TheBarossaCouncil

CONFIDENTIAL MINUTES OF THE MEETING OF AN AUDIT AND RISK COMMITTEE
held pursuant to the provisions of Section 90(2) of the *Local Government Act 1999* on Thursday 28 March 2024 commencing at 3:39pm

CONFIDENTIAL MINUTES

1. ATTENDANCE RECORD

1.1 Members Present

Mr Peter Brass, Ms Ellen Ewing, Mr Ian Swan and Cr John Angas

5. CONFIDENTIAL AGENDA

5.1 PRUDENTIAL MANAGEMENT REPORT UPDATE FOR THE BIG PROJECT
24/30043

MOVED Mr Swan

That Audit and Risk Committee, having reviewed the updated Prudential Management Report and associated Long Term Financial Plan (LTFP), receive and note the information and report to Council that:

(1) The financial accounts of Council remain sustainable on the projections outlined and independently reviewed.

(2) The minor variation to the key performance indicator for the 3-year rolling operating position in 2025/2026 being outside of the target range is minor and immaterial noting:

a. The forecast annual operating position is only in deficit for two years.
b. The budget returns to a sound operating surplus position over the life of the plan and returns to surplus in the 2026/2027 financial year.

c. The indicator is negatively distorted by the prepayment of $2.085M of grant revenue in the 2022/2023 financial year that would have normally been forecast to be received in the 2023/2024 financial year.

(3) It should not add any additional new materials items to the deficit year budgets, unless they are critically urgent such as an emergency event, until it has returned to surplus and paid down the Cash Advance Debentures as forecast or other significant revenue streams, savings or service changes are achieved to support additional spending.

(4) The proposed funding model is sound and that the Council and Executive Leadership Team continue to review and update the LTFP and any principal interest loans be deferred for as long as possible to take advantage of projected rate decreases.

(5) Continue to review and update the Prudential Management Report and the associated risks for The Big Project as and when required, and that the Prudential Management Report be updated when the next set of projects are considered for funding after those in the current update are completed.

(6) Having considered this matter in confidence under Sections 90(2) and 90(3)(d) of the *Local Government Act 1999*, makes an order pursuant to Section 91(7), that the minutes, agenda report and attachments other than the minutes relating to this confidentiality order of the Confidential Audit and Risk Committee Meeting held on 28 March 2024 in relation to item 5.1 Prudential Management Report Update for The Big Project be kept confidential and not available for public inspection until 1 January 0001 and authorise the Chief Executive Officer to review and revoke the order.

SECONDED Ms Ewing **CARRIED CO AC 2022-26/18**

PURPOSE

To review the latest update of the Prudential Management Report for The Big Project.

REPORT

Background
The Big Project is Councils intergenerational community infrastructure plan. The model has been highly successful and completed many projects, achieved extensive third-party funding whilst maintaining, and indeed growing, existing services levels and asset expenditure on all other core operations.

Introduction
A Prudential Management Report is required for such a project pursuant to Section 48 of the *Local Government Act 1999* before Council engages in any project that addresses prudential issues before a council engages in any project in the following circumstances:

(1) where the expected operating expenses over the ensuing five years are likely to exceed 20% of the council's past five financial years' average annual operating expenses; or

(2) where the expected capital cost of the project over the ensuing five years is likely to exceed $4m (indexed); or
(3) where a council considers that it is necessary or appropriate.

The Big Project triggers the second point and thus needs to be undertaken and must be undertaken by an independent person or organisation with relevant experience.

A Prudential Management Report has been produced for The Big Project since its inception and updated on a regular basis as each tranche of projects is completed and the next set of projects is planning and funded. The last report was undertaken in March 2022. Whilst a report does not have to be done as the project continues it is sound practice to do so, especially given the challenges in the current construction market and impacts on budgets, with the project seeing up to 40% increases in costs and that the growth in costs is not impacting the long-term sustainability of Council. The prior report to March 2022 was July 2019 and thus this is the third iteration of the independent assessment.

Discussion
In order to assess the impact and viability on Councils finances, extensive remodelling of Council long term financial plan has been undertaken over the past 3 months to inform the updated Long Term Financial Plan (LTFP) and the Prudential Management Report (PMR) update. The result of the current preferred financial model in the LTFP has been further updated to support the PMR update, and those figures are presented at Attachment 2. That LTFP has been tabled with Council at a special meeting of 21 February 2024 and will be incorporated into the budget and business plan updates done for the 2024-2025 financial year and beyond and the assessment for the foreseeable future projects of The Big Project by the PMR is at Attachment 1.

The key things and assumptions made to arrive at this model, and are categorised as the worst-case scenario, are:

1. The future expenditure gap is fully funded by borrowings.

2. The 'sweet' spot in the borrowings has been a mix of traditional principal interest loan over of $14M over 20 years and the rest cash advance debentures (CAD). A CAD is a little like a home loan offset you can draw down on the CAD when cash is need and when it is not it can be repaid without penalties and fees.

   This is an excellent product, and namely what we use to manage the cash flows of the organisation, for projects as you only use the cash, and therefore accrue the interest when it is needed. The downside is interest rates are variable and higher than a principal interest loan. Of course, with predictions of interest rate reductions there is also an upside to this product in this context. Payments are quarterly for the interest component and funds returned to the CAD when they are not required for normal operation of Council can be paid anytime.

