordance with the consultation requirements outlined in the Development Act 1993 and Development Regulations 2008.
  - 5.1.8.1 Four public submissions were received in response to the statutory notification process of the DPA, these were addressed by Council in its consideration of the DPA.
  - 5.1.8.2 Council's Policy and Planning Committee considered all public submissions at its meeting on 18 August 2014, and Council subsequently resolved on 25 August 2014 (resolution no. 2580) to forward the DPA to the Minister for Planning for approval.
  - 5.1.8.3 The DPA was subsequently referred to the Minister for Planning for approval accompanied by a 'Summary of Consultation and Proposed Amendments' report.
  - 5.1.8.4 The Minister having had regard to the DPA and supporting documents authorised the DPA which was gazetted on 6 August 2015.
- 5.1.9 Consultation with respect to the Walpole Road Stage 3 Project has included the following.
  - 5.1.9.1 Distribution of a Project information newsletter in May 2015 regarding the Walpole Road Upgrade. This newsletter reconfirmed Council's intent to develop Walpole Road Stage 3 for residential development.
  - 5.1.9.2 One-on-one engagement occurred between 2013 to 2015 with the immediate neighbours, specifically in respect to infrastructure arrangements and an associated project for the upgrade of Walpole Road (currently underway).
- 5.1.10 Consistent with the Public Consultation Policy, a community engagement plan was prepared for approval as part of the Business Case stage for the Walpole Road Stage 3 Project. This plan proposes an engagement approach at an 'inform' level to be put in place across Project delivery. This level would seem appropriate given the engagement already undertaken at various stages of the Project to date which should act to minimise the risk of fundamental or unforeseen issues arising from consultation during the Project delivery phase.

5.1.11 The Public Consultation Policy also sets out the Public Consultation steps for this Prudential Report to be as follows.

*“Any report obtained and considered must be made available for public inspection at the principal office of the Council once the Council has made a decision on the relevant project (and may be available at an earlier time unless the Council orders that the report be kept confidential until that time.”*

5.1.12 Accordingly, Salisbury should ensure that the Prudential Report is made available for public inspection at the principal office of the Council once the Council has made a decision on the Project.

5.1.13 Public Consultation has been extensive and has been undertaken in accordance with the Public Consultation Policy and has followed the principles which are identified by Council as central to the Public Consultation process.

5.1.14 Salisbury should ensure that any matters raised by the community during the community engagement phase are considered in the project delivery.

## 5.2 Community Influence and Contribution

5.2.1 Council considered and addressed the issues raised in submissions it received in response to the public consultation regarding the proposed revocation of community land.

5.2.2 The one-on-one consultation between 2013 to 2015 with the immediate neighbours took into account current and future plans these owners have for development of their land, to ensure as far as practicable that there were opportunities for integration of development and infrastructure provision. The outcomes from that consultation process included:

5.2.2.1 Provision of a new road access within the proposed development to connect to the western boundary of the eastern neighbour to facilitate development of their site.

5.2.2.2 Concurrent provision of services infrastructure within the road reserve as part of the road construction project to specifically service planned future development on lots 26 and 97 , Walpole Road, Paralowie.

5.2.3 The multi-staged consultation undertaken for the broader Walpole Road master planning suggests that the community has had opportunity to influence this Project at a number of key decision points.

5.2.4 The outcomes from the one-on-one consultation process are evidence that the community has been afforded the opportunity to contribute to and influence the outcomes of the Walpole Road Stage 3 Project.

## 6. FINANCIAL ASSESSMENT

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

- (e) if the project is intended to produce revenue, revenue projections and potential financial risks;*
- (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;*
- (g) the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;*

### 6.1 Revenue Production, Revenue Projections and Potential Financial Risks

6.1.1 There are two sources of revenue associated with the Project, these are:

6.1.1.1 The sale of residential allotments into the market.

6.1.1.2 Commonwealth Government grant funds.

6.1.2 Revenue projections have been informed by the engagement of specialist project marketing consultants, who have guided expected allotment price points and allotment mix in the proposed development. This advice is incorporated into the Business Case.

