



A G E N D A

Strategic Property Committee Agenda

Notice is hereby given pursuant to the provisions of the Local Government Act, 1999, that a meeting of the Strategic Property Committee will be held in the Unley Council Offices, 181 Unley Road, Unley on

***Tuesday, 13 December 2016 at
6pm***

for the purpose of considering the items included on the Agenda.



**Peter Tsokas
Chief Executive Officer**

STRATEGIC PROPERTY COMMITTEE

PRESENT:

Councillor John Koumi – Presiding Member
Mayor Lachlan Clyne – ex Officio
Councillor Don Palmer
Councillor Luke Smolucha
Councillor Peter Hughes

ACKNOWLEDGMENT:

We acknowledge that the land we meet on today is the traditional land of the Aboriginal people and that we respect their spiritual relationship with their country.

We also acknowledge that the Aboriginal people are the custodians of the Adelaide region and that their cultural and heritage beliefs are still important to the living Aboriginal people today.

APOLOGIES:

DEPUTATIONS

PRESENTATION:

OFFICER'S REPORTS

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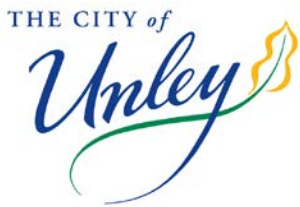
NEXT MEETING

TBA

CONFLICT OF INTEREST

TITLE:	CONFLICT OF INTEREST
ITEM NUMBER:	1
DATE OF MEETING:	13 DECEMBER 2016
ATTACHMENT:	1. CONFLICT OF INTEREST DISCLOSURE FORM

Members to advise if they have any material, actual or perceived conflict of interest in any Items in this Agenda.



CONFLICT OF INTEREST DISCLOSURE FORM

I, _____ have received a
[insert name]

copy of the agenda for the (Ordinary / Special) **Council / Committee / Board**
[delete that which is not applicable]

meeting to be held on _____
[insert date]

I consider that I have a ***material** conflict of interest pursuant to section 73 / ***actual** or ***perceived** conflict of interest pursuant to section 74 *[*delete that which is not applicable]* of the *Local Government Act 1999* ("the LG Act") in relation to the following agenda item:

[insert details]

which is to be discussed by the ***Council / *Committee / *Board** at that meeting.
[delete that which is not applicable]

The nature of my **material** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you (or a person prescribed in section 73(1) of the LG Act) stands to obtain a benefit or suffer a loss depending on the outcome of the consideration of the matter at the meeting of the Council in relation to the agenda item described above].*

OR

The nature of my **actual** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why the conflict between your interests and the public interest might lead to a decision that is contrary to the public interest in relation to the agenda item described above].*

I intend to deal with my **actual** conflict of interest in the follow transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the actual conflict of interest in a transparent and accountable way]*

OR

The nature of my **perceived** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you consider that an impartial fair-minded person could reasonably consider that you have a perceived conflict of interest in the matter]*

I intend to deal with the **perceived** conflict of interest in the following transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the perceived conflict of interest in a transparent and accountable way]*

Signature

Date

INFORMATION REPORT

REPORT TITLE: FINANCIAL CONTEXT FOR STRATEGIC
PROPERTY ACQUISITION AND DIVESTMENT
OPPORTUNITIES

ITEM NUMBER: 2

DATE OF MEETING: 13 DECEMBER 2016

AUTHOR: MIKE CAREY

JOB TITLE: MANAGER FINANCE & PROCUREMENT

1. EXECUTIVE SUMMARY

This report is to provide the Strategic Property Committee with some financial context in terms of consideration for strategic property acquisition and divestment opportunities.