   However, to achieve a balanced outcome, it is recommended that at some point in the investment cycle over the next 12 months, a stable principal and interest loan be implemented. The downside to this strategy is interest rates are expected to fall, and therefore any fixed loan, as a principal interest loan should be delayed for as long as possible.

3. No balloon or other deferral strategies are in the financial model, if needed these can be implemented to smooth the impacts of the investment cycle outlined in the updated LTFP and PMR.

4. The current LTFP levels of operating and capital services remain unchanged and meet the current asset management plan (AMP) requirements as presented to Council at the normal February Council workshop. Indeed, over the investment cycle on current modelling the budgets exceed the AMP (updated and recent modelling) requirements by a small amount of approximately $5.697M (over 10 years). The AMP current highlights expenditure needs of $77.840M and the plan has $83.537M. This will not be reduced at this time as some additional modelling two large asset classes is still to be completed CWMS and stormwater.

5. There are no changes to current levels of service for Councils operating and capital services that are currently funded in the LTFP as set.

6. There are no additional grants achieved than those already achieved or targeted to be achieved.

7. The Creative Industries Centre and Lyndoch Recreation Precinct Redevelopment and Expansion proceeds and there is no cost escalation over and above what was costed 12 months ago as the two next key projects.

8. The various indexes used do not increase, in fact it is felt the indexes, which are set at the upper limits of RBA estimates will reduce.

9. Interest rates do not increase further than current rates of 5.73 for principal and interest loans and CAD loans don't increase past 6%.

10. The model assumes we will achieve an average capital delivery rate of 92.5% spend of the budget. If we achieve higher performance additional short-term borrowings would be required. If it is lower less short-term borrowings would be required. Our performance is normally in the 80-90% range.

11. The model assumes the operating position is achieved, if, as it has been for over a decade, budget performance is better, then less borrowings will be required and vice versa.

12. The model assumes property growth rates will average 1%.

13. It does not include revenues and expenses associated with the Concordia development.

The key results from the presented financial model are:

1. The Councils' LTFP can fund the projects earmarked in the PMR update with the operating result over the current and next 9 years returning a surplus position of $6.226M. If the effect of this year's prepayment of the Financial Assistance Grants is removed from the plan it results in a surplus position $8.311M.

2. Councils' borrowings peak in amount in the 2025/2026 financial year at $41.823M. Our revenue in that year is forecast at $52.020M.

3. The net financial liabilities result peaks in the 2025/2026 financial year at 91.6%. This is the equivalent of a person owing $91,600 on say a house and earning $100,000 per annum.

4. All indicators are within the performance targets except for the 3-year rolling operating position for the 2025/2026 financial year which will be -3.1% which is 1.1% lower than the target -2.0%.

5. All CAD loans are repaid by year eight in the plan being 2031/2032.

6. The results indicate that rates will have to rise 2.4% in addition to the current settings to finance the organisation, this equates 0.267% per annum over the 10-year plan.

The independent assessment is supportive of the pathway recommended.

Summary and Conclusion
The necessary independent review of Councils financial strategy and The Big Project has been undertaken primarily as we move into delivery of the next two larger projects and the findings support the strategy. It is now tabled for the Committees review and comment.

ATTACHMENTS OR OTHER SUPPORTING REFERENCES

Attachment 1 Prudential Management Report
Attachment 2 Further Updated Long Term Financial Plan - 21 February 2024

Supporting references
Nil

COMMUNITY PLAN / CORPORATE PLAN / LEGISLATIVE REQUIREMENTS

Community Plan

Community and Culture

Infrastructure

Business and Employment

Goal

4. The Barossa fosters community resilience, connection and wellbeing through its social planning, recreation, safety, education, preventative health and social strategies especially for our youth and vulnerable people.
6. The Barossa maintains and develops infrastructure that meets the needs of the region and is efficient.
7. Community infrastructure planning is aligned to both current and the future needs of the community
11. The Barossa has a strong local economy that adapts, innovates and thrives on change and strives for a diverse industry base that provides a sustainable range of business and job opportunities for people.

Strategies

4.1. Build on a strong sense of community pride with active community groups and individuals participating in local decision making and community building activities.
4.2. Continue creating strong and sustainable community networks, and support young people to actively participate in the community and develop the leaders of the future.
4.3. Embrace place-making principles when developing community infrastructure and regulate planning and development in public spaces and active recreation.
6.1. Advocate for and identify funding opportunities that support the development of community, cultural, health and other facilities and infrastructure to meet personal and commercial needs of residents and businesses.
6.2 Continue to ensure that infrastructure considers place-making is inclusive and accessible for all.
7.1. Build on sound asset management practices to deliver sustainable services to ensure that infrastructure is adequate to support the community.
7.2. Ensure both current and future infrastructure needs are met in a proactive rather than reactive way.
11.1. Work closely with State Government, Federal Government, and other key stakeholders to support economic growth, development and job creation.

Legislative Requirements

Section 48 and 122(1a) of the Local Government Act 1999

FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

Outlined in the report and attachments.

COMMUNITY ENGAGEMENT

Nil required when current negotiations with third parties are concluded the PMR will be made public.

Confirmed at Audit and Risk Committee Meeting on

Date: 20/6/24 Chairperson: ....