6.1.3 Revenue forecasts for the sale of residential allotments have been prepared by an external specialist consultant engaged by Salisbury. The revenue projections are that the Project will deliver revenue from sales (minus the full rate of GST) of \$13.607 million.

6.1.4 Salisbury has also been successful in securing a Commonwealth Housing Affordability Fund Grant of \$680,000 for the Walpole Road Stage 3 Project as part of the broader Walpole Road Parlowie Grant of \$1.5 million. This revenue results in a nil impact on the Project net return to Council as the \$680,000 is returned in full to purchasers at the time of settlement.

6.1.5 The major financial risks associated with the Walpole Road Stage 3 Project relate to timing associated with the sale of allotments and the potential to incur higher costs than forecast during development. These risks and the mitigations are outlined below.

- Sales are not achieved within projected timeframes. The timing of the sale of allotments is subject to prevailing market conditions, the broader economic climate and consumer confidence in the residential market. To some extent these factors are out of Salisbury's control and price is the only realistic mitigation available to Council. If sales are slower than forecast then the finance cost of the Project will increase. If sales are at a lower price than currently forecast then the forecast return will not be achieved. In both circumstances there would be a negative impact on the LTFP but this is unlikely to be material in the context of the Salisbury budget.

- Higher costs than forecast. Costs could be higher if Tender responses exceed current cost estimates.

*Mitigation:* Specialist external consultants (Wallbridge & Gilbert) were engaged to advise on project elements and costs. The cost estimates were based upon the engineers preliminary design and then costed against current market prices obtained from recent tenders. Further, quotations were obtained from service authorities for augmentation rather than relying on an estimate provided by a Quantity Surveyor, and basing the landscaping costs upon an actual design.

*Mitigation:* The works will be subject to a competitive tender process.

- Higher costs than forecast could arise due to increased or unforeseen costs during Project construction.

*Mitigation:* A 10% contingency has been included in the Project cost estimates. Due diligence investigations have been undertaken into elements such as site conditions, infrastructure augmentation costs and approvals requirements as part of the Business Case documentation and preparation.

*Mitigation:* The learning from the project risks associated with stages 1 and 2 have been incorporated into the planning and approach to be used or Stage 3.

- Higher costs could arise if maintenance obligations have been underestimated.

*Mitigation:* The increased maintenance costs have been calculated using a similar approach to that used in the preparation of the Salisbury Asset Management Plans.

Appropriate mitigation strategies have been identified or are in place for these risks.

## 6.2 Recurrent and Whole of Life Costs, Financial Arrangements

6.2.1 The recurrent costs associated with the Project are depreciation on the new Council asset value created (\$2,123,656) and maintenance costs.

6.2.1.1 Depreciation is estimated at \$53,301 per annum.

6.2.1.2 The assets to be created are classified as Transport, ReWater, Drainage and Parks based on the current Asset Management Plan assumptions the additional maintenance costs associated with these assets are estimated at \$21,266 per annum.

6.2.2 In addition to the recurrent costs identified, the Project will produce 96 new allotments each of which will consume Council services which can be directly related to the development, these services include Street Lighting, Street Sweeping, Waste Management, Street Signs etc. The cost of these services has been estimated at \$32,600 per annum.

- 6.2.3 The Project will generate additional rate revenue for Salisbury. Based on the forecast mix of the development this has been estimated at \$150,000 per annum.
- 6.2.4 The whole of life Project costs are expected to be covered by the additional rate revenue created by the development.
- 6.2.5 The upfront capital expenditure for the Project is to be funded from the following sources.
  - 6.2.5.1 Commonwealth Government Housing Affordability Fund grant payment of \$680,000; and
  - 6.2.5.2 Council financial reserves.