2. RECOMMENDATION

MOVED:
SECONDED:

That:

1. The report be received.
-

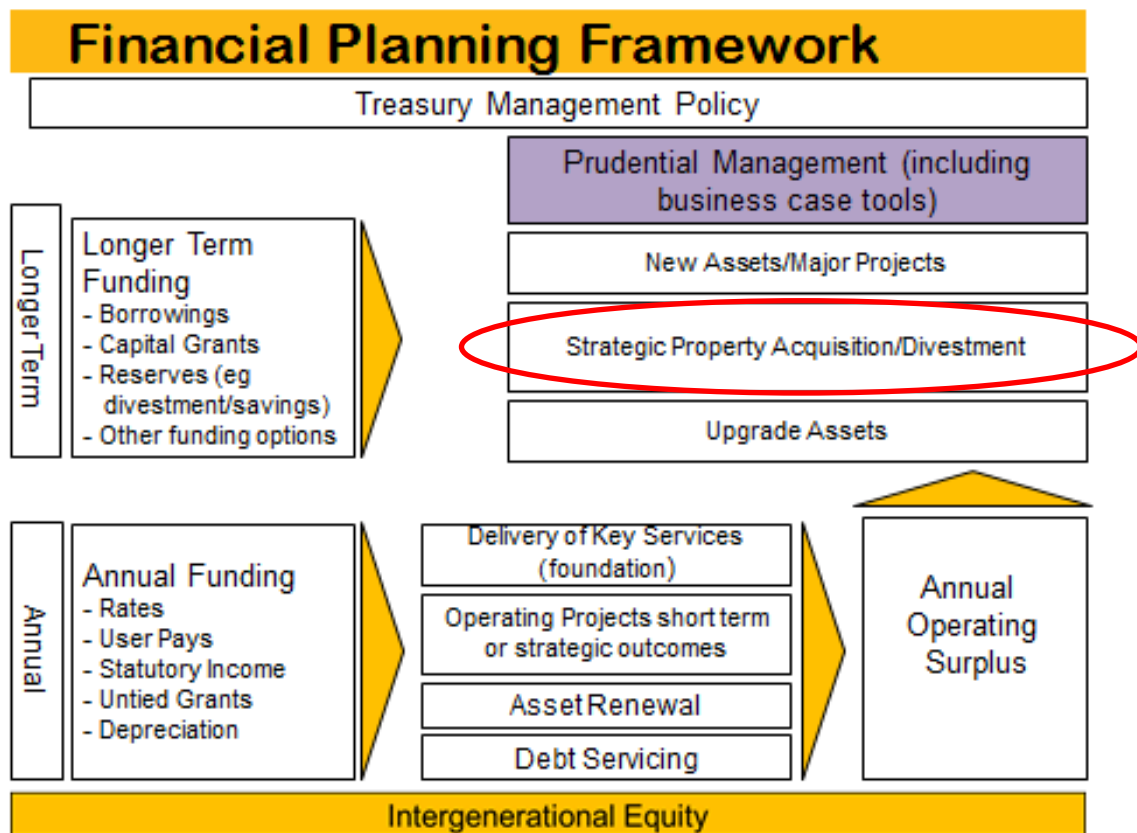
3. RELEVANT CORE STRATEGIES/POLICIES

- Treasury Management Policy
- Prudential Management Policy
- Local Government Act 1999 Sections 44, 122,134 in relation to Borrowings
- Local Government Act 1999 Sections 48 in relation to Prudential Management
- Local Government (Financial Management) Regulations 2011 Regulation 5.
- Organisational Strategy/Goal
 - 5.3 - Good Governance and Legislative Framework
 - 5.5 - Financially sustainable approach to business and planning activity

4. DISCUSSION

4.1 Financial Policy Context

In developing a financial planning framework and funding policy for the City of Unley, the following has been used to illustrate the use of the Annual Operating Surplus and longer term funding sources in the context of possible strategic property acquisitions as well as divestment.



In addition, in September 2016, Council adopted two updated policies, namely the Treasury Management Policy and the Prudential Management Policy which

form a key part of the overall framework and provide context in terms of Council decisions in relation to strategic property acquisition and divestment.

Treasury Management Policy

The Treasury Management Policy underpins Council's decision making in the funding of Council's operations in the context of borrowing as well as cash flow, budgeting, and investments. While consistent with previous versions, the updated policy now includes specific principles relevant to borrowing for strategic acquisitions while maintaining a target range for Net Financial liabilities.