### 6.3 Financial Viability

- 6.3.1 Financial viability can be defined as the ability to generate sufficient income to meet operating expenses, financial obligations and to provide the potential for future growth.
- 6.3.2 A valuation completed over the site confirmed a potential land value of \$2,219,143 for the land if it was to be sold as a single parcel taking into account the payback commitment to the State Government Metropolitan Open Space Fund (MOSS).
- 6.3.3 The Business Case analysis has projected a net return to Council from delivery of the Walpole Road Stage 3 Project of \$5.001 million (excluding land value and the required MOSS reimbursement).
- 6.3.4 The net financial position of the Project after payback of open space projects to the Department of Planning, Transport and Infrastructure (DPTI) as required under the Development Plan Amendment conditions due to the Metropolitan Open Space Zone revocation is \$4.626 million.
- 6.3.5 The sensitivity analysis completed as part of the Project Business Case projected that the master development delivery strategy proposed for the Project provides an increase in forecast revenue to Council of \$2.407 million over the potential revenue that would be generated on the land value of the rezoned site if it was sold as a single parcel, taking into account the requirement to payback to DPTI in respect to the MOSS revocation.
- 6.3.6 For comparative purposes, as shown below, the Project financial return (\$4.626 million) has been discounted at various rates to compare the return with the option of selling the land today and realising the valuation of \$2,219,143.
  - 6.3.6.1 \$4,236,478 at a discount rate of 4.5%.
  - 6.3.6.2 \$4,078,856 at a discount rate of 6.5%.
  - 6.3.6.3 \$3,498,178 at a discount rate of 15%.
  - 6.3.6.4 \$2,960,858 at a discount rate of 25%.

- 6.3.7 The projected return from the investment in the Project appears to be commensurate with the level of risk associated with land development.
- 6.3.8 We note that revenue from the sale of allotments would need to fall by 35% for the Project not to breakeven.
- 6.3.9 However, it should be noted that given the current land value of \$2,219,143 if land sales were 19% below projections then the Project would not be as attractive as selling the land as a single parcel.

## 7. PROJECT RISK AND MITIGATION STRATEGIES

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

- (h) *any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);*

### 7.1 Risk Management

7.1.1 This report assesses the risk management actions taken or being considered by Salisbury for the Walpole Road Stage 3 Project. It is not the purpose of the report to prepare a comprehensive risk management plan, however a level of assessment has been undertaken on the identified risks and the mitigations that have been developed.

7.1.2 Salisbury has adopted a Risk Management Charter, within this it has developed and tailored a methodology consistent with the International Standard for Risk Management, AS/NZS/ISO31000: 2009 for the identification and management of risk. This methodology is integrated into the City's project, business and corporate planning and review processes. The Charter establishes that any risk which falls within the "Extreme" quadrant of the Risk Matrix exceeds the City's risk tolerance and specific action must be taken immediately to mitigate this level of risk or consideration should be given to abandoning the program, process, or activity.

7.1.3 Consistent with the Charter a Risk Management Plan was prepared for the Project which identified a total of 16 risks, none of which had an inherent rating of 'Extreme'. After the application of mitigation strategies all of the identified risks have been rated as either a medium or low risk. The residual level of risk associated with the Walpole Road Stage 3 Project as identified in the Risk Management Plan prepared for the Business Case is shown by category of risk in Table Five.

**Table Five: Risk Assessment Category Summary**

Risk Level	Extreme	High	Medium	Low	Total
Asset Management			1		1
Compliance				1	1
Encumbrance				1	1
Market Conditions			1		1
No. of Competitors			1		1
Project Delivery			3		3
Project Management			2	4	6
Project Sales			1		1
Strategic Management				1	1
<b>Total</b>			<b>9</b>	<b>7</b>	<b>16</b>