The specific principles means Council will:

- Maintain a target range for its Net Financial Liabilities ratio;
- Generally only borrow funds to support cash flow;
- Only retain or quarantine money for a particular future purposes when required by legislation or part of an agreement;
- Apply where cost effective any funds that are not immediately required to meet approved expenditure, to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.
- **Not** borrow for funding annual operational expenditure

With reference to Borrowings, subject to meeting Net Financial Liabilities Ratio targets:

- Council aims to borrow 'long for long' and 'short for short', i.e. where possible, the structure of the borrowing is appropriate for the nature of the assets being funded. However, any borrowing arrangement still needs to meet the overall treasury objective of minimising the costs of borrowings in the medium term by also considering future capital receipts and outlays.
- It is appropriate to borrow for financing of strategic land purchases and to fund capital upgrading/new assets particularly if used for revenue generating purposes.

Prudential Management Policy (including Business Case Tools)

The revised Prudential Management Policy adopted in September 2016 now includes more specific references to required due diligence assessment processes based upon the level of risk to which Council may be exposed in undertaking projects including the strategic acquisition of property.

This requirement to ensure the robustness of due diligence in decision making for major projects, is not exclusively financial in nature. This was highlighted by a finance advisor as part of finance and budget training sessions and workshops conducted with Elected Members in the past year.

4.2 Target Financial Indicators

Under the requirements of Regulation 5(c) of the Local Government (Financial Management) Regulations 2011, there is a requirement for Council's Long Term Financial Plan (LTFP) as well as the Annual Financial Statements and Budget to include:

- An operating surplus ratio

- A Net Financial Liabilities ratio, and
- An Asset Sustainability ratio.

Presented in a manner consistent with the note in the “Model Financial Statements” titled “Financial Indicators”.

Council has adopted 3 key financial targets relating to these required ratios to guide the direction of the LTFP and Annual Business Plan and Budget. These targets were most recently adopted by Council at its 26 October 2015 meeting following the recommendation from the Audit & Governance Meeting on 13 October 2015.

These target levels will be revisited early in 2017.

Financial Indicator	Adopted Target
Operating Surplus Ratio (excluding Centennial Park)	Greater of 3% or 100% of principal repayments
Net Financial Liabilities Ratio	<80% of Total Operating Revenue
Asset Sustainability Ratio (rolling 10 year average)	>=100%

As noted in Council’s Treasury Management Policy, the net financial liabilities ratio of less than 80% is the key target indicator for Council to assess its capacity to borrow in the medium to long term.

The Net Financial Liabilities Ratio is calculated by expressing net financial liabilities at the end of the year as a percentage of total operating revenue for the year.

Based on the Adopted 2016-17 Annual Business Plan and Budget, the forecast borrowings are below the adopted target.

4.3 Costs involved in acquiring property

In relation to the acquisition of property, Council uses a detailed due diligence checklist to ensure that all matters are considered including those with cost implications. The Due Diligence checklist is provided as Attachment 1.

As highlighted from the check list, significant additional costs are possible from a property acquisition, particularly when environmental issues such as contamination and asbestos are present or unknown.

In more recent property acquisitions undertaken by Council, the following has typically been incurred as part of the purchase:

- Purchase price.
- Stamp duty based on the purchase price including GST
 - The rate for property > \$500,000 is \$21,330 plus \$5.50 for every \$100 or part of \$100 over \$500,000 (ie approximately 5%) with a reduction available for ‘qualifying land’ based on land use.
 - This reduction of stamp duty for qualifying land is available for land uses other than residential, primary production and vacant.

- The reduction of stamp duty for 'qualifying land' is phased with a one-third reduction from December 2015, with a further one-third reduction to apply from 1 July 2017, followed by the complete abolition of stamp duty from 1 July 2018.
- Land Titles Office Transfer Fees (sliding scale dependant on purchase price including GST).
- Due diligence expenses including valuation fees, environment audit costs and the like.
- Potential consideration of rates foregone if the property is within the Council area.
- Other professional fees involved in the purchase including legal and conveyancing fees.
- Holding costs in terms of interest over the borrowing period.
- Development costs where relevant.

In terms of GST, Council can claim an input tax credit for the GST amount. However, it should be noted that some of the costs including stamp duty and transfer fees are based on the purchase price inclusive of GST.