- 7.1.4 Project risk was also mitigated through the engagement of the following specialist consultants who assisted in the development of the Business Case.
- 7.1.4.1 Project Management: Devco Pty Ltd.
  - 7.1.4.2 Marketing and Sales: Connekt Urban Projects.
  - 7.1.4.3 Property Valuation: Mr Chris Dreyer, Certified Practising Valuer.
  - 7.1.4.4 Surveying: Alexander Symonds Pty Ltd.
  - 7.1.4.5 Civil Engineering: Wallbridge and Gilbert Pty Ltd.
  - 7.1.4.6 Landscape and Urban Design: Oxigen Pty Ltd.
- 7.1.5 According to the Strategic Development Projects Team regular reporting on the Project will be via the following channels.
- 7.1.5.1 Reports to Council's Executive Group.
  - 7.1.5.2 Quarterly project reporting to Council's Strategic Property Development Sub-Committee, which in turn reports to Council via the Works and Services Committee; and
  - 7.1.5.3 Quarterly Council budget reviews.
- 7.1.6 The approach to risk management has been consistent with the Salisbury Risk Management Charter and risks are being managed in accordance with the Risk Management Plan, this has seen the number of identified risks reduce from 16 in the Business Case to nine.

## 7.2 Risk Mitigation

- 7.2.1 Salisbury should ensure that the mitigation strategies identified for the risks associated with the Walpole Road Stage 3 Project are implemented and that these are progressively updated as the Project is implemented.
- 7.2.2 To support the risk management process the continued maintenance of a risk register should be a priority.
- 7.2.3 The Project Manager should review and update this register at least monthly and ensure a status report is provided to the Salisbury Executive Group each month.
- 7.2.4 The Quarterly reporting to the Strategic Property Development Sub-Committee, and the Works and Services Committee together with the Quarterly budget reviews appear to be adequate to ensure the Chief Executive Officer, or his delegate, and Council are apprised of areas of risk.

## 8. PROJECT DELIVERY

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

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

### 8.1 Delivery Mechanism

8.1.1 The Walpole Road Stage 3 Business Case prepared by internal Council staff with inputs by key expert consultants determined that the preferred delivery strategy that delivers optimal financial and non-financial returns for Council and the community, while also managing project risks, is for Salisbury to act as the master developer, and directly marketing allotments.

8.1.2 Alternative project delivery options were considered in the investigations undertaken in the development of the Business Case, including sale of the land englobo into the market for a private entity to develop the land; and consideration of project staging versus a single stage construction program.

8.1.3 Project management oversight is to be undertaken by Salisbury Strategic Development Projects Division, with direct project management undertaken by a specialist consultant project manager engaged by Council.

8.1.4 Project management is to be undertaken consistent with the Salisbury Project Management Manual, Release 2.0, which incorporates relevant Council policies, guidelines and specifications.

8.1.5 In addition to a specialist consultant panel providing services to Council, an internal Project reference group comprised of key Council staff is to be established to provide input to the Project design and delivery, and ensure coordination of the Project with other Council projects and programs.

8.1.6 The recommended project management and delivery mechanisms were determined having regard to external specialist consultant advice, and are considered appropriate in terms of managing financial, construction, environmental, community and other key project risks, and in terms of alignment of the identified Project outcomes with Council's strategic management plans.

### 8.2 Procurement Implications

8.2.1 The Salisbury Procurement Policy, last reapproved on 27 January 2015, applies to all Council staff and personnel engaged by Council to undertake procurement activities on its behalf, and it relates to all procurement activities associated with the acquisition of Goods, Works or Services of any value by the City of Salisbury.

8.2.2 The Policy prescribes that the procurement method for obtaining goods, works and services will be determined according to the estimated cost across the total life of the project; the nature of the procurement and the risk profile of the project. Subject to the estimate of total costs, the procurement method may be by oral quotes, written quotes or by a range of tender process options aligning to the formal procurement thresholds.

- 8.2.3 A formal Acquisition strategy has been adopted by the Salisbury Executive for the engagement of the Consultancy Project Team. The procurement methods outlined in the strategy are consistent with the Salisbury Procurement Policy.
- 8.2.4 The Acquisition strategy will need to be updated to reflect the projected increase in the cost of the Project.