While Councils are exempt from land tax they are required to pay the Emergency Services Levy (ESL) based on capital value on an annual basis.

Other outgoings will depend on lease arrangements negotiated post acquisition.

In relation to a property with a purchase cost of \$1m, stamp duty, transfer and incidental professional fees typically amount to around \$65k.

4.4 Borrowing Rates

The Local Government Financing Authority (LGFA) is the major lender within Local Government and in early December 2016, has provided the following market update in terms of economic outlook.

There has been a positive response to the recent US election and many now see the last cut of 0.25%, delivered in August this year, as the bottom of Australia's current interest rate cycle. Australian long-term interest rates are heavily influenced by US long-term interest rates and as a result, have risen by around 0.5% since the result of the US Presidential Election.

The LGFA also notes that the markets have been quite volatile since the US Election and therefore there may still be some further uncertainty over the coming months as new or changed US policy positions are confirmed.

The LGFA have advised that the current indicative fixed rates for the local government sector at the beginning of December 2016 are as follows:

5 Years	3.75%
10 Years	4.25%
15 Years	4.55%

20 Years 4.65%

The Cash Advance Debenture variable rate from the LGFA is currently 3.75%.

Based on the indicative interest rates above, the table below shows the annual repayments for a principal and interest (P&I) borrowing for differing fixed term periods based on a property cost of \$1m and typical fees incurred.

Purchase Cost	Amount to be Borrowed	5 Year P&I Annual Repayment	10 Year P&I Annual Repayment	15 Year P&I Annual Repayment
	\$000s	\$000s	\$000s	\$000s
\$1 million	\$1 065	\$236	\$132	99

4.5 Current Borrowings

Councils 2016-17 First Quarter Budget Review at Council's 28 November 2016 Meeting, forecast borrowings at 30 June 2017 at \$13.1m summarised as follows:

	Opening Balance	New Borrowings	Repayments	Forecast
	\$000s	\$000s	\$000s	\$000s
Borrowings	7 633	6 541	(1 029)	13 145

Since then, a new strategic property acquisition has settled which will result in an increase in forecast borrowings to \$14.6m at 30 June 2017. This results in a forecast Net Financial Liability Ratio of 44% as at the end of the financial year.

At balance date, the forecast is approximately \$17m below the Council's target for Net Financial Liabilities (maximum of 80%).

5. ATTACHMENTS

- Due Diligence Check List for Property Acquisitions.

6. REPORT AUTHORISERS

<u>Name</u>	<u>Title</u>
Nicola Tinning	General Manager Business Support & Improvement
Peter Tsokas	Chief Executive Officer

DUE DILIGENCE CHECK LIST

FOR PROPERTY ACQUISITION



LEGAL DUE DILIGENCE		
✓	Building Approvals/Permits	Is current use compliant with building approvals/permits?
✓	Contractual Conditions	Are all contractual terms & conditions agreeable?
✓	Covenants/Restrictions	Do any covenants or restrictions exist over property?
✓	Development Approvals/Permits	Is current use compliant with development approvals/permits?
✓	Easements/Encroachments	Does site survey identify encroachments or boundary issues?
✓	Environmental Listing	Is the site on an Environmental Contaminated Site register?
✓	Essential Services Compliance	Are the Essential Services certified and compliant?
✓	Insurances	Are Insurances in place & adequate prior to settlement?
✓	Leases/Licences	Review terms and conditions of all leases & agreements
✓	Litigation (current & pending)	Are there any current or pending litigation affecting the property?
✓	Local Authority Notices	Are there any local authority notices/demands on the property?
✓	Management Contracts	What are the terms and conditions of management contracts?
✓	Native Title/Heritage Listing	Is the site free from heritage claims or 3 rd party claims?
✓	Occupancy Permits/Certificate	Compliant Certificates of Occupancy/Classification/Permits?
✓	Occupational Health & Safety	Is the property compliant with OH&S & Environmental codes?
✓	Service Contracts	Are service contracts assignable & code compliant?
✓	Statutory Notices	Investigate statutory notices, authority charges or covenants
✓	Subject to Due Diligence	Is the agreement subject to satisfactory due diligence?
✓	Title Searches	Investigate title for freehold/leasehold issues & risks
✓	Unregistered Documents	Check for unregistered documents or interest over the site
✓	Vendor Company Searches	Confirm vendor has legal right to sell the property
✓	Zoning Restriction on Use	Confirm building compliance & current use to Local Zoning

FINANCIAL DUE DILIGENCE		
✓	Asset Schedules	Confirm assets included/excluded from the transaction
✓	Bank Guarantees	Confirm security deposits, bank guarantees & releases
✓	Capital Expenditure (capex)	Review capital expenditure and input to analysis/budget
✓	GST Audit	Audit all GST collectable and reconcile to GST payments
✓	Income/Rent Analysis	Review the lease summary for net and gross income
✓	Independent Valuation	Obtain new valuation based on current actual income
✓	Land Tax Issues	Review valuation and calculations at time of purchase
✓	Lease Disputes	Investigate all current lease disputes for financial impacts
✓	Mortgaged Assets	Confirm mortgage/liens on property assets
✓	Operational Expenditure (opex)	Review income & expenditure for market analysis
✓	Profit & Loss Statements	Review last profit & loss statement for abnormalities
✓	Rate Notices (statutory)	Review current rate notice/outgoings & recoveries
✓	Rent Reviews	Check pending rent reviews/conditions & incentives
✓	Rental Arrears	Audit rent receipts to confirm income and arrears
✓	Revenue/Expenditure Forecast	Review income & expenditure with sensitivity analysis
✓	Side Agreements	Investigate any side agreements & other income streams
✓	Sinking Funds	Check sinking fund contributions & projected expenditure
✓	Tax Depreciation Schedules	Review latest taxation depreciation schedule
✓	Vacancies/Temporary Lases	Confirm conditions of temporary leases & passing rent
✓	Warranties/Guarantees	Confirm warranties & guarantees on past fit out
✓	Utilities Costs & Issues	Review utility costs - Water/Gas/Electricity/Telecoms

DUE DILIGENCE CHECK LIST

FOR PROPERTY ACQUISITION



TECHNICAL DUE DILIGENCE		
✓	Antennas/Aerials	Confirm radio frequency towers are safe & licensed
✓	Asbestos Risk	Confirm residual asbestos & management plan
✓	Asset Replacement Value	Estimate building insurance & asset replacement value
✓	BCA Non-Compliance Risks	Identify BCA non-compliance issues
✓	Building (NLA) Areas	Confirm NLA floor area survey to PCA guidelines
✓	Building Approval/Permit	Do Building Approvals/Permits comply with current use?
✓	Building Maintenance Unit Risk	Inspect BMU and confirm compliant & safe
✓	Certificate/Occupancy Permit	Obtain the Certificate of Classification/Occupation/Permit
✓	Development Approval/Permit	Do Development Approval/Permits comply with use?
✓	Disability Discrimination Risks	Confirm Disability Discrimination Act compliance
✓	Electrical Services Risk	Confirm Electrical services comply with AS3000 & BCA
✓	Electro Magnetic Radiation Risk	Check for EMR & EMI Interference problems
✓	Environmental Risks	Check EPA Register for Contaminated Site Listing
✓	Essential Services Certification	Confirm compliant Essential Fire Certificate
✓	Façade/Cladding Risks	Visual inspection of façade for deterioration & failure risk
✓	Fire Protection Risks	Confirm Fire Protection to AS1851 & BCA
✓	Geo Technical Survey	Review past geotechnical site surveys for risks
✓	Historic Site Listing Risk	Check Statutory Listing for site (or neighbouring site)
✓	Hydraulic Services Risks	Confirm Hydraulic Services to AS3500 & BCA
✓	Indoor Air Quality Risk	Confirm Air-conditioning indoor air quality standards
✓	Lead Paint Risk	Hazardous materials report on lead paint risk
✓	Legionella Bacteria Risk	Inspect cooling tower legionella laboratory tests
✓	Life Cycle Cost Plant	Calculate remaining Life & Capex for plant & equipment
✓	Maintenance Contracts	Review maintenance contracts for legal & code compliance
✓	Mechanical Services Risks	Confirm Mechanical services comply with AS1668 & BCA
✓	Nickel Sulphide NiS Glass Risk	Review external glazing for historic glass failures
✓	Noise Emissions Risk	Inspect building & surrounds for noise emissions risks
✓	Occupational Health & Safety	Inspect Public & Building OH&S issues & risks
✓	OH&S Machinery Injury Risk	Inspect Machinery spaces for unsafe equipment
✓	Ozone Depleting Substance Risk	Check Air-conditioning for Ozone depleting refrigerants
✓	PCB Polychlorinated Biphenyl	Hazardous Materials Report for PCB chemical risk
✓	Plant & Equipment Lists	Review the equipment register for depreciable assets
✓	Registration of Plant	Confirm mandatory plant is registered with authorities
✓	Site ID Survey	Commission site boundary survey for encroachments
✓	Standby Generator Risk	Test standby generator on 100% full electrical load
✓	Storm Water Flooding Risk	Review storm water flow paths for flooding risks
✓	Structural Risks	Inspect accessible structure for cracks & concrete cancer
✓	Synthetic Mineral Fibre SMF Risk	Inspect ceiling voids for fibreglass SMF materials
✓	Trade & Hazardous Waste Risk	Review trade waste permits & removal strategies
✓	Traffic Management	Review traffic management plans & approvals
✓	Upgrade Work Compliance	Check tenancy approvals for BCA & code compliance
✓	UST Underground Storage Tanks	Inspect underground UST tank contamination risks
✓	Vertical Transportation Risks	Confirm Lifts & Escalators comply with BCA & AS1735
✓	Warranties	Review warranties from upgrade & tenancy work