## 9. CONCLUSION

- 9.1 This report has been prepared to meet the requirements of Section 48 of the Local Government Act and the Salisbury Prudential Management Policy in order to provide Council with a comprehensive understanding of the prudential issues relating to the Walpole Road Stage 3 Project.
- 9.2 The Walpole Road Stage 3 Project involves the City of Salisbury, acting as the master developer of former community land delivering the subdivision infrastructure and selling approximately 100 residential housing allotments into the market. The Project has a total estimated cost of \$9,286,569 (ex GST) with a forecast revenue return to Council of \$14,287,157 reflecting the value of land sales minus the full rate of GST plus \$680,000 from the HAF.
- 9.3 The Walpole Road Stage 3 Project is considered to be strongly aligned with the City of Salisbury strategic direction and the desired outcomes as outlined within the Salisbury City Plan 2020 – Sustainable Futures. It will assist to advance three of the four key direction identified in the Plan. The Project would also assist to advance a number of the state priorities and targets, particularly in relation to The 30 Year Plan for Greater Adelaide. The support of the Commonwealth Government has been tangible in the form of the \$1.5 million HAF grant across the three stages of the Walpole Road project.
- 9.4 Provision has been made in the Annual Business Plan and Budget 2015/16 for the Project however due to revisions resulting from the completion of the detailed Business Case these will need to be increased if the Project proceeds. Proceeding with the Project will also require amendments to be made in the Long Term Financial Plan and the Asset Management Plan.
- 9.5 Should Council proceed with the Project the estimated cost is \$9.287 million, this is expected to increase economic activity from the completion of the Project and is estimated to have a positive economic impact in the region, generating an increase in economic output of over \$78.897 million from the overall investment of \$35.697 million. The Project is estimated to have an impact of up to 235 jobs through direct, industrial and consumption effects.
- 9.6 The Project is likely to have a positive impact on businesses in the area.
- 9.7 The market advice obtained from consultants through the Business Case was to position the Project in the market to differentiate it from other land development projects proposed in the broader locality, so as to not directly compete, and the proposed plan of development reflects the consultant advice obtained. On this basis it is unlikely that fair competition is impacted, however if Salisbury was to regularly undertake land development activities of a reasonable scale then these activities may be construed as constituting a significant business activity and the National Competition Principles would need to be considered.
- 9.8 Public Consultation has been extensive and has been undertaken in accordance with the Public Consultation Policy and has followed the principles which are identified by Council as central to the Public Consultation process. The multi-staged consultation undertaken for the broader Walpole Road master planning suggests that the community has had opportunity to influence this Project at a number of key decision points. Further, the outcomes from the one-on-one consultation process are evidence that the community has been afforded the opportunity to contribute to and influence the outcomes of the Walpole Road Stage 3 Project.

- 9.9 The Project has attracted a Commonwealth Government HAF grant of \$680,000 and through the sale of residential allotments which is expected to deliver revenue from sales (minus the full rate of GST) of \$13.607 million. This master development delivery strategy is forecast to return estimated net revenue of \$4.626 million, an increase to Council of \$2.407 million above the potential return from the sale of the land as a single undeveloped parcel.
- 9.10 The major financial risks associated with the Walpole Road Stage 3 Project relate to timing associated with the sale of allotments and the potential to incur higher costs than forecast during development. These risks are understood and mitigation strategies have been identified.
- 9.11 The whole of life Project costs are expected to be covered by the additional rate revenue which is to be created from the new allotments.
- 9.12 The projected return from the investment in the Project appears to be commensurate with the level of risk associated with land development. However, it should be noted that given the current land value of \$2,219,143 if land sales were 19% below projections then the Project would not be as financially attractive as selling the land as a single parcel. We note that this option may not achieve all of Salisbury's strategic objectives in undertaking the Project.
- 9.13 Consistent with the Salisbury Risk Management Charter a Risk Management Plan was prepared for the Project, identifying a total of 16 risks, none of these risks had an inherent rating of 'Extreme' which is the level identified as exceeding Salisbury's risk tolerance. The approach to risk management has been consistent with the Risk Management Charter and risks are being actively managed in accordance with the Risk Management Plan, this has seen the number of identified risks reduce from 16 in the Business Case to nine.
- 9.14 The recommended project management and delivery mechanisms were determined having regard to external specialist consultant advice, and are considered appropriate in terms of managing financial, construction, environmental, community and other key project risks, and in terms of alignment of Project outcomes with Council's strategic management plans.
- 9.15 A formal Acquisition strategy has been adopted and implemented by the Salisbury Executive for the engagement of the Consultancy Project Team. The procurement methods outlined in the strategy are consistent with the Salisbury Procurement Policy. The Acquisition strategy will need to be updated to reflect the projected increase in the cost of the Project.