DECISION REPORT

REPORT TITLE: CONFIDENTIALITY MOTION FOR ITEM 4 –
STRATEGIC PROPERTY PURCHASE

ITEM NUMBER: 3

DATE OF MEETING: 13 DECEMBER 2016

AUTHOR: KELLEY JAENSCH

JOB TITLE: EXECUTIVE ASSISTANT CITY DEVELOPMENT

PURPOSE

To recommend that Item 4 be considered in confidence at the 13 December 2016 Strategic Property committee meeting and that the Minutes, Report and Attachments referring to this report remain confidential until the item is revoked by the Chief Executive Officer at a future date.

RECOMMENDATION

MOVED:
SECONDED:

That:

1. Pursuant to Section 90(2) and (3)(b) of the Local Government Act 1999 the Council orders the public be excluded, with the exception of the following:

Mr P Tsokas, Chief Executive Officer
Mr J Devine, General Manager City Development
Ms K Jaensch, Executive Assistant City Development

on the basis that it will receive and consider the report on Strategic Property Purchase and that the Committee is satisfied that the meeting should be conducted in a place open to the public has been outweighed in relation to this matter because:

(b) information the disclosure of which

- (i) could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and
- (ii) would, on balance, be contrary to the public interest.

It would be in the best interest of the Committee to consider this matter in confidence.

DECISION REPORT

REPORT TITLE: CONFIDENTIALITY MOTION TO REMAIN IN
CONFIDENCE ITEM 4 – STRATEGIC
PROPERTY PURCHASE

ITEM NUMBER: 5

DATE OF MEETING: 13 DECEMBER 2016

AUTHOR: KELLEY JAENSCH

JOB TITLE: EXECUTIVE ASSISTANT CITY DEVELOPMENT

PURPOSE

To recommend that Item 4 remain in confidence at the 20 December 2016 Strategic Property Committee meeting until the order is revoked by the Chief Executive Officer.

RECOMMENDATION

MOVED:
SECONDED:

That:

1. The report be received.
2. Pursuant to Section 91(7) and (3)(b) of the Local Government Act:

2.1 The

- ☒ Minutes
- ☒ Report
- ☒ Attachments

remain confidential on the basis that the information contained in this report could confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, and

- 2.2 the minutes, report and attachments will be kept confidential until the item is revoked by the Chief Executive Officer.