## ATTACHMENT ONE: LOCAL GOVERNMENT ACT, 1999 – SECTION 48

### Section 48 – Prudential requirements for certain activities

- (1) A council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council—
  - (a) engages in a commercial project (including through a subsidiary or participation in a joint venture, trust, partnership or other similar body) where the expected recurrent or capital expenditure of the project exceeds an amount set by the council for the purposes of this section; or
  - (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—
    - (i) where the expected expenditure of the council over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five financial years (as shown in the council's financial statements); or
    - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000.
- (2) The following are prudential issues for the purposes of subsection (1):
  - (a) the relationship between the project and relevant strategic management plans;
  - (b) the objectives of the Development Plan in the area where the project is to occur;
  - (c) the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;
  - (d) the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;
  - (e) if the project is intended to produce revenue, revenue projections and potential financial risks;
  - (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
  - (g) the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;

- (h) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);
  - (i) the most appropriate mechanisms or arrangements for carrying out the project.
- (3) A report is not required under subsection (1) in relation to—
- (a) road construction or maintenance; or
  - (b) drainage works.
- (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2).
- (4a) A report under subsection (1) must not be prepared by a person who has an interest in the relevant project (but may be prepared by a person who is an employee of the council).
- (4b) A council must give reasonable consideration to a report under subsection (1) (and must not delegate the requirement to do so under this subsection).
- (5) A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).
- (6) However, a council may take steps to prevent the disclosure of specific information in order to protect its commercial value or to avoid disclosing the financial affairs of a person (other than the council).
- (6a) For the purposes of subsection (4a), a person has an interest in a project if the person, or a person with whom the person is closely associated, would receive or have a reasonable expectation of receiving a direct or indirect pecuniary benefit or a non-pecuniary benefit or suffer or have a reasonable expectation of suffering a direct or indirect detriment or a non-pecuniary detriment if the project were to proceed.
- (6b) A person is closely associated with another person (the relevant person)—
- (a) if that person is a body corporate of which the relevant person is a director or a member of the governing body; or
  - (b) if that person is a proprietary company in which the relevant person is a shareholder; or
  - (c) if that person is a beneficiary under a trust or an object of a discretionary trust of which the relevant person is a trustee; or
  - (d) if that person is a partner of the relevant person; or

- (e) if that person is the employer or an employee of the relevant person; or
  - (f) if that person is a person from whom the relevant person has received or might reasonably be expected to receive a fee, commission or other reward for providing professional or other services; or
  - (g) if that person is a relative of the relevant person.
- (6c) However, a person, or a person closely associated with another person, will not be regarded as having an interest in a matter—
- (a) by virtue only of the fact that the person—
    - (i) is a ratepayer, elector or resident in the area of the council; or
    - (ii) is a member of a non-profit association, other than where the person is a member of the governing body of the association or organisation; or
  - (b) in a prescribed circumstance.
- (6d) In this section, \$4 000 000 (indexed) means that that amount is to be adjusted for the purposes of this section on 1 January of each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter, 2009.
- (6e) In this section—
- employee** of a council includes a person working for the council on a temporary basis;
- non-profit association** means a body (whether corporate or unincorporate)—
- (a) that does not have as its principal object or 1 of its principal objects the carrying on of a trade or the making of a profit; and
  - (b) that is so constituted that its profits (if any) must be applied towards the purposes for which it is established and may not be distributed to its members.
- (7) The provisions of this section extend to subsidiaries as if a subsidiary were a council subject to any modifications, exclusions or additions prescribed by the regulations.